HydroOttawa
Holding Inc.

2012 Annual Report





Cover Photo:
In November 2012, Hydro Ottawa dispatched crews to Connecticut and New Jersey to help restore power to about half a million residents after Hurricane Sandy caused significant damage in the area.

Our Mission

Hydro Ottawa's mission is to create long-term value for our shareholder, benefiting our customers and the communities we serve.

Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our goal is to provide effective, efficient and reliable service to our customers, and to be a strong strategic partner for our City, helping to deliver on its economic development and environmental agendas. As an investment, our goal is to provide stable, reliable and growing returns to our shareholder.

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Company Profile

Hydro Ottawa Holding Inc. (Hydro Ottawa) is 100 percent owned by the City of Ottawa. It is a private company, registered under the Ontario Business Corporations Act, and overseen by an independent board of Directors consisting of 11 members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2012, Hydro Ottawa owned and operated two subsidiary companies.

Hydro Ottawa Limited

Hydro Ottawa Limited is a regulated electricity distribution company operating in the City of Ottawa and the Village of Casselman. As the third largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, and serves over 309,000 residential and commercial customers across a service area of 1,100 square kilometres. As a condition of its distribution license, the company is required to meet conservation and demand management targets established by the Ontario Energy Board. Hydro Ottawa Limited added approximately 4,200 new customers to its distribution system in 2012, an increase of 1.4 percent, while the volume of electricity delivered through its distribution network increased by approximately 0.2 percent over the prior year. The company's capital assets grew by $51.6 million, or 9.0 percent.

Energy Ottawa Inc.

Energy Ottawa is the largest municipally owned producer of green power in Ontario, and a provider of commercial energy management services. It owns and operates six run-of-the-river hydro-electric generation plants at Chaudière Falls in the city's core and holds interests in two landfill gas-to-energy joint ventures that convert millions of tonnes of previously flared-off methane gas into renewable energy at the Trail Road landfill site in Ottawa and the Laflèche landfill site in Moose Creek, Ontario. In total, this represents a generation capacity of more than 320,000 MWh annually, which is enough to power 38,000 homes.

Message to Our Shareholder

On behalf of management and the Board of Directors of both Hydro Ottawa Holding Inc. and Hydro Ottawa Limited, and our over 650 dedicated employees, we are very pleased to provide this Annual Report to our shareholder, the City of Ottawa.

Pierre Richard, Q.C.
Chair, Board of Directors
Hydro Ottawa Holding Inc.
and Hydro Ottawa Limited

Bryce Conrad
President and
Chief Executive Officer
Hydro Ottawa Holding Inc.

This report marks the first year of reporting against our *2012-2016 Strategic Direction*, which was presented to our shareholder in June 2012. The objective of that five-year strategy is to move the company from 'good to great', leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities.

In our first year of performance under the *2012-2016 Strategic Direction*, Hydro Ottawa advanced key elements of our business strategy, while achieving strong financial results that surpassed our targets for the year.

Equally important, we continued to lay the foundations for future growth and contribution to our community, in particular through a significant expansion of our renewable energy portfolio. The acquisition of three additional run-of-the river hydro-electric facilities at Chaudière Falls, with significant growth potential, positions Hydro Ottawa as a long-term player in the energy generation business and more than doubles our current renewable generation capacity.

The company also continued to receive recognition as a leader in customer service innovation, engaged workplace practices, green operations, and overall corporate performance. This balanced performance reflects our continued focus on the business priorities that have driven our success to date – an unwavering commitment to financial strength; customer value; organizational effectiveness; and corporate citizenship.

In the area of financial strength, Hydro Ottawa's 2012 net income of $31 million exceeded the strategic plan projection by $3 million. This continues a trend of consistently positive financial performance in recent years. Over the four years covered by our previous strategic plan, the company outperformed its normalized net income targets by 24 percent, and its dividend targets by 40 percent, while increasing shareholder value by more than $135 million.

This growth in shareholder value continued in 2012. Counting dividends paid during the year and earnings retained within the company, shareholder value increased by 14 percent. Our 2012 results enabled the company to pay dividends of $18.6 million to the City of Ottawa in April 2013.

The company's positive financial results, effective operations, low business risk profile and cautious approach to financial management resulted in a confirmation of our "A" credit rating with a "Stable" trend once again in 2012.

Hydro Ottawa's strong financial performance continues to be achieved through both growth in revenues and cost control. Revenues grew in each of the company's main business lines – electricity distribution, renewable generation, and commercial energy management services.

Continued revenue growth from renewable generation will be particularly important to shareholder value in the future. The acquisition of additional facilities at Chaudière Falls, the expansion potential at that site, the substantial completion of a second landfill gas to energy facility at Moose Creek, and plans for solar energy facilities in partnership with the City of Ottawa are promising developments in that regard.

Efficiency and cost control will continue to be crucial in the electricity distribution business, where revenue growth is not expected to keep pace with inflationary pressures. The Ontario Energy Board's most recent Yearbook of Electricity Distributors ranked Hydro Ottawa in the top 15 percent of electricity distributors in terms of lowest cost per customer.

Keeping costs under control not only contributes to positive results for our shareholder, it also results in affordable distribution rates for the nearly 310,000 homes and businesses we serve. Hydro Ottawa distribution rates for a typical residential customer have actually decreased by just over 10 percent since May 2010, mainly as a result of one-time rate credits approved by the Ontario Energy Board.

Our commitment to customer value also goes well beyond the bill. We are working to enhance the customer experience across the board, including through new online and mobile service options, and working to communicate with the customer when and how they want to communicate. In recognition of these efforts, Hydro Ottawa received the Electricity Distributor's Association's Customer Service Excellence Award in 2012, as well as a Certificate of Excellence from Chartwell Inc. Our customer satisfaction rating of 90 percent showed improvement over the prior year, and continued to outperform the provincial average.

Our *2012-2016 Strategic Direction* calls for a continued focus on enhancing customer value, by putting the customer at the centre of everything we do.

One area of the customer experience in which we are investing at unprecedented levels is service reliability. After a challenging year in 2011 due to major storms that caused widespread outages, service reliability improved in 2012, but customer interruptions remained higher than our historical averages. This was due both to interruptions in supply from the provincial grid and equipment failures within our own distribution system, and reflects the industry-wide challenge of aging infrastructure, requiring accelerated investments to replace and upgrade equipment. Hydro Ottawa has steadily increased capital investment on our distribution system over the past several years, and will continue to invest at/or above current levels over the course of this strategic plan to improve customer reliability.

Another key industry trend to which Hydro Ottawa is responding in a pro-active manner is the demographic trend of accelerated retirements that will occur over the next decade. Through in-house initiatives and partnerships with local educational institutions, Hydro Ottawa is ensuring that we not only meet our future workforce needs and retain existing knowledge, but also equip our workforce to meet the challenges of the future.

Key initiatives in this regard include our highly successful skilled trades apprenticeship programs and engineering internship program, our comprehensive leadership and management development programs, our partnership with Algonquin College on a new Power Line Technician program, and the Hydro Ottawa Laboratory for Smart Grid Technologies at Carleton University.

Hydro Ottawa also continues to be an engaged and responsible corporate citizen, by helping our customers to conserve energy, greening our operations, educating local elementary students about electricity safety and conservation, encouraging employee volunteerism, and making targeted contributions to community initiatives. In 2012, our employee-driven United Way campaign contributed a record $201,950, and our Brighter Tomorrows Fund supported seven local housing and homelessness agencies in making energy efficiency upgrades.

As a result of the company's achievements in all areas of business performance, Hydro Ottawa was named the Ontario Energy Association's 2012 Large Company of the Year, and was a Bronze winner for Company of the Year, at the Ottawa Business Achievement Awards. We also continued to be recognized as one of Ottawa's Top 25 Employers, and one of Canada's 50 Greenest Employers.

In summary, we believe that 2012 was a banner year for Hydro Ottawa. This is a testament to the skill and dedication of our employees, who continue to work to make Hydro Ottawa one of Canada's leading integrated utility companies. We are pleased with the company's 2012 results, and look forward to continued success as we implement our *2012-2016 Strategic Direction*.

Sincerely,

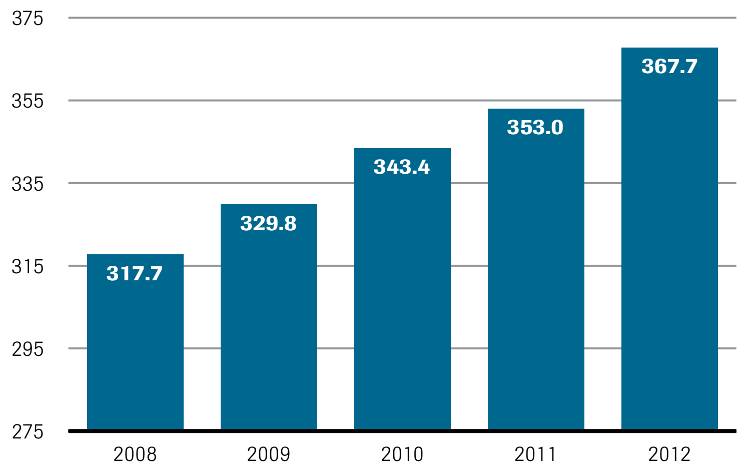
Pierre Richard, Q.C.
Chair, Board of Directors

Bryce Conrad
President and Chief Executive Officer

Performance Highlights

Over the past several years, Hydro Ottawa has been an industry leader in providing value to its shareholder, its customers, and its community.

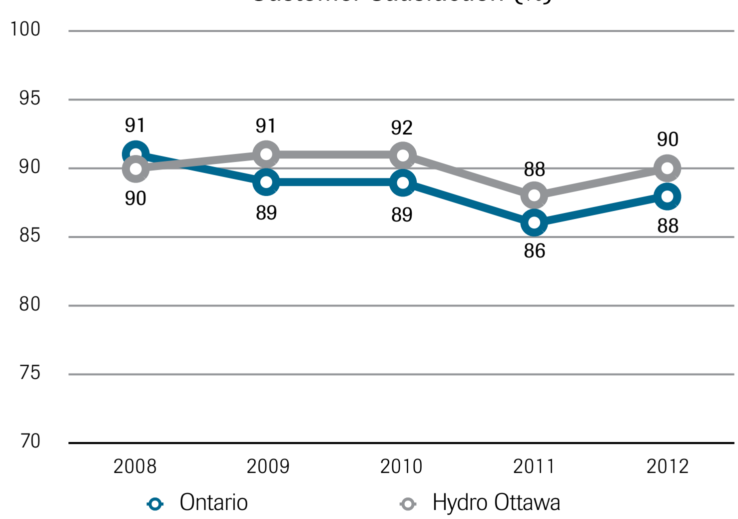
Shareholder's Equity ($ millions)



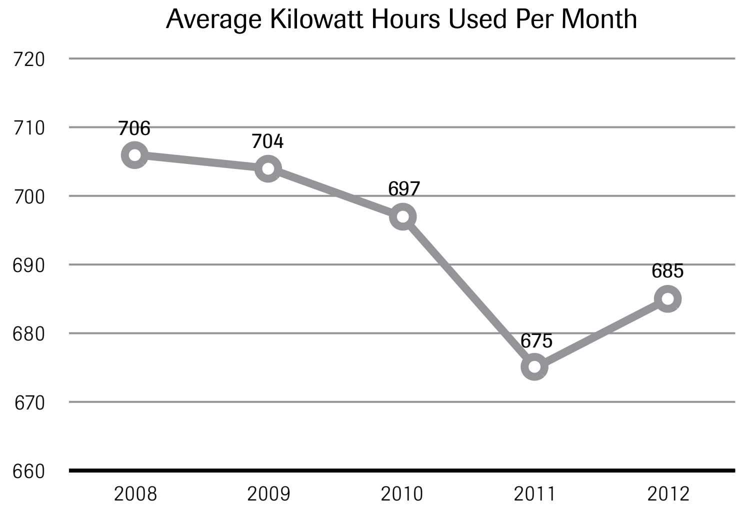
Through prudent financial management and continued investment in our assets, Hydro Ottawa has increased shareholder's equity by $50 million over the past five years, in addition to providing $99.5 million in dividends to the company's shareholder.

90 percent of customers expressed satisfaction with the service they received in 2012.

Customer Satisfaction (%)



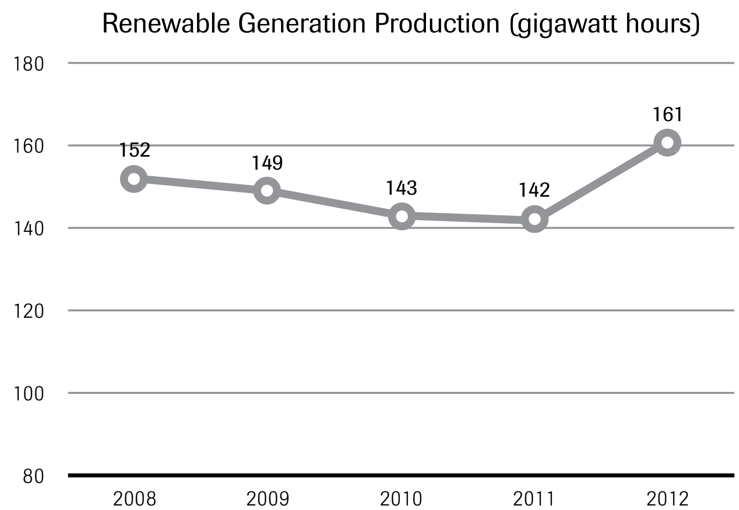
Hydro Ottawa has been measuring customer satisfaction through an independent, third-party survey for several years. Through a concerted focus on customer service, our scores continue to remain strong, and above the provincial average.



Ottawa households are using less electricity in recent years, resulting in savings for our customers and benefits to the environment. Hydro Ottawa offers targeted conservation programs for customers, and information on the benefits of conservation.

543 million kilowatt-hours saved so far through Hydro Ottawa's energy conservation programs, enough electricity to power about 56,500 homes for a year.

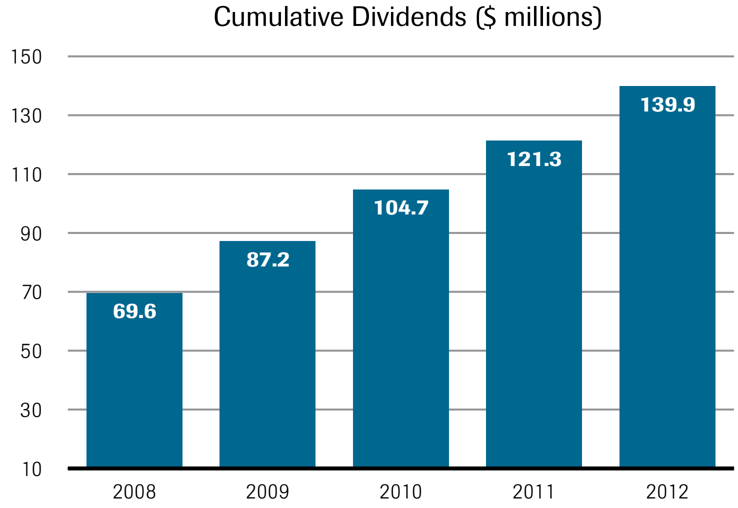
Beginning in 2006, Hydro Ottawa took on a new challenge: helping our customers use less of the product we deliver, to help ensure a sustainable energy future. Hydro Ottawa offers a full suite of programs and services to meet the needs of an increasingly energy-conscious public.



Generation output was reduced in 2010 and 2011 in response to requests by Public Works and Government Services Canada for forced outages to enable repairs at the Chaudière Bridge.

Energy Ottawa is now the largest municipally-owned producer of green power in Ontario, with a generation capacity of more than 320,000 MWh annually – enough to power 38,000 homes. This capacity is not fully reflected in 2012 results, because significant generation assets were acquired or began production in late 2012 and early 2013.

Hydro Ottawa Holding Inc.



Hydro Ottawa has provided $139.9 million in dividends to the City of Ottawa since 2005, including $99.5 million over the past five years.

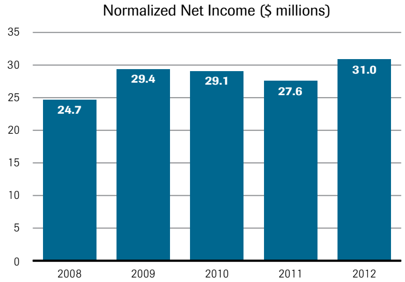
Moose Creek 4.2 megawatt landfill gas-to-energy facility.

Financial Highlights

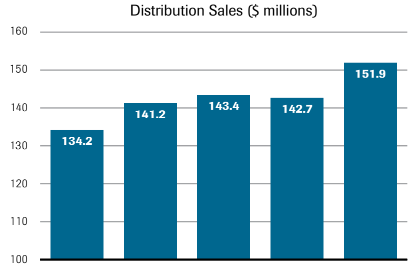
(in thousands of Canadian dollars)	2012	2011
Revenue		
Power recovery	709,935	663,855
Distribution sales	151,936	142,688
Other income	38,904	33,604
	900,775	840,147
Earnings		
EBITDA	87,752	92,599
EBIT	50,631	47,163
Net income	30,989	26,311
Sources (uses) of cash		
Cash flow generated from operating activities	80,804	99,478
Cash flow used in investing activities (capital assets)	(142,727)	(77,783)
Cash flow used in financing activities	(18,290)	(18,600)
Ratios		
Working capital	0.73	1.24
Debt capitalization ratio	47%	42%
GWh consumption		
GWh consumption*	7,853	7,851

* *Purchased power*

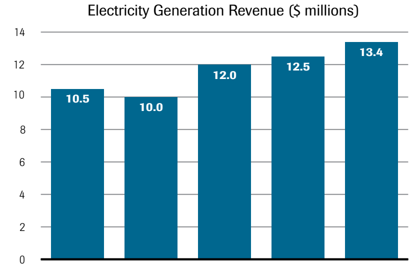
Normalized Net Income ($ millions)



Distribution Sales ($ millions)



Electricity Generation Revenue ($ millions)



Report on Operations

Introduction

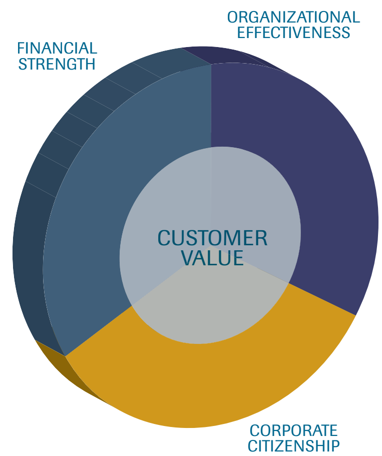
Hydro Ottawa's 2012 Annual Report is the first to report against the company's *2012-2016 Strategic Direction: Creating Long-Term Value*.

