Hydro Ottawa Holding Inc.

2013 Annual Report





Cover Photo:
Hydro Ottawa Apprentice Powerline Maintainers get hands-on training along Fernbank Road near Terry Fox Drive in Kanata.

Credit: Leon T. Switzer/Front Page Media Group

Hydro Ottawa Holding Inc.

Our Mission

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

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

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Company Profile

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 2013, 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 315,000 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 5,400 new customers to its distribution system in 2013, an increase of 1.7 percent, while the volume of electricity delivered through its distribution network decreased by approximately 0.7 percent over the prior year. The company's capital assets grew by $71 million, or 11.4 percent.

Energy Ottawa Inc.

Energy Ottawa is the largest municipally owned producer of green power in Ontario, and a provider of commercial energy management services. It owns and operates six run-of-the-river hydroelectric generation plants at Chaudière Falls in 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 48 megawatts annually, which is enough to power 40,000 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 more than 650 dedicated employees — we are very pleased to provide this 2013 Annual Report to our shareholder, the City of Ottawa.

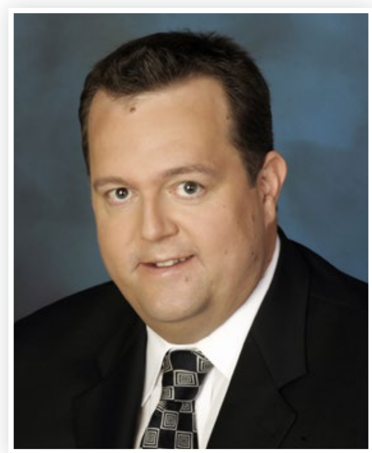
This report marks the second year of reporting against our *2012–2016 Strategic Direction*, which was endorsed by our shareholder in June 2012. Hydro Ottawa's mission over the term of that five-year plan is to deliver value, both as a community asset providing essential services to our customers, and as an investment for the City of Ottawa, our shareholder. With that mission in mind, our goal is two-fold: to continue to fulfil our core mandate to provide a safe, reliable, affordable and sustainable supply of electricity to the over 315,000 homes and businesses that rely on us every day; and to ensure a more sustainable energy future for our community.

Hydro Ottawa continued to provide value to our shareholder in 2013. We advanced key elements of our business strategy, while once again achieving strong financial results that exceeded our targets for the year. This reflects our 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 2013 net income of $32.1 million surpassed the strategic plan projection by $4.1 million, resulting in $19.3 million in dividends to the City of Ottawa. With strong performance in both 2012 and 2013, Hydro Ottawa has delivered $37.9 million of the $90 million dividend commitment set out in the *2012–2016 Strategic Direction*. Based on this record of performance and prudent management of business risks, Hydro Ottawa continued to maintain its "A" credit rating with a "Stable" trend in 2013.

Hydro Ottawa's improved financial performance for 2013 was achieved in large part through better cost controls and enhanced revenues in our renewable energy generation business. Revenues from renewable generation for 2013 were $21 million, a 91 percent increase over 2012, and Hydro Ottawa's hydroelectric generation capacity grew to 48 megawatts largely due to the acquisition of three hydroelectric plants at Chaudière Falls in 2012.

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



Bryce Conrad
President and
Chief Executive Officer

While Hydro Ottawa Limited, our regulated electricity distribution company, contributed 80 percent of our 2013 net income, it did not match its 2012 performance. Both demand for electricity and distribution revenue dropped in 2013, while costs increased.

Revenue growth in the electricity distribution business is not expected to keep pace with cost increases arising from customer growth, contractual and inflationary pressures, as well as changing regulatory requirements. Productivity improvement is a must to partially offset rising costs, and enhanced revenue growth from our renewable generation business will be critical to increasing shareholder value. That is why Hydro Ottawa pursued the expansion of its renewable generation capacity at Chaudière Falls in 2013. We are pleased to report that we were awarded a 40-year power purchase agreement by the Ontario Power Authority. This will see the construction of a new 29-megawatt generation facility, which will increase our hydroelectric generation capacity by over 50 percent. Construction is to commence in 2015.

Our *2012–2016 Strategic Direction* calls for a continued focus on enhancing customer value and that is why working to keep distribution rates stable for the more than 315,000 homes and businesses we serve remains a priority. While the overall customer bill increased in 2013, the approved distribution rate increase for the Hydro Ottawa portion was 1.08 percent effective January 1, 2013. We are pleased that we have been able to keep this portion of the bill very stable over the past several years through effective cost control and efficient operations.

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

In 2013, Hydro Ottawa continued to experience reliability challenges due to bad weather and increasing failure rates for aging distribution assets. A concerted effort was made to reverse this trend and 2013 was another record year for distribution system investments. Our overall investment in electricity distribution assets was over $131 million, including the new $25 million Terry Fox station to better serve the growing needs of customers in Kanata and Stittsville.

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.

In light of shifting demographic trends, anticipated retirements and changing skill requirements, we continued to plan and prepare both for management succession and continuity of skilled trades and technical capacity to ensure a prepared and sustainable workforce over the next five to ten years. Key initiatives in this regard included the continuation of our skilled trades apprenticeship programs, our engineering internship program and our leadership development programs, the expansion of our Algonquin College Powerline Technician Diploma Program partnership, and the development of our Diversity Plan.