The goal of the *Strategic Direction* is to move the company from 'good to great', leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities.

This strategy is built on the company's strengths and achievements, and responds to a changing environment that presents significant opportunities for the Hydro Ottawa Group of Companies, and for the community we serve.

To ensure we take full advantage of those opportunities, Hydro Ottawa is focused on the fundamentals of leading performance: Financial Strength, Customer Value, Organizational Effectiveness, and Corporate Citizenship. These four Key Areas of Focus guide our business strategy, and form the basis of our annual reporting in the pages that follow.

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



FOUR KEY AREAS OF FOCUS

Financial Strength

STRATEGIC OBJECTIVE

We will create sustainable growth in our business and our earnings

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

Customer Value

STRATEGIC OBJECTIVE

We will deliver value across the entire customer experience

By providing reliable, responsive and innovative services at competitive rates

Organizational Effectiveness

STRATEGIC OBJECTIVE

We will achieve performance excellence

By cultivating a culture of innovation and continuous improvement

Corporate Citizenship

STRATEGIC OBJECTIVE

We will contribute to the well-being of the community

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

Expanding Renewable Power Production at Chaudière Falls

With the strategic acquisition of three hydroelectric plants and additional water rights at Chaudière Falls from Domtar Inc. in November 2012, Hydro Ottawa more than doubled its hydroelectric generation capacity and positioned the company as a long-term player in the green energy business. Our Energy Ottawa subsidiary is now the largest municipally-owned producer of green power in Ontario.

The Chaudière transaction increased our hydroelectric generation capacity from 17 to 38 megawatts. It includes an additional 38.3 percent interest in the Ring Dam and remaining water rights at the site, presenting a significant opportunity for future expansion that could see production grow to as much as 60 megawatts.

Our run-of-the-river hydroelectric facilities produce green energy around the clock, with zero greenhouse gas emissions, and are linked to long-term power-purchase agreements that provide stable revenues and shareholder returns.

Financial Strength

We will create sustainable growth in our business and our earnings, by improving productivity and pursuing business growth opportunities that leverage our strengths.

Hydro Ottawa exceeded its financial targets for 2012 through strong performance in each of its business lines, while continuing to lay the foundations for future growth.

Our commitment is to provide sustained shareholder value and deliver excellent service now and in the future, while keeping costs and distribution rates as low as possible.

Financial Results

Hydro Ottawa's net income for 2012 was $31.0 million, exceeding the target set out in our *2012–2016 Strategic Direction* by $3.0 million. When non-recurring events are excluded to allow a year over year comparison, net income increased by $3.3 million, or 12 percent, compared to 2011 results.

Revenues for 2012 were $190.8 million (excluding the flow-through cost of the electricity commodity), an eight percent increase over the previous year. Revenues increased in each of the company's main business lines: electricity distribution, energy generation, and commercial energy management services.

Shareholder Value

With an annual return on equity of 8.6 percent, Hydro Ottawa continued to provide excellent value to its shareholder in 2012. Total shareholder value — including dividends paid and earnings retained within the company — increased by 14 percent during the year.

Since 2005, Hydro Ottawa has delivered dividends of $139.9 million to the City of Ottawa, including the $18.6 million dividend arising from 2012 performance.

Based on this continued record of strong performance, as well as the Corporation's low-risk business profile and cautious approach to financial management, Hydro Ottawa continues to enjoy an "A" credit rating with a "Stable" trend from both credit rating agencies.

Rates and Cost Control

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

The distribution rate for 2012, approved in 2011, provided a decrease of seven percent in the distribution portion of the bill of an average residential customer using 800 kWh per month. This decrease resulted from one-time rate credits approved by the OEB, as well as cost management and productivity improvements implemented by Hydro Ottawa.

The 2012 rate application re-set Hydro Ottawa's distribution rates based on the actual and predicted costs of providing electricity service to our customers. This provides the company with a stable source of revenues over the next few years.

We continue to make accelerated investments to replace and upgrade aging infrastructure, while maintaining careful control over operations, maintenance and administration costs to help keep distribution rates down for customers.

Energy Management and Electricity Generation

Hydro Ottawa's renewable energy generation and energy management business lines also continued to perform well in 2012.

Revenues from renewable energy generation increased by $0.9 million, and this business line is poised to become a greater source of revenues for the Corporation going forward. Hydro Ottawa more than doubled its hydroelectric generation capacity in November 2012 by purchasing three run-of-the-river hydro facilities at Chaudière Falls from of Domtar Inc. With a capacity of 21 megawatts, these facilities bring Hydro Ottawa's current hydroelectric generation capacity to 38 megawatts in total.

In addition, the Chaudière site presents one of the largest remaining hydro-electric opportunities available in Ontario, with significant potential for expanding generating capacity. Hydro Ottawa will move forward cautiously to realize this growth potential, which could see the company's hydro-electric capacity grow to as much as 60 megawatts.

Also in 2012, construction was substantially completed on the Corporation's second landfill gas-to-energy facility, located at the Laflèche landfill in Moose Creek, Ontario. Commercial operations at this 50 percent owned joint venture, which has a generating capacity of four megawatts, began in January 2013. Like our existing plant at the Trail Road landfill, the Moose Creek plant will convert millions of tonnes of previously flared-off methane gas into green energy, with potential revenues of approximately $70 million over 20 years.

The Trail Road facility was expanded from five to six megawatts in 2012, creating enough new renewable energy to serve an additional 1,000 homes. With this expansion, PowerTrail had its best year of operation to date, producing 34 gigawatt hours of green electricity and surpassing revenue expectations.

Hydro Ottawa also continues to pursue solar energy projects, including five and seven megawatt solar energy parks planned for the Trail Road and Nepean Landfill sites respectively, and a number of rooftop solar systems planned for municipal buildings.

Revenues from commercial energy management services increased by $1.6 million compared to 2011. This reflects increased demand for these services, including commercial energy audits and turn-key retrofits, small business lighting retrofits, and the conversion of bulk-metred buildings to individual suite metering. A new "energy dashboard" tool for monitoring and analyzing energy consumption at commercial facilities was added to the company's service offerings in 2012.

We continue to explore growth opportunities in electricity generation, distribution and energy demand management businesses.

Customer Value

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

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations — for quality service, cleaner energy, and help in controlling their energy costs — is the key to success in an evolving energy landscape.

We strive to deliver a reliable product, while keeping our service efficient and friendly and our costs as low as possible.

Service Quality and Customer Satisfaction

Hydro Ottawa continued to enhance customer service in 2012, and feedback from our customers continued to show we're on the right track.

Overall customer satisfaction, at 90 percent, showed improvement over the prior year and continued to outperform the provincial average. There were also noticeable year over year gains in customers' ratings of our courtesy, knowledge, and ability to address inquiries and complete requests on the first call. Customer complaint escalations dropped a further 50 percent from the record low achieved in 2011.

We also continued to innovate, to improve the customer's experience with Hydro Ottawa. In 2012, we enhanced our online outage maps, increased the range and quality of services offered through *MyHydroLink*, our customer service Web portal, and launched a mobile application that lets our customers track and manage their accounts anywhere and anytime. We also enhanced our efforts to engage customers through online social media such as Twitter and Facebook — part of our strategy to communicate with customers on their own terms — when and how they want to communicate.

Our customers are responding to these efforts in impressive numbers. More than 84,600 customers are now subscribed to *MyHydroLink*, a one-year increase of 28 percent, and the number of e-billing customers grew by 53 percent, to nearly 44,000.

These initiatives not only improve service by giving customers more options, they also improve efficiency and help to keep costs down. In recognition of these efforts to enhance customer self-service options, Hydro Ottawa was recognized with the Electricity Distributor's Association's Customer Service Excellence Award in March 2012, and a Certificate of Excellence from Chartwell Inc. in October 2012.

We continue to focus on developing new and innovative programs for our customers.

Reliability

Hydro Ottawa strives to maintain a reliable supply of electricity, and restore power quickly when outages do occur.

After being affected by three major storms in 2011 that caused widespread outages, our reliability performance improved in 2012. The number and duration of outages remained above our historic averages however, due primarily to outages caused by a loss of supply from the provincial transmission system, followed by outages caused by defective equipment.

Like most utilities in Ontario, Hydro Ottawa faces a need to replace aging equipment at an accelerated pace. To ensure we continue to provide a high quality of service, we have gradually increased capital investments in our electricity distribution system over the past several years. We plan to continue these investments at/or above current levels over the course of this strategic plan. Our Asset Management Plan allows us to prioritize these investments to achieve the maximum benefit for our customers, and to reduce the occurrence of interruptions caused by defective equipment.

In 2012, we made the largest investment in our distribution system to date, investing $109.3 million in capital projects to keep our system safe, reliable and efficient. Significant capital projects included:

- Continued construction on the new Terry Fox transformer station to better serve Kanata South and Stittsville;
- Upgrades to the Clyde, Beechwood, Blackburn and Barrhaven substations to improve reliability;
- Capacity expansion at the Limebank Transformer Station to supply the growing south Gloucester neighbourhood; and
- Installation of 938 new poles, 431 new transformers, and 235 km of new overhead power lines.

Keeping Rates Competitive

While the overall customer bill is increasing, we continue to hold the line on distribution rates. In December 2011, Hydro Ottawa's cost of service rate application was approved, resulting in a reduction of seven percent in distribution rates for an average residential customer using 800 kilowatt-hours per month. This decrease resulted from one-time rate credits approved by our regulator, as well as cost management improvements implemented by Hydro Ottawa.

In 2012, distribution rates made up 20 percent of the total bill. The remaining 80 percent consists of pass-through charges that Hydro Ottawa collects for others, with no mark up, including the cost of the electricity commodity.

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

Organizational Effectiveness

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

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

Our efforts to build a top-performing organization were recognized once again in 2012 by independent third parties. Hydro Ottawa was among the National Capital Region's Top 25 Employers for a fifth consecutive year, won the Achievers 50 Most Engaged Workplaces™ Award for a third consecutive year, and was named one of Canada's 50 Greenest Employers for a second straight year.

Performance and Productivity

One important indicator of productivity is operating cost per customer. The Ontario Energy Board compares Ontario electricity distributors annually on this basis. In the OEB's most recent Yearbook of Electricity Distributors, Hydro Ottawa ranked in the top 15 percent of distributors in the province (eleventh of 76 utilities).

We continue to look for areas to enhance productivity, while maintaining or improving service quality. In 2012, we continued to improve the efficiency of our capital project execution, using the *LEAN* methodology to streamline and improve business processes. As a result, we achieved a 45 percent reduction in overtime hours charged to capital projects from 2011 to 2012.

We also continue to make targeted technology investments to enhance service and efficiency. This includes the gradual implementation of smart grid technologies, which allow a better response to changes in power demand and faster restoration of power outages. We have also developed a partnership with Carleton University through the new Hydro Ottawa Laboratory for Smart Grid Technologies.

Significant work was also completed in 2012 on Hydro Ottawa's Real Estate Rationalization Strategy. This strategy involves the sale of three obsolete facilities that would require major capital investments in the next five years, and the construction of a combined main office and eastern operations centre near Hunt Club and Highway 417, and a combined southern operations, fleet and warehousing facility near Fallowfield Road and Highway 416. When fully implemented, the strategy is expected to deliver savings of $3 million annually through a combination of cost reductions and productivity improvements. It will also enhance service through more strategically located and better-equipped facilities, and help to reduce the environmental impact of our operations. In 2012 and early 2013, land was purchased for the two new facilities, and preparations are under way for the construction of these facilities for occupancy in 2016.

Prepared and Sustainable Workforce

Maintaining a healthy and safe work environment is a fundamental part of Hydro Ottawa's commitment to our employees. Our Occupational Health, Safety and Environment management system continues to be certified to OHSAS 18001 and ISO 14001, following successful audits for each of these internationally-recognized standards in 2012. The company provided more than 21 hours of safe work practices training per employee in 2012, focusing on higher risk trades employees, who received more than 40 hours of training per employee on average.

We also continued to plan and prepare both for management succession and continuity of skilled trades capacity, in light of demographic trends and changing skill requirements. Similar to many companies in our sector, 47 percent of our skilled trades employees, and well over half of management employees, are eligible to retire in the next ten years.

Hydro Ottawa's response to these trends is proactive and multi-faceted, with Strategic Workforce Plans in place throughout the organization to ensure a prepared and sustainable workforce over the next 5 to 10 years.

Hydro Ottawa has an extensive in-house apprenticeship program to develop our future workforce in five skilled electrical trades. Seventeen apprentices achieved journeyperson status in 2012, bringing the total to 41 since 2010.

In 2012, Hydro Ottawa partnered with Algonquin College to launch a new two-year Power Line Technician Program. Hydro Ottawa provides safety and core skills instruction and hands-on practical learning. Graduates will be at the level of a 2nd or 3rd year apprentice, significantly reducing the typical five-year path to journeyperson status. The first graduates from the program are expected in May 2013. The program expanded in September 2012 due to high demand.

Hydro Ottawa also has a very active Engineering Intern Program, providing future engineers with comprehensive learning that moves them toward licensed engineer status as quickly as possible, and fulfilling a critical workforce need for Hydro Ottawa. Four interns received their Professional Engineering designation in 2012.

In addition, Hydro Ottawa has partnered with Carleton University's Sustainable and Renewable Energy Engineering Department to establish an innovative smart grid laboratory. Launched in 2011, the Hydro Ottawa Laboratory for Smart Grid Technologies fosters research on electrical power systems and promotes the training of engineers in the new smart grid environment.

To ensure effective management and leadership succession, Hydro Ottawa has a program in place to identify and develop future leaders on a continual basis. Our leadership development program includes a partnership with the MEARIE Group and the Schulich School of Business at York University that allows directors and managers to work towards a Masters Certificate in Energy Sector Leadership.

Helping Our Southern Neighbours to Recover From Hurricane Sandy

While Ottawa was spared the full impact of Hurricane Sandy in October 2012, the storm had devastating effects in the northeastern United States.

Hydro Ottawa decided to lend a helping hand, because that is what good neighbours do.

An initial crew of 13 Hydro Ottawa powerline maintainers travelled to Connecticut, where the storm knocked out power to more than 825,000 homes and businesses, working long days to repair blown transformers, downed power lines and damaged poles. They were relieved by a second crew of 13 Hydro Ottawa workers who completed similar work in both Connecticut and New Jersey.

Hydro Ottawa was proud to send some of our best and brightest to help alleviate the suffering caused by this devastating storm, and to help get life back to normal as quickly as possible for our southern neighbours.

Corporate Citizenship

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

As a community company that delivers essential services to Ottawa residents, contributing to the well-being of our community has always been a part of Hydro Ottawa's core mandate. We continue to be active in our community, contributing to the City's quality of life, promoting electricity conservation and demand management, educating children and youth about electricity safety, helping to reduce the impact of energy costs for those in need, and protecting our environment.

In 2012, we also had an opportunity to extend our corporate citizenship beyond the Ottawa community. Hydro Ottawa was the first Ontario utility to send workers and equipment to help with power restoration efforts in the United States following Hurricane Sandy, sending two 13-employee crews to Connecticut and New Jersey.

Investing in the Ottawa Community

Our 2012 United Way Ottawa Workplace Campaign raised a record $201,950 through employee donations and corporate matching dollars. In total, Hydro Ottawa's annual United Way campaign has raised over $1.2 million in the past 12 years, through the leadership of employee volunteers.





In 2011, Hydro Ottawa launched the Brighter Tomorrows Fund, to assist front-line agencies that serve people who are homeless or at risk of being homeless. Using the employer matching contributions to our United Way campaign, the Fund supports energy-efficiency projects that help these agencies to reduce their energy bills, creating savings that can be redirected into programming. In 2012, we provided more than $85,000 to seven community agencies, for projects such as replacing drafty windows or installing a high-efficiency heating system. The Fund has provided more than $219,000 to community agencies since its inception in 2011.

Hydro Ottawa also participated in the provincial Low-Income Energy Assistance Program, a year-round emergency financial assistance program. In total, $154,232 was distributed to 435 low-income households to help pay their electricity bills, benefiting over 1,200 Ottawa residents, including 625 children. In addition, 505 households received help from the Home Assistance Program, which provides an in-home energy assessment, professional installation of energy-saving measures, and advice on how to further reduce energy consumption.

We are also proud of the contributions our employees make as volunteers in their community. Fifty-five of our employees participated on behalf of Hydro Ottawa in the United Way Community Action Days, as well as Special Needs Day, an annual event in which Hydro Ottawa volunteers help provide more than 900 physically and mentally challenged children with exclusive access to the Gloucester Fair.

Hydro Ottawa educated more than 21,000 students about electricity safety and conservation through presentations at 53 elementary schools in 2012, and reached a further 1,500 Grade 5 students with energy conservation presentations at 28 schools.

Helping People Conserve

Hydro Ottawa continues to be a leader in promoting energy conservation in our community, helping Ottawa residents and businesses to use our product efficiently and wisely. Due in part to Hydro Ottawa's efforts to promote a culture of conservation, residential electricity use in Ottawa is down by almost 16 percent since 2006, from an average of 800 kilowatt hours to 675 kilowatt hours per month.

We brought energy conservation advice and program information to a number of consumer and business events in 2012, and provided a wide range of programs to help Ottawa homes and businesses to conserve energy and save money. Our Conservation Van participated in more than 110 community events, and more than 1,100 community members visited one of our Chaudière Falls generating stations during Doors Open Ottawa, where energy conservation demonstrations were provided.

We are also helping local condominium and apartment buildings to go green, by helping them to convert from bulk metering to individual suite metering — a proven way to increase awareness about energy use and reduce consumption.

Protecting Our Environment

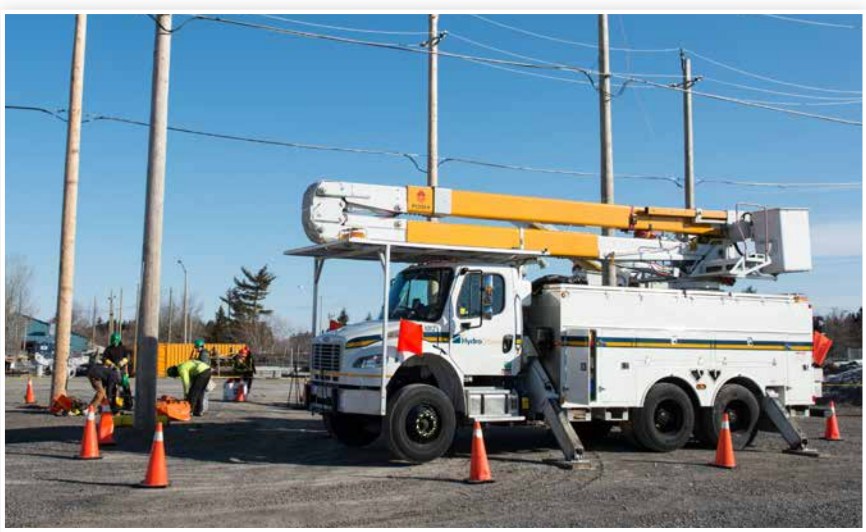
Hydro Ottawa believes a commitment to sustainability contributes not only to a healthy environment, but also to healthy business performance.

Our efforts are guided by an Environmental Sustainability Strategy, aimed at making our operations more energy efficient, decreasing our emissions and reducing waste. Our certified ISO 14001 environmental management system has been in place since 2004, and is audited annually.

In 2012, Hydro Ottawa was once again named one of Canada's Greenest Employers. We maintained a high rate of non-hazardous waste diversion, at 92 percent. We continued to green our fleet by adding more hybrid vehicles, added building automated systems to 13 additional substations to conserve energy, completed trials for server virtualization and virtual workstations, and increased our efforts to purchase supplies and services locally. We also launched the first phase of a program to protect the American eel near our Chaudière Falls hydro-electric generating stations, which involves monitoring upstream migration to determine where a permanent eel ladder should be installed.

Our green power generating facilities, which emit no pollution or greenhouse gases, are a major part of our commitment to the environment, as are our programs to promote energy conservation and efficiency.

Hydro Ottawa partnered with the City of Ottawa in 2012 to install an electric vehicle charging station at City Hall. This project has allowed vehicle owners to recharge their batteries free of charge, and provided valuable information that will help the City and Hydro Ottawa to develop strategies for this important technology.



Hydro Ottawa has 10 hybrid vehicles in its fleet, including our first hybrid bucket truck. Our fleet policy includes looking for more efficient technologies that are reliable, safe, and financially sustainable.

Management's Discussion and Analysis

The Management's Discussion and Analysis ['MD&A'] is intended to provide a narrative review of Hydro Ottawa Holding Inc.'s operational performance and financial position, and should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2012. The consolidated financial statements are prepared in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ['pre-changeover Canadian GAAP'], including accounting principles prescribed by the Ontario Energy Board ['OEB'] in the Accounting Procedures Handbook, and are expressed in thousands of Canadian dollars.

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

The Business of Hydro Ottawa Holding Inc.

Hydro Ottawa Holding Inc. ['Hydro Ottawa' or 'the Corporation'] was incorporated on October 3, 2000 under the *Business Corporations Act* (Ontario) as a for-profit holding company. Hydro Ottawa is wholly owned by the City of Ottawa ['the Shareholder'] and governed by an independent Board of Directors appointed by the Shareholder.

The Corporation's core businesses are electricity distribution, renewable energy generation and related services. Hydro Ottawa owns and operates two subsidiary companies, as follows:

Hydro Ottawa Limited: The core and by far the largest business of the Corporation is the distribution of electricity by its largest subsidiary, Hydro Ottawa Limited, which accounts for approximately 87 percent of the Corporation's capital assets and 92 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company ['LDC'] that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally owned LDC in the province of Ontario. Hydro Ottawa Limited delivers electricity reliably and safely to over 309,600 residential and commercial customers across a service area of approximately 1,100 square kilometres. As a condition of its distribution licence, Hydro Ottawa Limited is required to meet conservation and demand management targets established by the OEB. Hydro Ottawa Limited receives power from the provincial electricity grid and embedded generators and distributes it across a network comprising 84 distribution stations, 167 station class transformers, 2,700 kilometres of underground cable, 2,900 kilometres of overhead lines, 43,700 distribution transformers and 48,300 hydro poles. Hydro Ottawa Limited added 4,200 net new customers to its distribution system in 2012, an increase of 1.4 percent.

Energy Ottawa Inc. (Energy Ottawa): A generator of renewable energy and provider of commercial energy management services, Energy Ottawa is the largest municipally owned producer of *Ecologo* certified green power in Ontario. Energy Ottawa, with the incorporation of Chaudiere Hydro L.P. and the related asset acquisition from Domtar Inc. on November 20, 2012, now owns and operates six run-of-the-river hydro-electric generation plants at Chaudière Falls. Energy Ottawa also holds interests in the following entities:

PowerTrail Inc. [‘PowerTrail’] is a 60 percent owned joint venture that converts previously flared-off methane gas into renewable energy at the Trail Road landfill site in Ottawa, Ontario.

Moose Creek Energy LP [‘Moose Creek LP’] is a 50 percent owned joint venture to facilitate the construction and operation of a second generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario.

Chaudière Water Power Inc. [‘CWPI’] is a 66.66 percent owned joint venture [as of November 20, 2012] that operates the Chaudière Dam facilities on the Ottawa River.

With the acquisition of additional generation assets at Chaudière Falls, the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant in mid 2012, and the start of commercial operations at the Moose Creek landfill gas to energy plant in early 2013, Energy Ottawa’s green energy production will exceed 320,000 MWh annually, which is enough to power 38,000 homes.

Vision and Strategy

OUR VISION

Hydro Ottawa’s vision is to be a leading and trusted integrated utility services company. This vision is built upon the objectives that were set out for the company at its inception — to increase the value of the company for its Shareholder, to deliver efficient and effective service to our customers, and to grow competitive businesses that maximize the value of our existing assets and core competencies.

The goal of Hydro Ottawa’s *2012–2016 Strategic Direction* is to move the company from ‘good to great’, leveraging our position as a leading and trusted service provider to become one of Canada’s most successful integrated utilities.

LEADING

For Hydro Ottawa, leading means consistently being among the top performers in the business, in every critical area of our operations; and being regarded as a credible and trusted voice in our industry, helping to shape policy, regulatory and operational responses to the critical issues of the day.

As our industry evolves in response to customer needs and technological and policy change, our goal is to ensure Hydro Ottawa continues to be a leader in this shifting strategic context, becoming one of the most successful utility companies in Canada.

TRUSTED

Trust is fundamental to Hydro Ottawa's success — a continuing belief among our stakeholders that we will deliver on our mission, reliably, in a transparent and accountable fashion.

We are a company with very deep roots in our community, established over more than 100 years of service, and we continue to be recognized as a service leader, as finalist in the Chartwell Customer Service awards and receiving the Electricity Distributors Association's Customer Service Excellence Award in 2012.

In the years to come, we will continue to demonstrate that we have the strength and ability to deliver on our mandate, coupled with a commitment to transparency, accountability, and the well-being of our community.

INTEGRATED

Hydro Ottawa's strategic vision involves realizing synergies and economies of scale in 'close to the customer' utility services, to create additional value for the company's Shareholder, and savings and enhanced service to customers.

OUR STRATEGY

The essence of Hydro Ottawa's strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations for service quality, cleaner energy, and greater control over the management of energy costs will be key to Hydro Ottawa's continued success in an evolving landscape. The customer value we provide up to and beyond the meter will drive all critical areas of performance — our financial strength and business growth, our operational efficiency and effectiveness, and our contributions to the well-being of our community.

To enhance our ability to respond to customer needs and expectations, and ensure long-term financial sustainability, Hydro Ottawa will also maintain a focus on strategic business growth within our core areas of strength. Our growth agenda involves three basic components:

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

To achieve our strategy, the plan is structured around four critical areas of performance that have driven our success to date — our four Key Areas of Focus:

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

These four key areas of focus will continue to guide our activities throughout the current plan, but one, Customer Value, takes on central importance.

We have made significant strides on the growth agenda by increasing the supply of clean energy with the following projects:

On November 20, 2012, Chaudiere Hydro L.P. [wholly owned by Energy Ottawa] completed the purchase of three additional run-of-the-river hydro-electric plants at Chaudière Falls from Domtar Inc. for $46.3 million. The assets acquired include the three hydro-electric plants, the tangible and intangible assets related thereto, and Domtar Inc.'s 38.33 percent interest in CWPI. With this purchase, Energy Ottawa's hydro-electric generating capacity has more than doubled to 38 megawatts. In addition, the Chaudière Falls site is one of the largest remaining hydro-electric sites available in Ontario, presenting an expansion opportunity that could see Energy Ottawa's run-of-the-river hydro-electric capacity grow to 60 megawatts in the future.

During 2012, the construction of a second landfill gas collection plant was completed at the Laflèche landfill site in Moose Creek, Ontario. Commercial operations commenced on January 25, 2013.

Hydro Ottawa continues to pursue solar energy projects, including those through a partnership with the City of Ottawa.

Electricity Distribution — Industry Overview

THE ROLE OF THE LOCAL DISTRIBUTION COMPANY

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

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

- Plan: Review performance and trending, project consumer demand growth, develop capital and maintenance plans;
- Design: Apply standards and rigor to projects and retrofits and execute plan;
- Build: Bring the conceptual design to construction;
- Operate: 24/7 operations;
- Maintain: Manage physical assets;
- Restore: Outage management, customer communications;
- Meter: Measure the customer's consumption;
- Bill: Obtain all the usage information and send the bill to the customer;
- Collect: Manage payment collection;
- Conserve: Promote conservation and demand management programs; and
- Customer Care: Manage the relationship with customers.

REGULATORY ENVIRONMENT

Hydro Ottawa and its subsidiaries operate within the framework of the *Electricity Act, 1998* [‘Electricity Act’] and the *Ontario Energy Board Act*, 1998.

Hydro Ottawa Limited, as an electricity distributor, is both licensed and regulated by the OEB. Hydro Ottawa Holding Inc. and Energy Ottawa also have restrictions on business activities because they are affiliates to a distributor that is owned indirectly by a municipal corporation. On November 12, 2010, Hydro Ottawa Limited’s Distribution Licence was revised to reflect its additional mandate to achieve Conservation and Demand Management [‘CDM’] targets.

The legal and policy framework for the Corporation’s businesses is set mainly by the Government of Ontario, which passes legislation and regulations that govern the energy sector in the province. The Ministry of Energy works to develop the electricity generation, transmission and other energy related facilities in Ontario. The Ministry of Energy also has legislative responsibility for several agencies, including the Independent Electricity System Operator [‘IESO’], the OEB and the Ontario Power Authority [‘OPA’].The government restructured Ontario’s electricity industry in 1998, and within the new structure, utilities provide service and build and maintain infrastructure to meet or exceed regulated standards, while earning a regulated return on invested capital. The OEB implements and oversees this framework, ensuring that market participants in the natural gas and electricity sectors comply with their regulatory obligations.

As an LDC, Hydro Ottawa Limited is required to satisfy and maintain prudential requirements with the IESO, which include credit support with respect to outstanding market obligations in the form of letters of credit, cash deposits or guarantees from third parties with prescribed credits ratings. The OEB regulates the province’s electricity sector and, in keeping with the Ontario Energy Board Act, 1998, has the authority and power to approve and fix all rates for the transmission and distribution of electricity in the province.

The OEB must set or approve all rates charged by Hydro Ottawa Limited, and establishes standards of service and conduct that must be followed as a condition of being licensed to distribute electricity. Energy Ottawa and its affiliates are also licensed by the OEB as electricity generators.

The permitted business activities of Hydro Ottawa Limited were expanded as a result of the *Green Energy and Green Economy Act, 2009* [‘Green Energy Act’] to include the ownership and operation of generation and energy storage facilities under established criteria. Existing permitted activities include distributing electricity, load management, the promotion of electricity conservation and the efficient use of electricity and cleaner energy sources.

The Green Energy Act requires all distributors to file plans with the OEB on facilitating renewable energy generation and implementing a smart grid. It also amended the mandate of the OEB, expanding its objectives to include the promotion of CDM, facilitating the implementation of a smart grid and promoting the use and generation of electricity from renewable energy sources. The Corporation filed a Green Energy Act plan with its 2012 cost-of-service application.

The Electricity Act establishes the structure of the electricity industry and the roles and responsibilities of parties such as the IESO, Electrical Safety Authority ['ESA'], OPA and the Smart Meter Entity ['SME']. The Electricity Act further establishes rights and obligations for distributors. For instance, distributors are obligated to connect any building that lies along their distribution systems upon request and access to this system must be non-discriminatory. The Green Energy Act establishes mandatory timelines and information requirements for each step of a process established for the connection of generation facilities that sell electricity through the distribution grid.

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. Since 1999, electricity distributors have been purchasing their electricity from the wholesale market overseen by the IESO and recovering costs of electricity in accordance with procedures mandated by the OEB. At the wholesale level, generators can bid into the electricity market overseen by the IESO or enter into a contract with the OPA. At the retail level, consumers have the choice of purchasing the electricity commodity through a contract with a licensed electricity retailer or through a licensed distributor, such as Hydro Ottawa Limited, as part of a standard supply service ['SSS'].

Under SSS, the commodity is provided to customers on a pass-through basis such that commodity revenues match the cost. Residential and small commercial customers receive the SSS through a regulated price plan [tiered] or Time-of-Use ['TOU'], under which the OEB sets the commodity rates for the province twice per year, in May and November, based on a forecast of the commodity costs. Differences between the forecast and actual costs are tracked by the OEB in a variance account until the balance is cleared through future regulated commodity rates. Other customers pay for the commodity based on the provincial spot market price or through the terms of a retail contract.

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

In April 2012, the Ontario Minister of Energy established the Ontario Distribution Sector Review Panel to provide expert advice to the government on how to improve efficiencies in the sector, with the aim of reducing the financial cost of electricity distribution for electricity consumers. The Panel's report, *Renewing Ontario's Electricity Distribution Sector: Putting the Consumer First*, was published in December 2012. Based on a thorough review of the sector, the Panel proposed a new model for electricity distribution in Ontario aimed at creating robust, efficient and well-resourced utilities that will reduce costs to the consumer and support continued economic growth, largely through the consolidation of LDCs into larger regional utilities. Hydro Ottawa is well positioned to respond to opportunities involving regional consolidation where there is a clear benefit to our customers and our Shareholder.

DETERMINING DISTRIBUTION RATES

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

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

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

Under this model, a Cost-of-Service review is used to establish rates every fourth year [a 'rebasing'], based on the utility's costs to provide the service as determined through an open process before the OEB. This is followed by three years of rate setting under the Incentive Regulation Mechanism ['IRM']. During this three-year period, distributors file an application before the OEB, and rates are adjusted by an inflationary factor minus a productivity factor. This encourages management of the distribution company to maximize the efficiency and productivity of their business, by putting a cap on the distributor's rates. An 'incremental capital module', designed to accommodate significant and special capital needs, can also be applied for during the IRM term. A distribution company can apply for a Cost-of-Service review more often than every fourth year, but it must clearly demonstrate why an IRM adjustment would not provide sufficient resources to manage its business during the IRM period.

Costs and rates vary from distributor to distributor depending on factors such as the age and condition of assets, geographic terrain and distance, and population density and growth. The proportion of residential to commercial and industrial consumers can also contribute to cost differences between distribution companies.

Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, and harmonized sales tax. Revenues from all of these charges, except distribution services, are collected from customers on a pass-through basis. Any differences between costs and revenues collected for these pass-through charges are tracked as a regulatory asset or liability, to be cleared through rates in a subsequent period.

Distribution services revenue, which represents only about 20 percent of the bill, is retained by the LDC. The OEB-approved distribution rates include a fixed charge and a variable charge based on electricity consumption or peak demand.

Each year the OEB compares the operating costs per customer of all Ontario distributors. In the *2011 Yearbook of Electricity Distributors* [September 2012], Hydro Ottawa ranked in the top 15 percent of distributors in terms of lowest costs per customer [11th out of 76 electricity distributors].

On December 28, 2011, the OEB issued its decision on Hydro Ottawa Limited's Cost-of-Service application for 2012 rates. The OEB agreed with Hydro Ottawa Limited's supporting evidence surrounding the working capital allowance, load forecast, lost revenue adjustment mechanism and an implementation date for new rates as of January 1, 2012. The OEB reduced Hydro Ottawa Limited's request for Operating Maintenance and Administration ['OM&A'] and long-term debt costs. As part of the approval process, the OEB approved a Return on Equity of 9.42 percent commencing January 1, 2012. It is the opinion of the Corporation that the rates approved by the OEB for 2012 enabled Hydro Ottawa Limited to operate effectively, spend the capital required to meet its infrastructure needs and progress on all strategic initiatives.

In 2011, the OEB initiated a review of the 3rd Generation IRM regulatory model for electricity distributors in Ontario, as part of a broader review of the regulatory framework for electricity in the province. Over the past 5 years of operating under the 3rd Generation IRM, electricity distributors have raised a number of concerns with the model, including a concern that it did not provide adequate recovery for capital expenditures in the intervening years between rebasing. In the fall 2012, the OEB announced a new policy framework for regulation of the electricity industry in Ontario [*Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach*, October 18, 2012]. Recognizing that the capital investment needs of LDCs vary over time, the new framework identified three rate-setting models from which LDCs will be able to choose to set their rates:

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

The OEB believes these models will provide choices suitable for distributors with varying capital requirements, addressing the issues raised by electricity distributors regarding recovery of capital expenditures, while allowing greater focus by the electric distributors on customer value and service. The details of each of the regulatory models will be developed with input from working groups comprised of electricity distributor staff, ratepayer groups and OEB staff. It is expected that the final details will be available in summer 2013 to allow electricity distributors to file applications under one of the three new models for 2015 rates.

Hydro Ottawa is actively engaged in the policy-making process through working groups and in other ways, in an effort to influence the final design of the regulatory models.

Selected Consolidated Financial Results

The selected consolidated financial results of the Corporation presented below should be viewed in conjunction with the audited consolidated financial statements for the year ended December 31, 2012.