Hydro Ottawa also continued to be a responsible and engaged corporate citizen. In 2013, we partnered with Christie Lake Kids to establish the Hydro Ottawa Sustainable Youth Leadership Centre. We were also honoured with the United Way Community Builder Award for *Best Community Campaign* for our 2012 efforts and raised a record $228,415 in 2013. Whether by helping our customers conserve energy, educating over 17,000 local elementary students about electricity safety and conservation, or providing more than $139,000 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless through our Brighter Tomorrow's Fund, Hydro Ottawa was there.

We also reached beyond our own community on two occasions last year to lend a helping hand when our neighbours in the Peterborough and Toronto areas and much of eastern and central Ontario were without power. It was a moving reminder that our employees are dedicated not only to service, but also to giving back to their community and their neighbours — and occasionally those neighbours a little further afield.

As a result of the company's achievements, Hydro Ottawa was recognized once again in 2013 by a number of awards including among others, for the fifth year in a row as one of the National Capital Region's Top Employers, for the third year in a row as one of Canada's Greenest Employers, for Innovation in HR Practices for our Retiree and Older Worker Engagement Strategy, and for our Hydro Ottawa Safe Supervisor Program.

We are proud of the company's performance in 2013 and of the many contributions we continued to make to the well-being of our community. This is a testament to the hard work and dedication of our employees — the cornerstone of our success. We look forward to advancing our *2012–2016 Strategic Direction* and continuing to deliver value to our shareholder, our customers and the communities we serve.

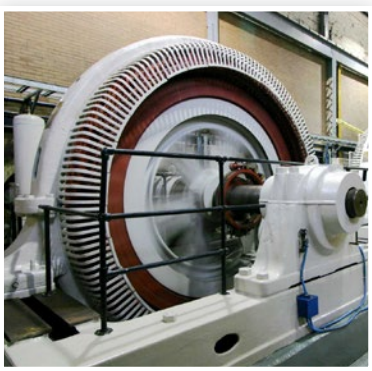
Sincerely,

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

Bryce Conrad
President and Chief Executive Officer

Financial Highlights

(in thousands of Canadian dollars)	2013	2012
Operations		
Distribution revenue	152,392	151,936
Generation revenue	21,047	11,009
EBITDA	96,925	87,752
Net income	32,142	30,989
Dividend (paid in the following year)	19,300	18,600
Balance Sheet		
Total assets	1,008,006	925,901
Capital assets	791,782	721,527
Long-term debt	400,413	251,459
Shareholder's equity	384,153	367,718
Cash Flows		
Operating	49,430	80,804
Investing	(112,184)	(142,727)
Financing	131,258	(18,290)



Progress Against Plan

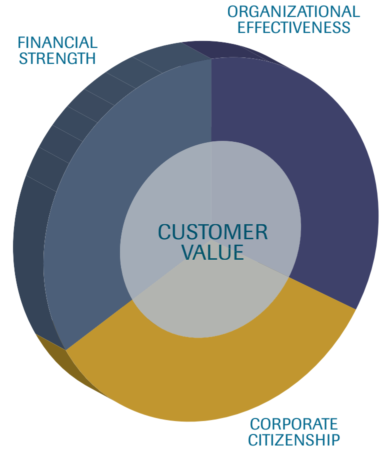
Hydro Ottawa's 2013 Annual Report is the second to report against the company's *2012–2016 Strategic Direction: Creating Long-Term Value*.

The aim 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 Hydro Ottawa and 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 five-year plan. The essence of 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

Financial Strength

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

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

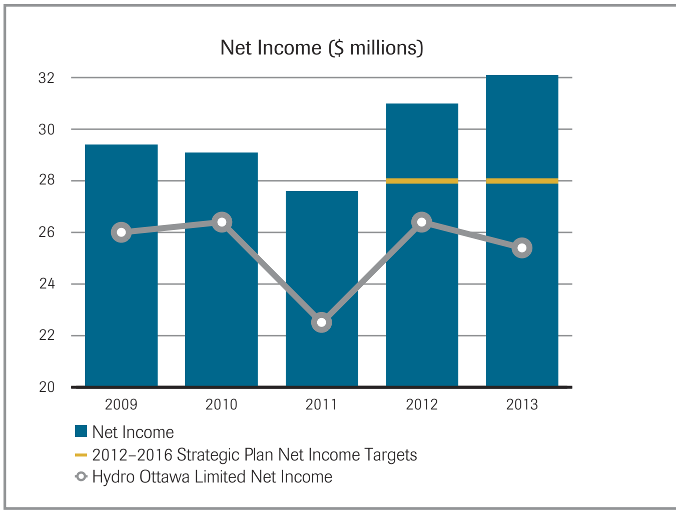
For a second consecutive year, Hydro Ottawa exceeded its financial targets as set out in our *2012–2016 Strategic Direction*. This was due in large part to better cost control and strong performance in our renewable energy generation business line that has enhanced the company's ability to fulfil our core mandate to provide a safe, reliable, affordable and sustainable supply of electricity to the more than 315,000 homes and businesses that rely on us every day.