CONSOLIDATED STATEMENT OF INCOME [SUMMARY]

(in thousands of Canadian dollars)	2012	2011	Change $
Revenues			
Power recovery	709,935	663,855	46,080
Distribution sales and other revenue	190,840	176,292	14,548
	900,775	840,147	60,628
Expenses			
Purchased power	707,552	660,515	47,037
Operating costs	105,471	87,033	18,438
	813,023	747,548	65,475
EBITDA	87,752	92,599	(4,847)
Depreciation and amortization	37,121	45,436	(8,315)
Other expenses and recoveris	10,422	10,473	(51)
Payments in lieu of corporate income taxes	8,928	10,193	(1,265)
	56,471	66,102	(9,631)
Non-controlling interest	(292)	(186)	(106)
Net income and comprehensive income	30,989	26,311	4,678

Net income increased by approximately $4.7 million [18 percent]. However after recognition of a non-recurring impairment charge of $1.4 million that was incurred in 2011, the normalized comparable year over year increase is $3.3 million [12 percent]. The increase in net income arises primarily from the approval of the 2012 Cost-of-Service rate application, as well as continued strong performance in the Corporation's energy generation and energy services business lines.

REVENUES

Revenues are earned from electricity distribution, sales of generated power, energy management services, the CDM program, and sundry activities.

The largest component in Hydro Ottawa's total revenues is the cost of power recovered from the customer through provincially established rates. The cost of power is a flow through amount, which poses limited risk to Hydro Ottawa's financial performance either positively or negatively. Hydro Ottawa Limited's power recovery increased by $46.1 million [7 percent], mainly due to increases in volume, commodity rates including the global adjustment, and transmission rates.

Revenues, excluding power recovery, increased $14.5 million [8 percent] from 2011. Electricity distribution revenue is reflective of OEB approved distribution rates and the amount of electricity consumed. Revenue from distribution sales increased $9.2 million [6.5 percent] from 2011 as a result of new rates approved by the OEB per the 2012 cost-of-service application. CDM revenues increased by $1.5 million over the prior year. Energy Ottawa's electricity generation revenues increased by $0.9 million over the prior year mainly due to new revenue as a result of the acquisition of assets from Domtar Inc. on November 20, 2012. Energy Ottawa's commercial energy management services revenues also increased by $1.6 million [notwithstanding intercompany eliminations] over the prior year due to increasing demand.

EXPENSES

Purchased power costs represent the cost of electricity delivered to customers within Hydro Ottawa Limited's distribution service territory. These costs consist of the commodity, wholesale market service charges and transmission charges levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by $47.0 million [7 percent], due mainly to increased volume, commodity rates [specifically the global adjustment] and transmission rates as noted above. The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators and for CDM programs. When the spot market price of electricity is lower, the global adjustment is higher in order to cover the additional costs of energy contracts and other regulated generation.

Operating costs in the current year of $105.5 million increased by $18.4 million over 2011. Hydro Ottawa changed its capitalization policy effective January 1, 2012 to more accurately reflect overhead costs considered directly attributable to property, plant and equipment. The impact of this change is an increase of $9.6 million in operating costs over the prior year [refer to Note 4(b) of the consolidated financial statements]. Compensation costs have also increased over the prior year by approximately $4 million due to negotiated and inflationary increases as well an increased number of employees as a result of the Chaudiere Hydro L.P. acquisition on November 20, 2012. Increases in operating costs were also experienced within commercial energy management services and CDM as a result of the increased revenues.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses decreased by $8.3 million, primarily due to the change in estimated useful lives as of January 1, 2012 to more closely reflect the period over which they provide economic benefits [refer to Note 3(a) of the consolidated financial statements].

PAYMENTS IN LIEU OF CORPORATE TAXES ['PILS']

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ['MEU'] for purposes of the PILs regime contained in the *Electricity Act, 1998*, since all of its share capital is indirectly owned by the City of Ottawa and not more than 10 percent of its income is derived from activities carried on outside the municipal boundaries of the City of Ottawa. The Electricity Act provides that a MEU that is exempt from tax under the *Income Tax Act* (Canada) ['ITA'] and *Taxation Act Ontario, 2007* ['TAO'] is required to make, for each taxation year, a PILs payment in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

The Corporation and Energy Ottawa are also MEUs. PowerTrail and CWPI are taxable under the ITA and TAO, as less than 90 percent of their share capital is owned by the City of Ottawa.

Moose Creek LP and Chaudiere Hydro L.P. are not taxable entities for federal and provincial income tax purposes. Tax on Moose Creek LP and Chaudiere Hydro L.P.'s net income (loss) is borne by the individual partners through the allocation of taxable income.

The Corporation's effective tax rate decreased from 27.8 percent in 2011 to 22.2 percent in 2012 partly due to a decrease in the combined Federal and Ontario statutory income tax rate of 1.75 percent. Additionally, as a regulated entity, HOL records to its balance sheet any future income taxes that may be expected to be included in approved rates charged to customers. This has the effect of the tax expense for HOL being recorded based on the taxes payable method. In 2012, the taxable income is reduced due to higher tax depreciation deductions than accounting depreciation thereby lowering taxes payable and the effective tax rate.

CONSOLIDATED BALANCE SHEET [SUMMARY]

(in thousands of Canadian dollars)	2012	2011	Change $
Current assets	171,755	167,228	4,527
Non-current assets	754,146	647,158	106,988
Total assets	925,901	814,386	111,515
Current liabilities	234,195	134,342	99,853
Non-current liabilities	323,988	327,007	(3,019)
Total liabilities	558,183	461,349	96,834
Shareholder's equity	367,718	353,037	14,681
Liabilities and shareholder's equity	925,901	814,386	111,515

ASSETS

Total assets increased by approximately $111.5 million during the year. This increase is largely attributable to property, plant and equipment and intangible assets, which have increased by $108.4 million. This is a result of our continuing investment in electrical distribution and generation infrastructure as well as the acquisition of property, plant and equipment and intangible assets from Domtar Inc. on November 20, 2012 [refer to Note 5 of the consolidated financial statements].

LIABILITIES

Total liabilities increased by $96.8 million in 2012. This change is largely attributable to the increase in bank indebtedness of $77.4 million discussed below under the Statement of Cash Flows [Summary]. Accounts payable and accrued liabilities have also increased over the prior year by approximately $9.4 million. This year over year increase pertains to the flow through cost of power payable and capital expenditures relating to several large projects. Regulatory liabilities have increased by $9.9 million, primarily attributable to variances associated with the electricity and global adjustment costs.

STATEMENT OF CASH FLOWS [SUMMARY]

(in thousands of Canadian dollars)	2012	2011
Cash (bank indebtedness), beginning of year	2,856	(239)
Cash provided by operating activities	80,804	99,478
Cash used in investing activities	(142,727)	(77,783)
Cash used in financing activities	(18,290)	(18,600)
Cash (bank indebtedness), end of year	(77,357)	2,856

CASH PROVIDED BY OPERATING ACTIVITIES

Cash generated by operating activities provided approximately $19 million less cash flow than in 2011. The majority of the decrease arises from less cash flow being generated from working capital, primarily due to the timing of settlement within the regulatory accounts as well as increases in accounts receivables, unbilled revenue and a decrease in payments in lieu of corporate income taxes receivable.

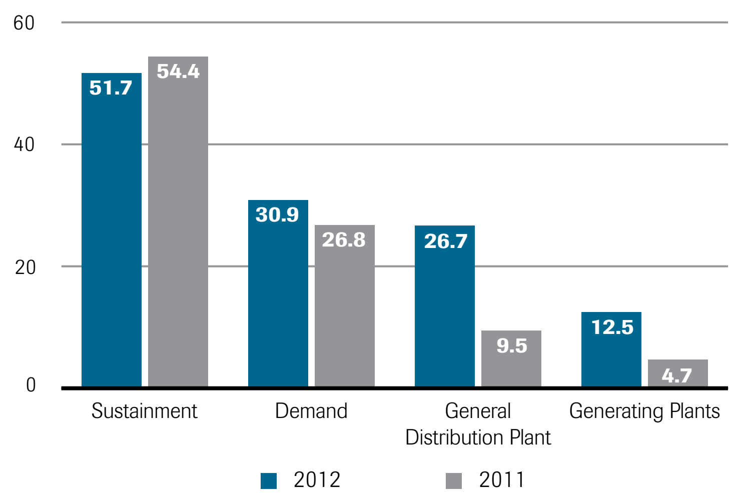
CASH USED IN INVESTING ACTIVITIES

The total investment in property, plant and equipment and intangible assets, net of contributions in aid of construction in 2012 was $142.7 million. Capital investments in 2012 included approximately $51.7 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $30.9 million on demand projects [less contributed capital of $22.2 million], which includes third-party driven growth projects such as new residential or commercial installations, and municipal improvement projects including the City of Ottawa's Light Rail Transit project, and $26.7 million on general plant items including Information Technology infrastructure, fleet, and facilities.

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2012, 938 new poles, 431 overhead transformers, and 235 km of overhead cables were installed. Over 200 demand capital projects were initiated, including the addition of 7,693 new residential and 850 new commercial connections.

Investments in generation operations during 2012 were also significant, including $46.3 million to purchase three additional run-of-the-river hydro-electric plants at Chaudière Falls from Domtar Inc., and $1.5 million to enhance the generation capabilities at the PowerTrail facility, including the addition of a sixth engine. $10.6 million was spent on the construction of the new Moose Creek landfill gas collection plant and utilization system that was completed in early 2013.

The following chart shows the year over year capital investments, excluding the acquisition of assets from Domtar Inc.



CASH USED IN FINANCING ACTIVITIES

Dividends were paid to the Shareholder in 2012 in accordance with the approved dividend policy. The 2012 payment totalled $16.6 million based on 2011 results, and the 2011 payment totalled $17.5 million based on 2010 results.

LIQUIDITY AND CAPITAL RESOURCES

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

On August 9, 2012, the Corporation renewed its pre-existing credit facility for a revised amount of $193.65 million, a $50.0 million increase over the previous year's amount. The facility is more than adequate for current and projected needs. The Corporation may use up to $75 million of the facility for general operating requirements and annual capital expenditures. In addition, a $100 million two-year revolving credit line remains available for larger capital expenditures and acquisitions. Capital expenditure requirements in excess of this, if any, will be funded through future bond issuances. The increase of the credit facility over the prior year was to accommodate the acquisition of assets from Domtar Inc. at Chaudière Falls.

As at December 31, 2012, the Corporation had drawn $16.1 million in standby letters of credit and $74.0 million in short term borrowings against its credit facility. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO costs of power invoice in advance of receiving payment from customers. The Corporation will continue to invest in its distribution system and anticipates a new bond issuance in 2013 to fund its capital expenditures and pay down its existing credit facility. This will enable the Corporation to maintain its appropriate liquidity position.

PowerTrail maintains a separate credit facility with a Canadian Chartered bank. The facility consists of $0.2 million in standby letters of credit. As at December 31, 2012, the joint venture had drawn $0.1 million in standby letters of credit against this credit facility.

CWPI also maintains a credit facility consisting of a $0.5 million operating credit line secured by the three principals of CWPI. The operating credit line is repayable on demand and bears interest at the Bank of Canada's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2012, CWPI had nineteen thousand dollars drawn on this credit line.

CREDIT RATINGS

As at December 31, 2012, the Corporation's bonds are rated as follows:

Rating Agency	Rating
Standard & Poor's Rating Services Inc.	A ('stable')
Dominion Bond Rating Service Inc.	A ('stable')

During the past year, both the Dominion Bond Rating Service ['DBRS'] and Standard & Poor's Rating Services Inc. ['S&P'] reaffirmed Hydro Ottawa Holdings Inc.'s rating at 'A' with a stable trend. Once again, both rating agencies noted the Corporation's strong competitive position, supportive regulator and a recession-proof customer base promoting an excellent business risk profile.

Hydro Ottawa's strong credit rating over the past several years is a direct result of its conservative financial policies, strong operational performance and low business risk.

The Corporation's bonds carry covenants normally associated with this type of debt [see Note 17 of the consolidated financial statements for further details]. The Corporation is in compliance with these covenants as at December 31, 2012.

Accounting Estimates and Policies

CHANGE IN ACCOUNTING ESTIMATES

Effective January 1, 2012, the Company revised the rate of depreciation applied to property, plant and equipment and intangible assets in order to more closely reflect the period over which they provide economic benefits.

As at December 31, 2012, the Corporation revised how it estimates unbilled revenue. Previously, an estimate of unbilled revenue was calculated by multiplying the number of unbilled days by the average billed amount per day from historical billing periods. The new methodology is based on actual consumption of its customers, when available, rather than using historical consumption data. The new method provides a better approximation of unbilled revenue.

SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of consolidated financial statements, in conformity with pre-changeover Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of consolidated revenues, expenses, assets, liabilities, and the disclosure of commitments and contingencies at the date of the consolidated financial statements.

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

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

- Estimated useful lives of property, plant and equipment and intangible assets [Note 2(j) and (k)]
- Unbilled revenue [Note 2(f) (iii)]
- Net regulatory assets and liabilities [Note 8]
- Employee future benefits [Note 15]
- Payments in lieu of corporate income taxes [Note 22]

CHANGES IN ACCOUNTING POLICIES – CURRENT

On January 1, 2012, the Corporation changed its accounting policy regarding employee future benefits. Previously the Corporation deferred and amortized its actuarial gains or losses. The policy recognizes the changes in actuarial gains or losses immediately into income [refer to Note 4(a) of the consolidated financial statements].

Also effective January 1, 2012, the Corporation revised its capitalization rate used to apply overhead costs to property, plant and equipment and intangible assets. Management believes that the new rate appropriately reflects the overhead costs directly attributable to capital projects [refer to Note 4(b) of the consolidated financial statements].

CHANGES IN ACCOUNTING POLICIES – FUTURE

In January 2006, the Canadian Accounting Standards Board ['AcSB'] announced its decision to replace Canadian Generally Accepted Accounting Principles ['Canadian GAAP'] with International Financial Reporting Standards ['IFRS']. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises ['PAEs'] will be required to transition to IFRS effective January 1, 2011. While the Corporation is not a PAE, it is a Government Business Enterprise given its status as a municipally owned utility, and such enterprises are required to follow the same basis of accounting as PAEs.

IFRS does not currently contain a standard on rate-regulation. In December 2008, the International Accounting Standards Board ['IASB'] initiated a project on the application of IFRS to rate-regulated activities ['RRA'], such as Hydro Ottawa's electricity distribution business. In July 2009, the IASB issued an Exposure Draft on RRA which had many similarities to Canadian GAAP in accounting for rate-regulated activities. However, as a result of the numerous unsupportive comment letters received from around the world, the IASB members determined that the matter could not be easily resolved and decided there was a need for a more comprehensive project on the subject.

Due to the significance of this issue in Canada, the AcSB decided on September 10, 2010 that qualifying entities with rate-regulated activities would be permitted to continue applying Canadian GAAP for an additional year, postponing the IFRS transition date for Hydro Ottawa to January 1, 2012. On March 30, 2012, the AcSB issued another extension, to January 1, 2013. On September 18, 2012, the transition date was extended once again to January 1, 2014. These deferrals from the AcSB were issued in hopes that the IASB would develop interim guidance permitting the recognition of regulatory assets and liabilities until the more comprehensive project on RRA is completed, and to avoid two sets of changes for rate-regulated entities in a short-period of time.

On December 17, 2012, the IASB voted in favour of an interim standard for RRA, to grandfather existing practices regarding RRA until a more comprehensive project is completed. However, the interim standard would only be applicable to rate-regulated entities that have not yet transitioned to IFRS. The exposure draft of the interim standard is expected to be released in Q2-2013.

In February 2013, the AcSB decided to extend the existing deferral by another year to January 1, 2015 to allow first-time adopters of IFRS adequate time to evaluate the new interim standard.

Given these developments and the continued uncertainty around accounting for rate-regulated activities under IFRS, the Corporation elected to take the deferral issued by the AcSB and continue to report under pre-changeover Canadian GAAP for the year ended December 31, 2012 and until the IFRS interim standard is available. Although the Corporation's conversion to IFRS has been deferred, the conversion project has been managed in a manner that should allow for a smooth and efficient transition to IFRS when this occurs.

Hydro Ottawa's non-regulated subsidiary did not qualify for the deferral issued by the AcSB. Therefore, Energy Ottawa will continue to report according to the Accounting Standards for Private Enterprises ['ASPE'] until the Corporation adopts IFRS.

Critical Non-Capital Resources and Internal Processes

CRITICAL NON-CAPITAL RESOURCES

The Corporation employs over 650 people with Hydro Ottawa Limited accounting for over 90 percent of this workforce.

Over the next five years, more than 140 employees of Hydro Ottawa will be eligible for early retirement with an unreduced pension. Over 55 percent are trades and technical employees; the other almost 45 percent are administrative, professional, and clerical employees. This reflects a broader trend of workforce demographics seen by utilities in Ontario and across Canada.

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

- Extensive in-house apprenticeship programs, and an engineering intern training and development program, to ensure the availability of qualified tradespersons and professional engineers;
- A succession planning and management program and training and development programs to ensure that there are qualified employees in the talent pipeline for key positions;
- A proactive approach to knowledge management and knowledge transfer for key positions, including older worker and retiree engagement strategies, so that work is seamlessly transitioned from our veteran workforce to the next generations;
- Partnerships with industry and educational institutions to support the implementation of the talent management strategy. These include, most notably, collaborations with Algonquin College to deliver the College's new Powerline Technician program, and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory to foster innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

On November 20, 2012, with the acquisition of assets from Domtar Inc., over 20 individuals who were previously employed by Domtar Inc. became employees of Chaudiere Hydro L.P. and CWPI. As a result of this transaction, the Corporation established a defined benefit pension plan for these employees; and Chaudiere Hydro L.P. has formed a Retirement Committee.

INTERNAL PROCESSES

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

With the successful completion of the Province's Smart Meter and Time-of-Use rate programs in 2011, the company focused in 2012 on leveraging customer access to their account information through customer self-serve options not available prior to the Smart Metering initative. These options result in improved customer satisfaction, fewer complaints and improved efficiencies.

Over 84,000 customers [27 percent of all customers] have subscribed to *MyHydroLink*, a web-based customer portal that provides a number of self-service options. Over 44,000 customers have opted to receive their Hydro Ottawa bill electronically, and over 61,000 customers have subscribed to an automated payment process which is more convenient for them and more efficient for the utility.

Hydro Ottawa introduced its leading mobile web offering in 2012, which features many customer account information options along with access to Hydro Ottawa's award winning Outage Communications system. This mobile service is available to customers with a smart phone such as an iPhone, Android or Blackberry.

In 2012 Hydro Ottawa introduced a Remote Disconnect/Reconnect feature that allows electrical service to be interrupted and restored to a customer's premise remotely by Hydro Ottawa staff. This will provide more efficient service by reducing the number of truck-rolls required to respond to non-payment situations. Over 2,800 meters are now equipped with this feature.

Hydro Ottawa Limited also continues to maintain certification to several international standards, including ISO 9001 Quality Management System, ISO 14001 Environmental Management System and OHSAS 18001 Occupational Health and Safety Management System. Internal and external third-party audits are conducted annually to confirm and maintain certification and to attain re-registration as required by the standards.

A key and significant upgrade to the Customer Information System ['CIS'] began in 2011 and continues in 2013. Concurrent with the completion of this upgrade, Hydro Ottawa will convert all residential customers to a monthly billing cycle, in place of the current bi-monthly cycle.

The Corporation places significant emphasis on cost containment and productivity improvements in order to enhance financial strength and operational performance. The OEB sets productivity improvement targets for electricity distributors as part of its Incentive Regulation Mechanism, and the Corporation pursues corporate-wide efficiencies in addition to those targets. A key part of this initiative is the *LEAN* Program, a process improvement methodology focussed on increasing the efficiency and effectiveness of core business processes. Ancillary benefits include enhancing customer value and improving employee engagement. In 2012, work continued on the enhancement of capital execution using the *LEAN* methodology, from planning and designs through to construction and project closure. Hydro Ottawa achieved a 45 percent reduction in overtime hours charged to capital projects from 2011 to 2012 as a result of the work that has been completed. There has also been a significant improvement in internal coordination and communication with the introduction of regionalized teams and enhanced management reporting.

Risks and Uncertainties

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

The Corporation's Enterprise Risk Management ['ERM'] system establishes the framework to help the Corporation track and respond to risks and opportunities impacting strategic direction and business activities, in a consistent and integrated manner across the enterprise. A multi-year Business Planning cycle, with annual updates, enables continuous review of assumptions and the state of the market in which the Corporation operates.

Hydro Ottawa continues to monitor and manage traditional risks and sources of risk that are structural within the industry and the regulated environment. It is possible, however, that some of these risks could adversely impact Hydro Ottawa's results and objectives. These include but are not restricted to: the weather; the policy and regulatory environment; the state of the economy and macro-economic trends; government policies relating to the production and procurement of renewable and clean energy as well as carbon emissions and conservation; labour force demographics, with a particular emphasis on the renewal of human resources in the trades; and the impact of fiscal policies on customers. In addition, the evolution of the industry presents new and emerging risks that need to be managed effectively.

The emerging as well as the traditional risks are discussed below.

POLICY AND REGULATORY ENVIRONMENT

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

The OEB approves local electricity distribution rates based on projected load growth and consumption levels. Hydro Ottawa sought and obtained OEB approval for a rebasing of its distribution rates, which went into effect on January 1, 2012. If actual experience varies from the projections, the Corporation's net income could be affected. Hydro Ottawa's distribution revenue will decline if CDM forecasts are exceeded. While the OEB has recognized the need to compensate for such lost revenue, the Lost Revenue Adjustment Mechanism instituted by the OEB may not adequately compensate the Corporation for such lost revenue.

The ability to maintain and operate the electrical distribution system reliably and safely depends on sufficient funding and the OEB allowing recovery of capital expenditures on distribution infrastructure repair and replacement.

ECONOMY

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

CREDIT RATINGS

Growth in the Corporation's unregulated lines of business, including electricity generation, energy management and utility management services, could put pressure on its existing credit rating [A/Stable].

DEPENDENCE ON PARTNERS

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

PENSION PLANS

In 2013, the Corporation and the majority of its employees will continue to make increased contributions to the Ontario Municipal Employees Retirement System ['OMERS']. These increases are in accordance with the planned three-year annual temporary contribution increase for both members and employers instituted by OMERS in 2011 with a view to closing the OMERS Primary Plan's funding shortfall of $1.5 billion as of December 31, 2009, and also to offset nearly $5 billion of net losses [incurred in the 2008 financial crisis].

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

TECHNOLOGY INFRASTRUCTURE

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

CYBER SECURITY

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

TIME-OF-USE TECHNOLOGY

Given the number of devices, systems and web interfaces involved in the smart meter – TOU billing process, as well as the number of external and internal service providers engaged, risks arising from the reliability and performance of any single component of this integrated network or of the system as a whole could lead to a disruption of the meter-to-cash cycle.

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 apprenticeship, succession planning and retiree engagement programs are designed to manage risks relating to workforce demographics.

WEATHER

Severe weather can significantly impact financial results. Storms increase capital and maintenance costs to repair or replace damaged equipment and infrastructure, to ensure the continuing reliability of the electricity distribution system. Weather fluctuations also influence distribution revenues, which tend to increase with severe weather and decrease with moderate weather, and renewable energy production, which depends upon factors such as water flows [hydro-electric], and sun [solar].

Outlook

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

The Corporation also continues to actively pursue opportunities for expansion in non-regulated business lines in accordance with the endorsed strategy, as evidenced by the acquisition of the run-of-the-river generation assets on November 20, 2012.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2012

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Hydro Ottawa Holding Inc.

Report of Management

Management is responsible for the integrity of the financial data reported by Hydro Ottawa Holding Inc. ['the Corporation']. Fulfilling this responsibility requires the preparation and presentation of consolidated financial statements using management's best judgment and estimates in accordance with Canadian generally accepted accounting principles, applied on a basis consistent with the preceding year.

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

Alan Hoverd
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholder of
Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of **Hydro Ottawa Holding Inc.**, which comprise the consolidated balance sheet as at December 31, 2012, and the consolidated statements of income, comprehensive income and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Hydro Ottawa Holding Inc.** as at December 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ottawa, Canada,
April 4, 2013.

Chartered Accountants
Licensed Public Accountants

Hydro Ottawa Holding Inc.

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

	2012	2011
Revenue [Note 25]		
Power recovery	$ **709,935**	$ 663,855
Distribution sales	**151,936**	142,688
Other revenue	**38,904**	33,604
	900,775	840,147
Expenses		
Purchased power	**707,552**	660,515
Operating costs [Note 25]	**105,471**	87,033
Depreciation	**30,449**	37,725
Amortization	**6,672**	7,711
	850,144	792,984
Income before other expenses (recovery) and payments in lieu of corporate income taxes	**50,631**	47,163
Financing costs [Note 21]	**11,101**	11,916
Recovery of regulatory asset write-down [Note 8]	**(679)**	(1,443)
	10,422	10,473
Income before payments in lieu of corporate income taxes	**40,209**	36,690
Payments in lieu of corporate income taxes [Note 22]	**8,928**	10,193
Net income and comprehensive income	**31,281**	26,497
Attributable to non-controlling interest [Note 19]	**292**	186
Attributable to equity shareholder	**30,989**	26,311
Retained earnings, beginning of year, as previously stated	**-**	114,971
Prior period adjustment [Note 4(a)]	**-**	71
Retained earnings, beginning of year, as adjusted	**123,853**	115,042
Dividends paid [Note 18]	**(16,600)**	(17,500)
Retained earnings, end of year	$ **138,242**	$ 123,853

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

Hydro Ottawa Holding Inc.

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

	2012	2011
Assets		
Current assets		
Cash	**$ -**	$ 2,856
Accounts receivable [Notes 6 and 25]	**75,088**	65,255
Payments in lieu of corporate income taxes receivable	**1,482**	6,020
Unbilled revenue [Note 7]	**89,935**	87,255
Prepaids	**2,653**	1,848
Regulatory assets [Note 8]	**1,969**	3,379
Future income tax assets [Note 22]	**628**	615
	171,755	167,228
Non-current assets		
Net regulatory assets [Note 8]	**7,603**	8,593
Property, plant and equipment [Note 9]	**669,658**	588,614
Intangible assets [Note 10]	**52,189**	24,812
Future income tax assets [Note 22]	**24,222**	25,139
Retirement benefit asset [Note 15]	**474**	-
Total assets	**925,901**	814,386
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 11]	**77,357**	-
Accounts payable and accrued liabilities [Notes 12 and 25]	**132,791**	123,377
Payments in lieu of corporate income taxes payable	**702**	133
Regulatory liabilities [Note 8]	**22,097**	10,017
Notes payable [Note 16]	**620**	-
Regulatory liability for future income tax assets [Note 22]	**628**	615
	234,195	134,142
Non-current liabilities		
Net regulatory liabilities [Note 8]	**20,144**	22,320
Regulatory liability for future income tax assets [Note 22]	**24,165**	25,139
Employee future benefits [Note 15]	**10,780**	9,287
Notes payable [Note 16]	**251,459**	252,155
Future income tax liabilities [Note 22]	**5,179**	4,452
Other liabilities [Note 13]	**12,261**	13,854
	558,183	461,349
Shareholder's equity		
Share capital [Note 18]	**228,453**	228,453
Retained earnings	**138,242**	123,853
Non-controlling interest [Note 19]	**1,023**	731
	367,718	353,037
Total liabilities and shareholder's equity	**$ 925,901**	$ 814,386

Contingent liabilities and commitments [Notes 23 and 24]

ON BEHALF OF THE BOARD:

Pierre Richard

Director

Marion Harvey

Director

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
[in thousands of Canadian dollars]

		2012		2011
Net inflow (outflow) of cash related to the following activities:				
Operating				
Net income and comprehensive income	$	**31,281**	$	26,497
Items not affecting cash				
Depreciation		**30,449**		37,725
Amortization		**6,672**		7,711
Loss (gain) on disposal of property, plant and equipment [Note 9]		**1,779**		(54)
Impairment charges [Note 6]		**-**		1,400
Allowance for funds used during construction [Notes 9 and 10]		**(2,056)**		(933)
Future payments in lieu of corporate income taxes		**671**		755
Amortization of debt-issuance costs		**225**		225
Employee future benefits [Note 15]		**195**		158
Changes in non-cash working capital and other operating balances				
Increase in prepaids [Note 5]		**(742)**		(580)
(Increase) decrease in accounts receivable		**(9,833)**		6,984
Increase in unbilled revenue		**(2,680)**		(5,034)
Decrease in regulatory assets, net of liabilities [Notes 8 and 15]		**13,456**		23,184
Increase in accounts payable and accrued liabilities [Notes 9,10 and 15]		**6,280**		6,917
Increase (decrease) in payments in lieu of corporate income taxes receivable/payable		**5,107**		(5,477)
		80,804		99,478
Investing				
Acquisition of property, plant and equipment [Notes 5 and 9]		**(107,695)**		(91,947)
Acquisition of intangible assets [Notes 5 and 10]		**(10,929)**		(6,095)
Proceeds from disposal of property, plant and equipment		**45**		182
Acquisition of assets from Domtar Inc. [Note 5]		**(46,339)**		-
Contributions in aid of construction [Note 9]		**22,191**		20,077
		(142,727)		(77,783)
Financing				
Decrease in customer deposits [Notes 12 and 13]		**(1,375)**		(1,086)
Dividends paid [Note 18]		**(16,600)**		(17,500)
Repayment of notes payable [Note 16]		**(300)**		-
Repayable grant [Note 9]		**(15)**		(14)
		(18,290)		(18,600)
Net change in cash		**(80,213)**		3,095
Cash (bank indebtedness), beginning of year		**2,856**		(239)
(Bank indebtedness) cash, end of year	$	**(77,357)**	$	2,856
Supplemental cash flow information				
Interest paid	$	**12,723**	$	12,466
Payments in lieu of corporate income taxes paid, net of refunds	$	**3,199**	$	14,925

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2012
[in thousands of Canadian dollars]

1. DESCRIPTION OF BUSINESS

Hydro Ottawa Holding Inc. ['Hydro Ottawa' or the 'Corporation'] was incorporated on October 3, 2000 pursuant to the *Business Corporations Act (Ontario)* as mandated by the Ontario government's *Electricity Act, 1998*. The Corporation is wholly owned by the City of Ottawa [the 'Shareholder']. The Corporation owns 100% of Hydro Ottawa Limited, Energy Ottawa Inc. ['Energy Ottawa'] and Telecom Ottawa Holding Inc., which does not maintain active operations.

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

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

- Chaudiere Hydro L.P. was formed on June 22, 2012 and is 99.99% owned by Energy Ottawa and 0.01% owned by Chaudiere Hydro Inc. ['Chaudiere Hydro GP'] which is wholly owned by Energy Ottawa. Chaudiere Hydro L.P. which was formed to own and operate three hydro-electric generation plants and related assets purchased from Domtar Inc. on November 20, 2012 as described in Note 5 of these consolidated financial statements. Chaudiere Hydro GP was incorporated on June 18, 2012 to act as the general partner of Chaudiere Hydro L.P.

- Moose Creek Energy LP ['Moose Creek LP'] is a 50.05% owned joint venture formed on April 15, 2011 to facilitate the construction and operation of a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario. Moose Creek Energy Inc., a 50.00% owned joint venture incorporated on March 2, 2011, is the general partner of Moose Creek LP. Commercial operations of Moose Creek LP commenced on January 25, 2013.

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

- Chaudière Water Power Inc. ['CWPI'] is a 66.66% owned joint venture [as of November 20, 2012; 28.33% previously], incorporated on April 30, 1981 to act as an agent for the three principals of CWPI with a mandate to operate the Chaudière Dam facilities on the Ottawa River. The facilities are not owned by CWPI; they are jointly owned by the principals. In accordance with the shareholders agreement, all costs incurred by CWPI in relation to the facilities are fully reimbursed in accordance with each principal's ownership percentage.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Part V of the *Canadian Institute of Chartered Accountants Handbook* for publicly accountable entities ['pre-changeover Canadian GAAP'], including principles prescribed by the Ontario Energy Board ['OEB'] in the *Accounting Procedures Handbook* ['AP Handbook']. In the opinion of management, all adjustments necessary for fair presentation are reflected in the consolidated financial statements. The consolidated financial statements reflect the significant accounting policies summarized below.

(a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its subsidiaries: Hydro Ottawa Limited, Telecom Ottawa Holding Inc., and Energy Ottawa, which includes the accounts of PowerTrail, Moose Creek LP, Chaudiere Hydro L.P., Chaudiere Hydro GP and CWPI as of November 20, 2012. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2012
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2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(b) Consolidation of variable interest entities

The Corporation consolidates variable interest entities ['VIEs'] in which the Corporation is the primary beneficiary, as described in pre-changeover Canadian GAAP Accounting Guideline 15 – *Consolidation of Variable Interest Entities* ['AcG-15']. Upon the application of AcG-15, the initial equity investment at risk was not sufficient to permit PowerTrail or Moose Creek LP to finance their activities without additional subordinated financial support from its equity owners and, as such, PowerTrail and Moose Creek LP are consolidated in the consolidated financial statements of Energy Ottawa and ultimately, the Corporation.

As of November 20, 2012, Energy Ottawa became the primary beneficiary of CWPI due to an increase in effective share ownership from 28.33% to 66.66% as a result of the acquisition of assets described in Note 5 of these consolidated financial statements. CWPI was therefore consolidated by Energy Ottawa under AcG-15 as of this date. Prior to November 20, 2012, Energy Ottawa accounted for its 28.33% interest as a joint venture using proportionate consolidation and accounted for the costs incurred by CWPI as operating or capital expenditures, based on the nature of the costs.

The VIEs have non-controlling interests which are reported separately as part of equity.

(c) Investment in joint venture

The Corporation holds a 50.00% interest in Moose Creek GP, the general partner of Moose Creek LP. As general partner, Moose Creek GP has the full and exclusive right, power and authority to manage, control, administer and operate the business and affairs regarding the undertaking and business of Moose Creek LP. The other 50.00% is owned by Integrated Gas Recovery Services Inc. ['IGRS'] of Thorold, Ontario. While the Corporation accounts for its interest in Moose Creek GP using proportionate consolidation, Moose Creek GP does not contain significant assets, liabilities, revenue or expenses.

(d) Acquisition of assets and business combinations

The Corporation evaluates the integrated set of activities [inputs, processes, outputs] associated with an acquired asset group to determine whether it meets the definition of a business as prescribed by Section 1582 Business Combinations under pre-changeover Canadian GAAP. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred and the liabilities incurred to former owners of the acquired business in exchange for control of the acquired business. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Corporation will report in its financial statements provisional amounts for the items for which the accounting is incomplete. Within one year, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date.

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2012
[in thousands of Canadian dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(e) Measurement uncertainty

The preparation of consolidated financial statements in conformity with pre-changeover Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets, payments in lieu of corporate income taxes, the valuation of employee future benefits, the retirement benefit asset, certain accruals, as well as the fair value of assets and liabilities acquired.

Due to the inherent uncertainty involved in making such estimates, actual results could differ from estimates recorded in preparing these consolidated financial statements, including changes as a result of future decisions made by the OEB or the provincial government. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the significant accounting policies.

(f) Regulation

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

Hydro Ottawa Limited operates under cost of service regulation as prescribed by the OEB. Rate orders issued by the OEB establish Hydro Ottawa Limited's revenue requirements, being revenue required to recover approved costs, and provide a rate of return on a deemed capital structure applied to approved rate base assets.

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

The following regulatory treatments have resulted in accounting treatments that differ from pre-changeover Canadian GAAP for enterprises operating in a non-regulated environment:

(i) Regulatory assets and liabilities

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

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

Regulatory assets and liabilities are classified as current if they are expected to be recovered from, or refunded to, customers within 12 months after the reporting period. All other regulatory asset and liability balances are classified as long-term on the consolidated balance sheet.

Regulatory balances are comprised principally of the following:

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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[in thousands of Canadian dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

- Regulatory liability refund account ['RLRA'] consists of balances of regulatory assets or regulatory liabilities approved for disposition by the OEB through rate riders.

- Settlement variances relate primarily to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment that were not settled with customers during the period. 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.

- Deferred smart meter costs represent the differences between the amounts funded through rates for smart meters and actual program costs. Program costs include operating, maintenance, depreciation and administrative expenses directly related to smart meters, a return on smart meter assets, and the net book value of conventional meters removed upon the installation of smart meters.

- Other Post Employee Benefits deferral account ['OPEB deferral account'] was authorized by the OEB in 2011 to record the adjustment to post-retirement benefits 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 variances and deferred costs:

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

- The OEB allows electricity distributors to record in a deferral account the net cost of providing retailer billing services and transaction request services as a variance amount.

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

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

- The Late Payment Charge ['LPC'] penalties account relates to the settlement costs accrual associated with the LPC class action. The July 22, 2010 court order formalized a settlement which involves payments by all utilities imposing late payment charges. On February 22, 2011, the OEB issued a decision that allowed distributors to recover the costs and damages arising from the LPC class action over a 12-month period starting May 1, 2011. As of April 30, 2012, this account was cleared.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

- The OEB directed distributors to record the incremental input tax credits received on the distribution revenue requirement items that were previously subject to provincial sales tax and which became subject to the harmonized sales tax on July 1, 2010. The OEB concluded that fifty percent [50%] of the balances should be returned to the ratepayers for the period up to the rebasing date, which for Hydro Ottawa Limited was January 1, 2012.

(ii) Contributions in aid of construction

Contributions in aid of construction received from outside sources are used to finance additions to property, plant and equipment. According to the AP Handbook, contributions in aid of construction are treated as a reduction to property, plant and equipment and are depreciated at an equivalent rate to that used for the depreciation of the related property, plant and equipment.

(iii) Allowance for funds used during construction ['AFUDC']

An allowance for the cost of funds used during the construction period has been applied to major capital and development projects.

(iv) Payments in lieu of corporate income taxes ['PILs']

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

Hydro Ottawa Limited follows the liability method for recording income taxes in accordance with pre-changeover Canadian GAAP recommendations. Under the liability method, current income taxes payable are recorded based on taxable income. Future 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 AP Handbook provides for the recovery of PILs by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB. Hydro Ottawa Limited recognizes regulatory liabilities and assets for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates.

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

PowerTrail and CWPI are taxable under the ITA and TAO as less than 90% of each corporation's share capital is owned by the City of Ottawa, corporate income taxes are accounted for using the liability method as described above.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(iv) Payments in lieu of corporate income taxes ['PILs'] [continued]

Moose Creek LP and Chaudiere Hydro L.P. 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.

(g) Revenue recognition

The Corporation recognizes revenue when persuasive evidence of an arrangement exists, services have been delivered, the price has been fixed or is determinable and collection is reasonably assured.

(i) Distribution sales

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

(ii) Power recovery

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

(iii) Unbilled revenue

Unbilled revenue represents an estimate of the electricity consumed by customers since the date of each customer's last meter reading to year end that has not yet been billed.

(iv) Other revenue

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

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

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(h) Bank indebtedness

Bank indebtedness includes bankers' acceptances with a maturity date of three months or less and outstanding cheques.

(i) Financial instruments

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between willing parties. The subsequent measurement of each financial instrument depends on the classification elected by the Corporation.

The Corporation classifies and measures its financial instruments as follows:

- Cash is classified as held-for-trading and is measured at fair value.

- Accounts receivable and unbilled revenue are classified as loans and receivables and are measured at amortized cost, which, upon initial recognition, is considered equivalent to fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with pre-changeover Canadian GAAP Section 3840, *Related Party Transactions*. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

- Bank indebtedness, accounts payable and accrued liabilities and notes payable are classified as other financial liabilities and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with pre-changeover Canadian GAAP Section 3840, *Related Party Transactions*. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

- Customer deposits are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

(j) Property, plant and equipment

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

Spare parts and standby equipment, which are expected to be used during more than one year, are considered to be assets under construction, and are depreciated only once they are put into service.

Property, plant and equipment are recorded at cost and include directly attributable contracted services, materials, labour, engineering costs, overheads and AFUDC. Certain assets may be acquired or constructed with financial assistance in the form of contributions from customers. Contributions in aid of construction received are treated as a contra account to property, plant and equipment. The amount is depreciated by a charge to accumulated depreciation and a reduction in depreciation expense at an equivalent rate to that used for the depreciation of the related asset.

[in thousands of Canadian dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(j) Property, plant and equipment [continued]

Significant renewals and enhancements to existing assets are capitalized only if the service life of the asset is increased, reliability is improved above original design standards or if operating costs are reduced by a substantial and quantifiable amount.

Depreciation is recorded on a straight-line basis over the estimated service life of the related asset.

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

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

Assets under construction, land, spare parts and standby equipment are not subject to depreciation.

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

(k) Intangible assets

Intangible assets include land rights, a power purchase agreement, line connection contributions, computer software and water rights.

Intangible assets with finite lives are recorded at cost and amortized on a straight-line basis over the estimated service life of the related asset. Intangible assets acquired in a business combination are initially recorded at their acquisition date fair values.

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

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

Water rights with respect to the Chaudière Dam on the Ottawa River, which has an indefinite useful life, and assets under development are not subject to amortization.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Intangible assets [continued]

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

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

(l) Asset retirement obligations

The Corporation recognizes its obligation to retire certain tangible long-lived assets, whereby the fair value of a liability for an asset retirement obligation is recognized in the period during which it is incurred if a reasonable estimate can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and then amortized over its estimated useful life. In subsequent periods, the asset retirement obligation is adjusted for the passage of time and any changes in the amount or timing of the underlying future cash flows are reflected in the liability. The liability is adjusted for an annual accretion charged to operating costs. A gain or loss may be incurred upon settlement of the liability.

(m) 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 which provides pensions for employees of Ontario municipalities, local boards, public utilities and school boards. The Fund is a defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund.

Although the plan is a defined benefit plan, sufficient information is not available to the Corporation to account for it as such because it is not possible to attribute the fund assets and liabilities between the various employers who contribute to the fund. As a result, the Corporation accounts for the plan as a defined contribution plan, and contributions payable as a result of employee service are expensed as incurred as part of operating costs.

Chaudiere Hydro L.P. is the sponsoring employer of the Pension Plan for Employees of Chaudiere Hydro L.P. and Participating Employers [‘Chaudiere Pension Plan’ or 'CHPP'] effective November 20, 2012 and is accounted for as follows:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(m) Employee future benefits [continued]

(i) Pension plans [continued]

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

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

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

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

(ii) Employee future benefits other than pension plans

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

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

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate. 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 income immediately, however for Hydro Ottawa Limited, these amounts are deferred as a regulatory asset or liability as permitted by the OEB.

(n) Customer deposits

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

(o) Leases

At the inception of a lease, or an arrangement that contains a lease, the Corporation evaluates whether the lease should be classified as a capital lease or an operating lease. Leases that transfer substantially all the risks and rewards incidental to ownership of the related asset are classified as capital leases. All other leases are classified as operating leases. Classification is reassessed if the terms of the lease are changed.

All of the Corporation's leases are classified as operating leases.

Hydro Ottawa Holding Inc.

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2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(p) Deferred costs

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

3. CHANGES IN ACCOUNTING ESTIMATES

(a) Service lives for property, plant and equipment and intangible assets

Effective January 1, 2012, the Corporation revised the rate of depreciation and amortization applied to property, plant and equipment and intangible assets in order to more closely reflect the period over which they provide economic benefits. The consolidated statement of income, comprehensive income and retained earnings reflects a decrease in depreciation and amortization for the year ended December 31, 2012 by approximately $7,300 for tangible assets and by approximately $1,100 for intangible assets as a result of the changes in accounting estimates.

(b) Estimation of unbilled revenue

As at December 31, 2012, the Corporation revised how it estimates unbilled revenue at the end of each reporting period. Previously, an estimate of unbilled revenue was calculated by multiplying the number of unbilled days by the average billed amount per day from historical billing periods. The new methodology is based on actual consumption of its customers, when available, rather than using historical consumption data. Management believes the new method provides a more reasonable approximation of unbilled revenue as consumption per day are based on current meter reads that have not been billed to customers but includes power/services consumed prior to the Corporation's fiscal year end. Due to the change in estimation methodology, unbilled revenue was $743 higher, of which $44 related to distribution sales and the remainder power recovery.

4. CHANGES IN ACCOUNTING POLICIES

(a) Current - pre-changeover Canadian GAAP [Employee future benefits]

An actuarial gain or loss on an accrued benefit obligation is the difference between the expected accrued benefit obligation and the actual accrued benefit obligation at the end of the period. Pre-changeover Canadian GAAP provided a choice on how to record unamortized actuarial gains or losses. Previously the Corporation amortized its actuarial gains or losses using the corridor approach. Effective January 1, 2012, the Corporation has elected to recognize changes in the actuarial gain or loss immediately in income which has been applied retrospectively. Although Hydro Ottawa Limited had a significant actuarial deficit under the corridor approach relating to prior years, the OEB authorized Hydro Ottawa Limited in 2011 to recover this entire deficit through a new regulatory asset account. As a result, the only change to opening retained earnings is the realization of a $71 surplus relating to the Corporation's non-regulated subsidiaries. The consolidated statement of income, comprehensive income and retained earnings reflects a decrease in operating costs of $112 to $692 and a decrease of $95 to $640 for the year ended December 31, 2012 and 2011 respectively. The employee future benefits liability increased by $5,008 to $11,452 and increased by $3,904 to $9,943 at December 31, 2012 and December 31, 2011 respectively.

4. CHANGES IN ACCOUNTING POLICIES [CONTINUED]

(b) Current - pre-changeover Canadian GAAP [Property, plant and equipment]

Effective January 1, 2012, the Corporation revised its capitalization rate applied to operating costs that are capitalized to property, plant and equipment. The consolidated statement of income, comprehensive income and retained earnings reflects a decrease in amounts transferred to property, plant and equipment for the year ended December 31, 2012 by approximately $9,600 to $4,900. Management believes this change applies a more appropriate determinant of which items of overhead would be considered to be directly attributed to a project. The change was accounted for prospectively for regulatory purposes and due to the complex nature of assigning overhead costs to property, plant and equipment, the Corporation could not reasonably quantify the retrospective impact of this change.

(c) Future - International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises ['PAEs'] would be required to adopt to International Financial Reporting Standards ['IFRS'] effective January 1, 2011. While the Corporation is not a PAE, it is a Government Business Enterprise given its status as a municipally owned utility, and such enterprises are required to follow the same basis of accounting as PAEs.

IFRS does not currently contain a standard on rate-regulation. Due to the significance of this issue in Canada, the AcSB decided on September 10, 2010 that qualifying entities with rate-regulated activities ['RRA'] would be permitted to continue applying pre-changeover Canadian GAAP for an additional year, postponing the IFRS transition date to January 1, 2012. Future deferrals were issued in March 2012, September 2012 and February 2013, extending the transition date to January 1, 2013, 2014 and 2015, respectively.

On December 17, 2012, the International Accounting Standards Board voted in favour of an interim standard for RRA, to grandfather existing practices regarding RRA until a more comprehensive project is completed; however, the interim standard would only be applicable to rate-regulated entities that have not yet transitioned to IFRS.

Given these developments and the continued uncertainty around accounting for RRA under IFRS, the Corporation elected to take the deferral issued by the AcSB and continue to report under pre-changeover Canadian GAAP for the year ended December 31, 2012. The Corporation has managed the IFRS conversion project in such a manner to allow for a smooth and efficient transition to IFRS when this occurs. The Corporation will determine the best time for transition once the interim guidance on RRA is available.

5. ACQUISITION OF ASSETS

On November 20, 2012, the Corporation, through its subsidiary Chaudiere Hydro L.P., completed an acquisition of generation assets from Domtar Inc. in exchange for $46,339 in cash through an Agreement of Purchase and Sale ['Purchase Agreement']. Identifiable assets acquired include three hydro-electric generation plants, the tangible and intangible assets related thereto and all of Domtar Inc.'s 38.33% interest in the CWPI joint venture. The acquisition of assets has been accounted for as an acquisition of a business under Section 1582 Business Combinations of pre-changeover Canadian GAAP. The acquisition brings the Corporation new recurring revenue through a long-term power purchase agreement with Hydro Québec. As part of this transaction, a small group of employees previously employed by Domtar Inc. were transferred to the Corporation.

Hydro Ottawa Holding Inc.

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5. ACQUISITION OF ASSETS [CONTINUED]

The following table summarizes the fair values of the assets acquired as part of the transaction with Domtar Inc.:

		Acquisition date fair value
Land [Note 9]	$	**6,256**
Buildings and fixtures [Note 9]		**500**
Generating plant and equipment [Note 9]		**9,894**
Reservoirs, dams and waterways [Note 9]		**8,050**
Power purchase agreement [Note 10]		**4,578**
Water rights [Note 10]		**16,941**
Prepaids		**62**
Retirement benefit asset [Note 15]		**481**
Accounts payable and accrued liabilities		**(163)**
Employee future benefits [Note 15]		**(260)**
Total cash paid for net assets acquired	$	**46,339**

The amounts above relating to prepaids, accounts payable and accrued liabilities and employee future benefits have been removed from their respective operating line items in the consolidated statement of cash flows as they did not arise in the ordinary course of business.

The Corporation incurred transaction costs relating to the acquisition of $1,492 which have been expensed in operating costs in the current year. In addition, $313 of operating costs relating to repairs and maintenance were expensed in the current year as they did not meet the criteria of an asset. From the date of acquisition, the assets acquired contributed $1,011 of revenue and $204 of net income. As the Corporation does not have access to the financial information of Domtar Inc., it is not possible to determine the revenue, income or loss the Corporation would have realized had the acquisition occurred on January 1, 2012.

The acquisition of Domtar Inc.'s twenty three shares in CWPI at $1 dollar per share increased the Corporation's total effective common share interest in CWPI from 28.33% to 66.67%. Consequently, the Corporation was required to consolidate CWPI as of the acquisition date in accordance with AcG-15. The impact on the Corporation's net assets upon consolidation was not significant. As CWPI's costs are fully reimbursed in accordance with each principal's ownership percentage, there was no impact to the Corporation's consolidated revenue or expenses during the year.

Due to the timing of this acquisition, the retirement benefit asset and employee future benefits are provisional and subject to change. The Corporation will finalize these amounts as it obtains the information necessary to complete the measurement process. Any changes resulting from facts and circumstances that existed as of the acquisition date may result in retrospective adjustments to the provisional amounts recognized at the acquisition date. The Corporation will finalize these amounts no later than one year from the acquisition date.

[in thousands of Canadian dollars]

6. ACCOUNTS RECEIVABLE

		2012		2011
Electricity receivables, net of allowance for doubtful accounts of $1,411 [2011 – $1,329]	$	**52,449**	$	50,006
Other receivables, net of allowance for doubtful accounts of $139 [2011 – $69]		**16,839**		10,745
Amounts due from related parties [Note 25]		**5,800**		4,504
	$	**75,088**	$	65,255

Included in other receivables is $100 [2011 - $100] which represents the estimated net proceeds due to the Corporation stemming from its previous investments in Streetlight Intelligence Inc. ['SLI'], a Canadian public company who, before entering receivership in 2011, developed advanced street light optimization systems. The Corporation recorded impairment charges in 2011 of $1,400 relating to its previous investments and currently does not hold any investments in SLI.

7. UNBILLED REVENUE

		2012		2011
Unbilled revenue	$	**90,003**	$	87,582
Less allowance for doubtful accounts		**(68)**		(327)
	$	**89,935**	$	87,255

8. NET REGULATORY ASSETS AND LIABILITIES

The Corporation files a rate application to settle its regulatory assets and liabilities as required. The time period for settlement is determined by the OEB based on the magnitude of the balances to be cleared.

Information about the Corporation's net regulatory assets and liabilities is as follows:

		2012		2011
Regulatory assets				
Deferred smart meter costs	$	**1,939**	$	6,399
OPEB deferral account [Note 15]		**4,977**		3,917
Other variances and deferred costs		**2,656**		2,136
		9,572		12,452
Provision for doubtful recovery		**-**		(480)
Total net regulatory assets		**9,572**		11,972
Less current portion		**(1,969)**		(3,379)
Total long-term regulatory assets		**7,603**		8,593

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8. NET REGULATORY ASSETS AND LIABILITIES [CONTINUED]

	2012	2011
Regulatory liabilities		
Settlement variances	**42,241**	22,469
RLRA	**-**	10,017
	42,241	32,486
Provision for doubtful recovery	**-**	(149)
Total net regulatory liabilities	**42,241**	32,337
Less current portion	**(22,097)**	(10,017)
Total long-term regulatory liabilities	**$ 20,144**	$ 22,320

(a) Regulatory assets

Deferred smart meter costs include accrued interest costs of $nil [2011 – $395] and other variances and deferred costs include accrued interest earned of $13 [2011 – $23].

(b) Regulatory liabilities

The RLRA is the net aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition plus accrued net interest costs of $107 [2011 – interest cost of $16] up to December 31, 2012 less amounts already settled through distribution rates. On December 6, 2012, the OEB approved the disposition of net regulatory liabilities of $22,097, consisting of settlement variances and low voltage variance account accumulated up to December 31, 2011. The December 6, 2012 approved disposition will be transferred to RLRA on January 1, 2013, which is when this disposition is effective in rates.

The Corporation used the OEB PILs models to complete PILs reconciliations for the years 2001 to 2005, and under OEB's direction in 2011, the Corporation was required to recalculate those PILs. In 2011, the OEB provided clarification of the existing rules and interpretations and, as a result, amounts of $464 of principal and $131 of interest were recorded to the PILs variance account which was subsequently approved for disposition in 2011 and therefore was included in the RLRA.

Settlement variances include accrued interest costs of $458 [2011 – $354].

(c) Income before PILs

In the absence of rate regulation, the income before PILs for the year ended December 31, 2012 would be higher by $12,305 [2011 – higher by $19,200].

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8. NET REGULATORY ASSETS AND LIABILITIES [CONTINUED]

(d) Provision for doubtful recovery

The Corporation continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Corporation has recorded a net provision of $nil [2011 – $480] against regulatory assets. If the requirement for a provision becomes more than likely, the Corporation will recognize the provision in operating costs for the period.

In 2012, the Company recorded a recovery of regulatory asset write-down of $679 [2011 - $1,443].

9. PROPERTY, PLANT AND EQUIPMENT

	2012		
	Cost	**Accumulated depreciation**	**Net book value**
Land	**$ 11,639**	**$ -**	**$ 11,639**
Buildings and fixtures	**76,676**	**20,350**	**56,326**
Furniture and equipment	**20,945**	**15,152**	**5,793**
Rolling stock	**23,701**	**15,648**	**8,053**
Electricity distribution infrastructure	**1,045,845**	**414,664**	**631,181**
Generating plant and equipment	**45,319**	**10,779**	**34,540**
Reservoirs, dams and waterways	**19,144**	**1,485**	**17,659**
Assets under construction	**74,616**	**-**	**74,616**
	1,317,885	**478,078**	**839,807**
Contributions in aid of construction	**(214,046)**	**(43,897)**	**(170,149)**
	$ 1,103,839	**$ 434,181**	**$ 669,658**

	2011		
	Cost	Accumulated depreciation	Net book value
Land	$ 5,372	$ -	$ 5,372
Buildings and fixtures	74,494	17,057	57,437
Furniture and equipment	18,446	13,267	5,179
Rolling stock	21,719	14,828	6,891
Electricity distribution infrastructure	975,492	386,641	588,851
Generating plant and equipment	27,972	4,611	23,361
Reservoirs, dams and waterways	16,703	6,315	10,388
Assets under construction	44,127	-	44,127
	1,184,325	442,719	741,606
Contributions in aid of construction	(191,855)	(38,863)	(152,992)
	$ 992,470	$ 403,856	$ 588,614

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9. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

During the year, the Corporation capitalized an AFUDC of $1,731 [2011 – $854] to property, plant and equipment and credited financing costs [Note 21]. The average annual interest rate for 2012 was 4.8% [2011 – 4.2%].

During the year, the Corporation incurred a loss on disposal of property, plant and equipment of $1,779. In 2011, the Corporation realized a gain on the disposal of property, plant and equipment of $54. The consolidated statement of income, comprehensive income and retained earnings does not include the effects of the Ontario government's smart meter initiative which resulted in conventional meters amounting to $nil [2011 - $205] being removed from service, and would have resulted in a loss on disposal of $nil [2011 - $68] in the absence of rate regulation. This loss on disposal is deemed by the OEB to be a regulatory asset to be recovered through future rates.

The Corporation entered into significant non-cash transactions that have been excluded from the consolidated statement of cash flows. These transactions were related to property, plant and equipment additions of $12,566 [2011 – $11,773], of which $11,674 [2011 - $11,480] represent amounts included in accounts payable and accrued liabilities and $892 [2011 - $293] in construction holdbacks, also included in accounts payable and accrued liabilities as at December 31, 2012.

In 2005, Energy Ottawa entered into an agreement with the Federal Government's Department of Natural Resources whereby project funding of up to $220 was provided to Energy Ottawa to field trial a mini hydro turbine developed by the Canada Centre for Mineral and Energy Technology ['CANMET'] Small Hydro Program. Under the terms of the agreement, an amount of $150 of the funding received was repayable at a rate of 2.5% of revenue received from the project, over a maximum period of 10 years. As at December 31, 2012, the unamortized balance of the non-repayable funding received of $44 [2011 – $47] is included in contributions in aid of construction. The current portion of the remaining repayable balance amounts to $12 [2011 – $13] and is included in accounts payable and accrued liabilities, while the long-term portion in the amount of $41 [2011 – $55] is included in other liabilities.

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10. INTANGIBLE ASSETS

	2011	Acquisitions	Retirements	2012
Cost				
Land rights	$ 3,125	$ 10	$ -	$ 3,135
Power purchase agreement	-	4,578	-	4,578
Line connection contributions	3,398	-	-	3,398
Computer software	61,493	2,580	-	64,073
Water rights	-	16,941	-	16,941
Assets under development	4,368	9,940	-	14,308
	$ 72,384	$ 34,049	$ -	$ 106,433

	2011	Amortization	Retirements	2012
Accumulated amortization				
Land rights	$ 1,261	$ 49	$ -	$ 1,310
Power purchase agreement	-	81	-	81
Line connection contributions	910	64	-	974
Computer software	45,401	6,478	-	51,879
	$ 47,572	$ 6,672	$ -	$ 54,244

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2012			
Land rights	$ 3,135	$ 1,310	$ 1,825
Power purchase agreement	4,578	81	4,497
Line connection contributions	3,398	974	2,424
Computer software	64,073	51,879	12,194
Water rights	16,941	-	16,941
Assets under development	14,308	-	14,308
	$ 106,433	$ 54,244	$ 52,189

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10. INTANGIBLE ASSETS [CONTINUED]

	2010	Acquisitions	Retirements	2011
Cost				
Land rights	$ 3,546	$ 75	$ (496)	$ 3,125
Line connection contributions	3,493	-	(95)	3,398
Computer software	58,908	2,585	-	61,493
Assets under development	1,136	3,232	-	4,368
	$ 67,083	$ 5,892	$ (591)	$ 72,384

	2010	Amortization	Retirements	2011
Accumulated amortization				
Land rights	$ 1,709	$ 48	$ (496)	$ 1,261
Line connection contributions	854	67	(11)	910
Computer software	37,789	7,612	-	45,401
	$ 40,352	$ 7,727	$ (507)	$ 47,572

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2011			
Land rights	$ 3,125	$ 1,261	$ 1,864
Line connection contributions	3,398	910	2,488
Computer software	61,493	45,401	16,092
Assets under development	4,368	-	4,368
	$ 72,384	$ 47,572	$ 24,812

Assets under development include computer software and line connection contributions.

During the year, the Corporation capitalized an AFUDC of $325 [2011 – $79] to intangible assets and credited financing costs [Note 21].

Water rights and the power purchase agreement were acquired from Domtar Inc. on November 20, 2012 [Note 5].

There was no impairment of intangible assets for the years ended December 31, 2012 and 2011.

The Company entered into significant non-cash transactions that have been excluded from the consolidated statement of cash flows. These transactions were related to intangible asset additions of $2,119 [2011 - $569], which represent amounts included in accounts payable and accrued liabilities at year end.

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11. CREDIT FACILITY

On August 3, 2012, the Corporation renewed its pre-existing credit facility for a revised amount of $193,650 [2011 – $143,650]. The facility is structured into five types of credit availability and consists of a $75,000 [2011 - $75,000] 364-day revolving operation line which matures on August 2, 2013, a $100,000 [2011 - $50,000] revolving line to fund capital expenditures and growth opportunities which matures on August 2, 2014, a $17,500 [2011 - $17,500] line to fund letters of credit and other guarantees, a $150 [2011 - $150] corporate Visa facility and a $1,000 [2011 - $1,000] commercial card facility. This credit facility contains customary covenants and events of default including a covenant to maintain the consolidated tangible net worth in excess of $175,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis. As at December 31, 2012, the Corporation had drawn bankers' acceptances of $14,000 [2011 – $nil] against the operating line and $60,000 [2011 - $nil] against the capital line, both of which matured on January 4, 2013. The facility allows for continuous renewal of operating and capital bankers' acceptances with maturities of 7 to 180 days which the Corporation has made use of subsequent to year end pending the issuance of additional long-term debt. The Corporation has also drawn $16,000 [2011 – $14,333] against its facilities in standby letters of credit.

On October 12, 2012, PowerTrail renewed its existing credit facility for $200 [2011 - $200] in standby letters of credit to the Ontario Power Authority ['OPA'] for another year. The facility contains customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000. As at December 31, 2012, PowerTrail had drawn an amount of $133 [2011 – $133] in standby letters of credit against this facility.

CWPI maintains a credit facility consisting of a $500 [2011 - $500] operating credit line secured by the three principals of CWPI. The operating credit line is repayable on demand, bears interest at the Bank of Canada's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2012, CWPI had drawn on $19 against this operating line [2011 – $7].

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Purchased power payable	**$ 62,813**	$ 59,410
Trade accounts payable and accrued liabilities	**45,569**	38,305
Customer deposits	**15,174**	15,159
Customer credit balances	**9,146**	9,879
Due to related parties [Note 25]	**89**	624
	$ 132,791	$ 123,377

13. OTHER LIABILITIES

	2012	2011
Non-current customer deposits	**$ 11,782**	$ 13,172
Non-current repayable grant [Note 9]	**41**	55
Asset retirement obligations [Note 14]	**438**	627
	$ 12,261	$ 13,854

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14. ASSET RETIREMENT OBLIGATIONS

		2012		2011
Balance, beginning of year	$	**627**	$	771
Liabilities settled during the year		**(203)**		(148)
Accretion expense		**19**		19
Revisions in estimated cash flows		**(5)**		(15)
	$	**438**	$	627

As at December 31, 2012, the Corporation estimates an asset retirement obligation ['ARO'] of $438 [2011 – $627] related to the removal and destruction of polychlorinated biphenyls ['PCBs'] in distribution transformers and other clean-up related to PCBs. The ARO is calculated using an estimated undiscounted cash flow over one year [2011 – two years] totalling $498 [2011 – $701] and a discount rate of 5.3% [2011 – 5.3%]. No assets have been legally restricted for settlement of the liability.

15. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

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

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2012 amounted to $5,008 [2011 – $4,085].

Effective November 20, 2012, the Corporation provides retirement benefits to certain employees who transferred to the Corporation from Domtar Inc. Consequently, the Corporation created the Chaudiere Pension Plan on this date. In accordance with the Purchase Agreement, Domtar Inc. has agreed to fund the actuarial plan obligations relating to the transferred employees as at November 20, 2012. However, the physical transfer of plan assets from Domtar Inc.'s pension plan to the CHPP is not legally permitted to occur until the CHPP's registration with the Financial Services Commission of Ontario is complete. In the meantime, the actuarial value of the plan assets on November 20, 2012 has been recorded as a receivable from Domtar Inc. in the CHPP. The Corporation retains all risks and rewards of the plan assets receivable and remains liable for the benefits accruing to its members from November 20, 2012 and onward.

According to the December 31, 2012 actuarial extrapolation, the fair value of the assets receivable relating to the Corporation's employees was $4,047 while the accrued benefit obligation was $3,573, resulting in a $474 retirement benefit asset recognized on the Corporation's consolidated balance sheet. The net change in the retirement benefit asset between the actuarial valuation on November 20, 2012, and the extrapolation performed on December 31, 2012 of $7 has been recorded as an operating cost expense during the year. The $7 of net expense arises from an actual return on CHPP plan assets of $21, contributions of $7, current service costs of ($19) and interest on the accrued benefit obligation of ($16).

No valuation allowance has been recorded by the Corporation as at December 31, 2012 with respect to the retirement benefit asset.

Employee future benefits under the CHPP are calculated using an annual compensation rate increase of 2.0%, an expected return on plan assets of 4.7% and a discount rate of 4.0% to calculate the liabilities.

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15. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Employee future benefits other than pension plans

Employee future benefits are calculated using an annual compensation rate increase ranging from 2% to 3.1% [2011 – 3.1%] and a discount rate ranging from 3.8% to 4.6% [2011 – 4.3%] to calculate the liabilities.

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

	2012		
	Accumulated liability	**Expense for the year**	**Benefits paid**
Life insurance	**$ 5,370**	**$ 612**	**$ 510**
Retirement grant provision	**865**	**80**	**32**
Medical insurance	**214**	**-**	**-**
Dental insurance	**21**	**-**	**-**
Sick leave	**5**	**-**	**-**
	6,475	**$ 692**	**$ 542**
Accrued benefit obligation	**11,452**		
Deferred actuarial loss [Note 8]	**$ (4,977)**		

	2011		
	Accumulated liability	Expense for the year	Benefits paid
Life insurance	$ 5,204	$ 564	$ 456
Retirement grant provision	817	76	34
Sick leave	5	-	4
	6,026	$ 640	$ 494
Accrued benefit obligation	9,943		
Deferred actuarial loss [Note 8]	$ (3,917)		

Effective November 20, 2012, the Corporation provides life, health and dental benefits to certain employees who transferred to the Corporation from Domtar Inc. The total value of the benefits accrued to November 20, 2012 of $260 is to be fully funded by Domtar Inc. in accordance with the Purchase Agreement and therefore a receivable for this amount is included in accounts receivable as at December 31, 2012.

An actuarial extrapolation was performed as at December 31, 2012. As a result of this exercise, the Corporation increased the projected benefit obligation by $1,509 [2011 – $1,265].

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities amounts to $672 [2011 – $656] and the non-current portion was $10,780 [2011 – $9,287].

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16. NOTES PAYABLE

		2012		2011
4.930% senior unsecured debentures, Series 2005-1, due on February 9, 2015	$	**199,548**	$	199,334
4.968% senior unsecured debentures, Series 2006-1, due on December 19, 2036		**49,751**		49,741
IGRS promissory note		**2,780**		3,080
		252,079		252,155
Less current portion of IGRS promissory note		**(620)**		-
	$	**251,459**	$	252,155

On February 9, 2005, the Corporation issued $200,000 in 4.930% senior unsecured debentures, Series 2005-1, due on February 9, 2015. The debentures bear interest at a rate of 4.930% per annum, payable semi-annually in arrears in equal instalments on February 9 and August 9, which commenced August 9, 2005. The debentures were purchased at 100% of their principal amount and are carried net of the related debt issuance costs which are amortized over the initial term of these debentures.

On December 20, 2006, the Corporation issued $50,000 in 4.968% senior unsecured debentures, Series 2006-1, due on December 19, 2036. The debentures bear interest at a rate of 4.968% per annum, payable semi-annually in arrears in equal instalments on June 19 and December 19, which commenced June 19, 2007. The debentures were purchased at 100% of their principal amount and are carried net of the related debt issuance costs which are amortized over the initial term of these debentures.

These debentures contain customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures over the next five years will be $12,344 in 2013 and 2014, $7,414 in 2015 and $2,484 in 2016 and 2017.

The IGRS promissory note was issued by PowerTrail to fund the construction of the gas collection and generation plant at the Trail Road landfill site. Pursuant to the Shareholders' Agreement dated November 3, 2005, among Energy Ottawa, IGRS and PowerTrail, the note is unsecured, non-interest bearing, subject to certain conditions and has no set terms of repayment. On October 30, 2012, PowerTrail made a $300 repayment to IGRS and intends to repay an additional $620 on this note in 2013. The management of IGRS has confirmed that it does not intend to call the remaining $2,160 in 2013.

17. CAPITAL DISCLOSURES

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

(i) Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;

(ii) Ensure compliance with covenants related to the credit facilities and senior unsecured debentures; and

(iii) Align Hydro Ottawa Limited's capital structure with the debt-to-equity structure recommended by the OEB.

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17. CAPITAL DISCLOSURES [CONTINUED]

The Corporation's capital consists of the following:

		2012		2011
Bank indebtedness	$	**77,357**	$	-
Notes payable		**252,079**		252,155
Total debt		**329,436**		252,155
Shareholder's equity		**366,695**		352,306
Total capital	$	**696,131**	$	604,461
Debt capitalization ratio		**47 %**		42 %

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

Hydro Ottawa Limited is deemed by the OEB to have a capital structure that is funded by 56% long-term debt, 4% short-term debt and 40% equity. The OEB uses this deemed structure only as a basis for setting distribution rates. As such,the Corporation's actual capital structure may differ from the OEB deemed structure. As at December 31, 2012, Hydro Ottawa Limited's capital structure is aligned with the debt to equity structure recommended by the OEB.

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

18. SHARE CAPITAL

(a) Authorized

Unlimited number of voting first preferred shares, redeemable at one dollar per share
Unlimited number of non-voting second preferred shares, redeemable at ten dollars per share
Unlimited number of non-voting third preferred shares, redeemable at one hundred dollars per share
Unlimited number of voting fourth preferred shares [10 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

		2012		2011
214,901,003 Class A common shares	$	**228,453**	$	228,453

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18. SHARE CAPITAL [CONTINUED]

(b) Issued [continued]

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

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

On April 3, 2012, the Board of Directors declared a $16,600 dividend to the City of Ottawa, which was paid on April 5, 2012 [2011 – March 31, the Board of Directors declared a $17,500 dividend to the City of Ottawa, which was paid on April 6, 2011].

19. NON-CONTROLLING INTEREST

The non-controlling interest as at December 31, 2012 represents the sum of:

- IGRS non-controlling interest [40%] in the net assets of PowerTrail;
- IGRS and Moose Creek GP's combined non-controlling interest [49.95%] in the net assets of Moose Creek LP; and
- Hydro Québec's non-controlling interest [33.33%] in the net assets of CWPI.

20. FINANCIAL INSTRUMENTS

(a) Carrying values

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, bank indebtedness, accounts payable and accrued liabilities, customer deposits and notes payable. The only financial instrument recorded at fair value is bank indebtedness and it is classified as level 1 in the pre-changeover Canadian GAAP Section 3862 fair value hierarchy. The carrying values of the Corporation's remaining financial instruments, except for notes payable, approximate fair value because of the short maturity of these instruments.

The Corporation has estimated the fair value of the senior unsecured debentures notes payable as at December 31, 2012 as amounting to $264,955 [2011 – $266,873]. The fair value has been determined based on discounting all future payments of interest and the principal repayments on February 9, 2015 and December 19, 2036 at the estimated interest rate of 4.0% [2011 – 4.0%] that would be available to the Corporation on December 31, 2012.

The Corporation cannot determine the fair value of the IGRS promissory note as the amount is non-interest bearing and has no specific repayment terms other than as agreed upon from time to time between Energy Ottawa and IGRS.

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20. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors

In the normal course of business, the Corporation is exposed to market risk, credit risk and liquidity risk. The Corporation's risk exposure and strategies to mitigate these risks are noted below.

(i) Market risk

Market risk 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 risk: interest rate risk, currency risk and other price risk such as equity risk.

The Corporation is exposed to interest rate risk on its borrowings. The Corporation mitigates exposure to interest rate risk by issuing long-term fixed interest rate debt. Under the Corporation's credit facility, any advances on its operating line 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.

As at December 31, 2012, the Corporation has $14,000 [2011 – $nil] of outstanding bankers' acceptances on its operating line. The borrowing requirements are for a short duration as the advances serve to bridge gaps between the cash outflow related to Hydro Ottawa Limited's monthly power bill and the inflows related to the settlements with customers and, as such, there is limited exposure to interest rate risk.

As at December 31, 2012, the Corporation has $60,000 [2011 – $nil] of outstanding bankers' acceptances on its capital line. The borrowing requirements are for a short duration as the advance serves to bridge gaps between the cash outflow related to significant business development acquisitions and the inflows related to the issuance of additional long-term fixed rate debt to finance such acquisitions. Consequently, there is limited exposure to interest rate risk.

As at December 31, 2012, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase a small proportion of goods and services which are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material.

As at December 31, 2012, the Corporation has not entered into any hedging transactions or derivative contracts.

(ii) Credit risk

Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has over 309,600 customers, the majority of which are residential. As a result, the Corporation did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

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20. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(ii) Credit risk [continued]

Hydro Ottawa Limited performs ongoing credit evaluations of its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. Effective October 2010, the OEB instituted changes to the Distribution System Code requirements for residential security deposits. Security deposits on hand must be applied to active residential accounts in arrears prior to the customer entering into an Arrears Management Program, rather than as a deposit to be applied to the final bill. Further, additional amendments prohibit Hydro Ottawa Limited from collecting deposits from low income residential customers. Management has concluded that residential security deposits are no longer as effective for mitigating credit risk. Effective January 1, 2011, Hydro Ottawa Limited ceased collecting residential security deposits, and began refunding all residential deposits on hand. The Corporation continues to hold collateral to support customer accounts receivable on non-residential accounts. As at December 31, 2012, the Corporation held security deposits related to power recovery and distribution sales in the amount of $12,882 [2011 – $14,207].

Energy Ottawa and its subsidiaries limit credit risk by dealing with customers that are considered to be of high credit quality.

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

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period during which such a decision is made. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off result in a reduction of bad debt expense. As at December 31, 2012, the allowance for doubtful accounts was $1,618 [2011 – $1,725] and there have been no significant fluctuations in the allowance during the year.

Credit risk associated with accounts receivable and unbilled revenue is as follows:

	2012	2011
Total accounts receivable	**$ 76,638**	$ 66,653
Total unbilled revenue	**90,003**	87,582
Less allowance for doubtful accounts	**(1,618)**	(1,725)
	165,023	152,510
Of which:		
Outstanding for 30 days or less	**69,275**	57,722
Outstanding for more than 30 days but not more than 120 days	**5,845**	7,397
Outstanding for 120 days or more	**1,518**	1,534
Unbilled revenue	**90,003**	87,582
Less allowance for doubtful accounts	**(1,618)**	(1,725)
	$ 165,023	$ 152,510

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2012
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20. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(ii) Credit risk [continued]

As at December 31, 2012, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 10% [2011 – 13%] of the Corporation's accounts receivable was aged more than 30 days. The Corporation's maximum exposure to credit risk is equal to the carrying value of accounts receivable and unbilled revenue less customer deposits held.

(iii) Liquidity risk

Liquidity risk is the risk that the Corporation will not meet its financial obligations as they come due. The Corporation regularly monitors and manages its liquidity risk to ensure access to sufficient funds to meet operational and capital investment requirements. The Corporation achieves this objective by ensuring that sufficient facilities, as described in Note 11, are maintained to meet obligations as they come due while minimizing standby fees and interest.

Liquidity risks associated with financial commitments are as follows:

	2012		
	Due within 1 year	**Due between 1 year and 5 years**	**Due after 5 years**
Bank indebtedness	**77,357 $**	**- $**	**-**
Accounts payable and accrued liabilities	**132,791**	**-**	**-**
4.930% senior unsecured debentures, Series 2005-1	**-**	**199,548**	**-**
4.968% senior unsecured debentures, Series 2006-1	**-**	**-**	**49,751**
IGRS promissory note	**620**	**2,160**	**-**
	$ 210,768 $	**201,708 $**	**49,751**

21. FINANCING COSTS

	2012	2011
Interest on notes payable	**$ 12,593**	$ 12,580
Short-term interest and fees, net of interest income	**564**	269
Less AFUDC	**(2,056)**	(933)
	$ 11,101	$ 11,916

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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22. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs 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:

	2012	2011
Federal and Ontario statutory income tax rate	**26.50 %**	28.25 %
Income before provision for PILs	**$ 40,209**	$ 36,690
Provision for PILs at statutory rate	**$ 10,655**	$ 10,365
Increase (decrease) resulting from:		
Permanent differences	**952**	1,097
Impact of changes to expected future tax rates on opening temporary differences	**(636)**	411
Regulatory offset to temporary differences and changes in future tax rates	**(996)**	(1,735)
Future tax benefit recognized on expenses recorded in OPEB deferral account	**(1,319)**	-
Prior year adjustments	**412**	(407)
Tax credits	**(249)**	(180)
Change in valuation allowance	**19**	177
Other	**90**	465
	$ 8,928	$ 10,193
Effective income tax rate	**22.20 %**	27.78 %

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

Provision for PILs consists of the following:

	2012	2011
Current PILs corporate income tax provision	**$ 8,257**	$ 9,438
Future PILs corporate income tax provision		
Future income tax provision before regulatory adjustment	**1,632**	3,335
Regulatory adjustment for the recovery of future income tax provision	**(961)**	(2,580)
	$ 8,928	$ 10,193

Hydro Ottawa Holding Inc.

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22. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES [CONTINUED]

The Corporation's future income tax assets and liabilities are presented on the consolidated balance sheet as follows:

	2012	2011
Assets		
Future income tax assets, current	**$ 628**	$ 615
Future income tax assets, non-current	**24,222**	25,139
	24,850	25,754
Liabilities		
Future income tax liabilities, non-current	**(5,179)**	(4,452)
	$ 19,671	$ 21,302

Significant components of the Corporation's future income tax assets and liabilities are as follows:

	2012	2011
Property, plant and equipment and intangible assets	**$ 14,295**	$ 17,479
Employee future benefits	**3,990**	2,042
Non-capital loss carryforwards	**909**	1,103
Other temporary differences	**477**	678
	$ 19,671	$ 21,302

The Corporation's regulatory liabilities for the amounts of future income taxes expected to be refunded to customers in future electricity rates are presented on the consolidated balance sheet as follows:

	2012	2011
Regulatory liability for future income tax assets, current	**$ 628**	$ 615
Regulatory liability for future income tax assets, non-current	**24,165**	25,139
	$ 24,793	$ 25,754

As at December 31, 2012, the Corporation had unused non-capital tax losses of $nil [2011 – $nil]. The Corporation also had capital losses of $700 [2011 – $700] which have not been recognized in the consolidated financial statements.

As at December 31, 2012, Energy Ottawa had corporate minimum tax ['CMT'] carryforwards of $190 [2011 – $499]. These CMT carryforwards begin to expire in 2028.

As at December 31, 2012, PowerTrail had non-capital tax loss carryforwards of $3,392 [2011 – $4,240]. These losses expire between 2026 and 2030.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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23. CONTINGENT LIABILITIES

Purchasers of electricity in Ontario, including Hydro Ottawa Limited, through the Independent Electricity System Operator ['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, 2012, the Corporation had drawn standby letters of credit in the amount of $16,000 [2011 – $14,000] against its credit facility to cover its prudential support obligation.

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.

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.

24. COMMITMENTS

Hydro Ottawa Limited has $63,781 in total open commitments, of which $49,998 are for 2013, $10,399 for 2014, $3,333 for 2015, $51 for 2016 and $nil for 2017. This includes commitments relating to a customer information system services agreement, construction projects, spare parts and standby equipment and overhead and underground services.

PowerTrail is committed, under a Gas Utilization License of Occupation Agreement with the City of Ottawa, to provide a 5.5% royalty of its gross annual receipts derived from the sale of electricity associated with the use of gas from the Trail Road landfill site through 2024. In exchange, the City of Ottawa provides facilities for the collection and use of gas generated by the Trail Road landfill site.

As at December 31, 2012, Moose Creek GP [on behalf of Moose Creek LP] remained committed to complete the construction of a landfill gas collection and generation plant at the Laflèche landfill site in Moose Creek, Ontario under the cost-plus Construction Agreement entered into with IGRS in 2012. Subsequent to year end, on January 25, 2013, construction was deemed to be completed and renewable energy production under the twenty-year Feed-in Tariff contract with the Government of Ontario commenced.

The operating lease obligations of the Corporation are as follows:

2013	$	133
2014		129
2015		121
2016		114
2017		107
Thereafter		1,511
	$	2,115

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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25. RELATED PARTY TRANSACTIONS

The following table provides the transactions entered into with related parties as well as outstanding balances at year end. These transactions 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.

	2012 Transactions during the year		2012 Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Electricity [1]	$ 33,995	$ -	$ -	$ -
Commercial energy services [2]	3,370	-	-	-
Other services [2]	4,017	-	-	-
Fuel, permits and other services [3]	-	730	-	-
Property taxes [3]	-	1,849	-	-
Royalties [3]	-	165	-	-
Conservation and demand management initiatives[3]	-	254	-	-
Accounts receivable	-	-	5,800	-
Accounts payable and accrued liabilities	-	-	-	89
	$ 41,382	$ 2,998	$ 5,800	$ 89
CWPI [January 1, 2012 - November 19, 2012]				
Prepaids	$ -	$ 15	$ -	$ -
Operating and maintenance expenses [3]	-	359	-	-
Property, plant and equipment	-	11	-	-
	$ -	$ 385	$ -	$ -
Total	$ 41,382	$ 3,383	$ 5,800	$ 89

[1] Included in power recovery and distribution sales revenue
[2] Included in other revenue and contributions in aid of construction
[3] Included in operating costs

Hydro Ottawa Holding Inc.

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25. RELATED PARTY TRANSACTIONS [CONTINUED]

	2011 Transactions during the year		2011 Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Electricity [1]	$ 33,210	$ -	$ -	$ -
Commercial energy services [2]	2,481	-	-	-
Other services [2]	4,059	-	-	-
Fuel, permits and other services [3]	-	1,926	-	-
Property taxes [3]	-	1,865	-	-
Royalties [3]	-	153	-	-
Conservation and demand management initiatives [3]	-	247	-	-
Accounts receivable	-	-	4,504	-
Accounts payable and accrued liabilities	-	-	-	560
	$ 39,750	$ 4,191	$ 4,504	$ 560
CWPI				
Prepaids	$ -	$ 14	$ -	$ -
Operating and maintenance expenses [3]	-	439	-	-
Property, plant and equipment	-	8	-	-
Accounts payable and accrued liabilities	-	-	-	64
	$ -	$ 461	$ -	$ 64
Total	$ 39,750	$ 4,652	$ 4,504	$ 624

[1] Included in power recovery and distribution sales revenue
[2] Included in other revenue and contributions in aid of construction
[3] Included in operating costs

26. COMPARATIVE FIGURES

In certain instances, the 2011 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Statement of Executive Compensation

The Governance and Management Resources Committee of the Board, made up entirely of independent 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, every two to three years to ensure competitiveness. In line with best practices for the sector, as identified by the Ontario Minister of Energy's Agency Review Panel in 2007, Hydro Ottawa applies a 50/50 weighting of market data from public and private comparators. The industry component of the market comparator group has a strong sector affiliation (e.g. Transportation and Utilities sector), and is assessed by revenue levels to ensure comparability.

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

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

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

Executives also participate in the OMERS pension plan. This plan is a multi-employer, contributory, defined benefit pension plan established by the Province for employees of municipalities, local boards and school boards in Ontario. Pension benefits are determined by a formula based on the highest consecutive 5-year average of contributory earnings and years of service. Pension benefits are indexed to increases in the Consumer Price Index subject to an annual maximum of 6 percent. Both participating employers and participating employees are required to make equal contributions to the plan based on the participating employees' contributory earnings.

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

SUMMARY OF COMPENSATION

President and Chief Executive Officer and Chief Financial Officer of the Corporation and the Chief Operating Officers

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER ANNUAL POSITION COMPENSATION ($)[4]
Bryce Conrad	2012	$344,230	N/A	$15,734
President and Chief Executive Officer	2011	$112,500[5]	N/A	$4,557
Alan Hoverd	2012	$219,300	$90,342	$11,606
Chief Financial Officer	2011	$227,419[6]	$107,457	$14,523
	2010	$219,151	$107,984	$11,405
Norm Fraser	2012	$215,919	$67,367	$8,714
Chief Operating Officer –	2011	$211,346	$89,629	$9,058
Distribution and Customer Service	2010	$198,765	$92,479	$13,537
Gregory Clarke	2012	$174,984	$52,535	$9,550
Chief Operating Officer – Generation	2011	$171,256	$75,064	$8,545
	2010	$160,541	$72,765	$13,315

1 Executives whose earnings are reported are those who occupied the position at December 31, 2012

2 Amounts shown in this column have been rounded to the nearest dollar

3 Amounts shown in this column reflect the at risk performance incentive for the executive in respect of the achievement of the performance objectives for the previous financial year, paid in the reporting year

4 Amounts in this column include Board approved discretionary payments such as payment of earned and unused vacation credits, car allowance, computer allowance, taxable relocation allowance and employer's share of basic life insurance premiums

5 Mr. Conrad assumed the position on August 15, 2011. Had Mr. Conrad been employed for the entire year, his base salary would have been $325,000

6 Mr. Hoverd acted in the position of President and Chief Executive Officer from April 6 to August 14, 2011

Corporate Governance

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

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

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

Governance Structure

Accountability for the effective oversight of the Corporation and its subsidiaries rests with an eleven-member Board of Directors, which provides direction to the Corporation on behalf of the shareholder, the City of Ottawa. The Board provides leadership for the company 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 company 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 company'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. A majority of the members of both Boards are independent of management and the shareholder.

On a day-to-day basis, the Corporation is led by an Executive Management Team, comprising the Corporation's President and Chief Executive Officer, the Chief Financial Officer and the senior executives of the subsidiaries and critical functional areas. This team oversees the alignment of business practices and strategies with the goals of the Corporation, and drives performance by managing risks and opportunities. The Executive Management Team is accountable to the Corporation's Board of Directors through the President and Chief Executive Officer.

Key Governance Processes and Controls

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

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

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

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

Appointments to the Board of Directors

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

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

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

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

Committees

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

HYDRO OTTAWA HOLDING INC.

Audit: The Audit Committee reviews financial statements, accounting practices and policies, auditing processes and the results of internal and external audits and related matters. It also oversees financial risk management and assesses internal controls. In 2009, the committee was consolidated with the Audit Committee of Hydro Ottawa Limited to improve the efficiency of committee oversight. Its membership includes representatives of the Board of Directors of Hydro Ottawa Limited.

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. Its membership includes representatives of the Board of Directors of Hydro Ottawa Limited.

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

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

Board and Committee Meeting Attendance

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard (Chair)	6/6	17/17
Bryce Conrad (President and CEO)	6/6	N/A
Patrick Dion*	3/3	2/2
Jim Durrell**	3/3	3/4
Shawn Gibbons*	3/3	2/2
Manon Harvey	6/6	10/10
Peter Hume	5/6	1/1
John Kelly*	2/3	1/2
Douglas McLarty**	3/3	1/2
Maria McRae	5/6	1/1
Ford Ralph	5/6	10/11
Jim Watson	4/6	7/7
Ken Wigglesworth	6/6	10/10
Carole Workman**	3/3	2/2

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard (Chair)	6/6	N/A
George Anderson	5/6	3/4
Bryce Conrad (President and CEO)	6/6	N/A
Manon Harvey	6/6	N/A
O. Allan Kupcis*	3/3	3/3
Bob Monette	4/6	N/A
Phil Murray**	3/3	2/2
Zaina Sovani**	3/3	1/2
Duncan Watt*	3/3	2/3

* Depicts outgoing Board members who departed in June 2012
** Depicts incoming Board members effective July 2012

Members of The Board of Directors

Hydro Ottawa Holding Inc.*


Pierre Richard (Chair), Q.C.


Bryce Conrad


Jim Durrell


Manon Harvey


Councillor Peter Hume


Douglas McLarty


Councillor Maria McRae


Ford Ralph


Mayor Jim Watson


Ken Wigglesworth


Carole Workman

Hydro Ottawa Limited*


Pierre Richard (Chair), Q.C.


George Anderson


Bryce Conrad


Manon Harvey


Councillor Bob Monette


Phil Murray


Zaina Sovani

* As at December 31, 2012.

Note: Patrick Dion, Shawn Gibbons and John Kelly served on the Hydro Ottawa Holding Inc. Board of Directors from January 1 to June 30, 2012. O. Allan Kupcis and Duncan Watt served on the Hydro Ottawa Limited Board for the same period. The Corporation and the members of the Board of Directors wish to convey their sincere appreciation for their dedicated service.

Glossary of Terms

Electricity Industry

IESO The Independent Electricity System Operator is responsible for day-to-day operation of Ontario's electrical system. It operates the wholesale electricity market, forecasting demand and ensuring an adequate supply to meet that demand.

MDM/R The Meter Data Management and Repository system stores and manages consumption data received from Smart Meters, enabling Time-of-Use billing as part of the provincial Smart Meter Initiative.

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

OPA The Ontario Power Authority is responsible for ensuring an adequate long-term supply of electricity for Ontario. It creates and implements conservation and demand management programs, ensures adequate investment in new supply infrastructure, performs long-term electricity system planning, and facilitates the development of a more sustainable and competitive electricity system.

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

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

Internal Systems and Processes

GIS Geographic information systems capture, store, analyze, and display geographically referenced spatial information.

OMS The Outage Management System, when integrated with the GIS (see above) results in a single computerized map of the electricity distribution system to facilitate system planning and outage response.

SCADA Supervisory control and data acquisition refers to large-scale measurement and control systems used to monitor power generation and other distribution processes.

Financial Reporting

AcSB Accounting Standards Board is an independent body with the authority to develop and establish standards and guidance governing financial accounting and reporting in Canada.

CICA Canadian Institute of Chartered Accountants represents the CA profession nationally. It supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government, and issues guidance on control and governance.

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

IFRS International Financial Reporting Standards are standards and interpretations adopted by the International Accounting Standards Board (IASB). Hydro Ottawa will be required to report under IFRS rather than pre-changeover Canadian GAAP (see above) on or before January 1, 2015.

Earnings

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

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

EBIT Earnings Before Interest and Taxes is the same as EBITDA, except that amounts for depreciation and amortization have been deducted in computing EBIT.

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

Cash Sources and Uses

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

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

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

Ratios

Managers and analysts use a number of ratios to help determine the financial health of the company.

Working Capital Ratio This measure compares the company’s easy access to funds (through its cash, accounts receivables, inventories and other assets that can be readily turned into cash) to its immediate liabilities (such as bank debt, accounts payable, etc.).

Debt Capitalization Ratio This ratio compares a company’s long-term debt to its available capital. By using this ratio, investors can identify the amount of leverage utilized by a specific company and compare it to others to help analyze the company’s risk exposure.

Holding Inc.

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