We exceeded our financial targets

Growth in generation revenue and a focus on cost containment took Hydro Ottawa's 2013 net income to $32.1 million, exceeding the target forecast in the *2012–2016 Strategic Direction* by $4.1 million. Cumulative net income for 2012 and 2013, the first two years of our Strategic Direction, has exceeded target by $7.1 million.

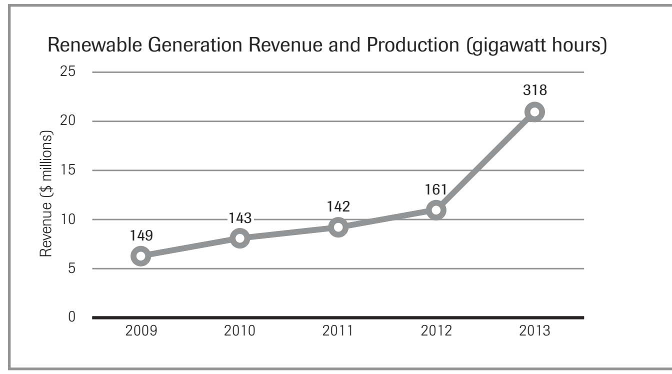
While our regulated local distribution company, Hydro Ottawa Limited, contributed 80 percent of our 2013 net income, it did not match its 2012 performance — both demand for electricity and distribution revenue dropped in 2013, while costs increased.

In order to manage these pressures, Hydro Ottawa kept its focus on cost control and productivity, and continued to closely monitor revenues and expenses. One important indicator of productivity is operating cost per customer. Each year the Ontario Energy Board (OEB) compares the operating costs per customer of all Ontario electricity distributors. In the OEB's most recent survey, Hydro Ottawa ranked 19th out of 73 electricity distribution companies in terms of lowest costs per customer.



$32.1 million in net income

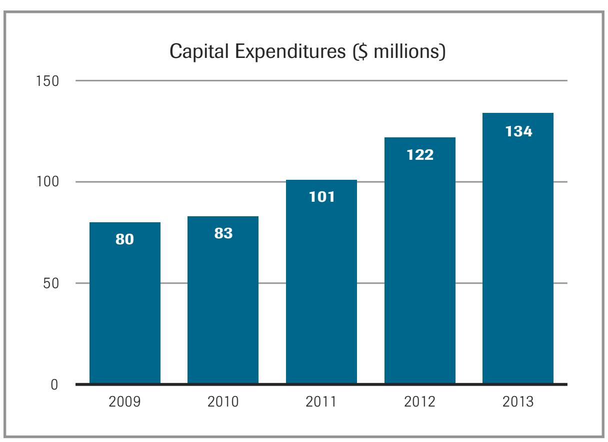
Hydro Ottawa's renewable energy generation business line became a greater source of revenues for the company in 2013 as a result of the full year of operations of the three hydroelectric plants at Chaudière Falls, acquired in November 2012, and the landfill gas-to-energy facility at Moose Creek, which commenced commercial operations on January 25, 2013. Revenues from renewable energy generation for 2013 were $21 million, a 91 percent increase over 2012, and Hydro Ottawa's hydroelectric generation capacity grew to 48 megawatts in total.



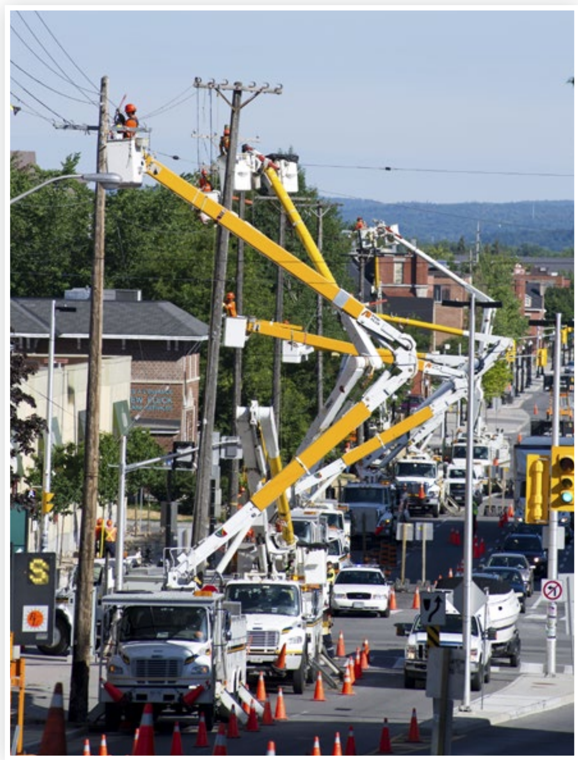
Electricity generation revenue increased by **91 percent**

We delivered our largest capital program to date

In 2013, Hydro Ottawa invested $134 million in our electricity distribution system and generation assets – part of our plan to make significant investments over the course of our *2012–2016 Strategic Direction* to maintain and enhance reliability, and to address aging infrastructure and system growth.



$134 million capital program



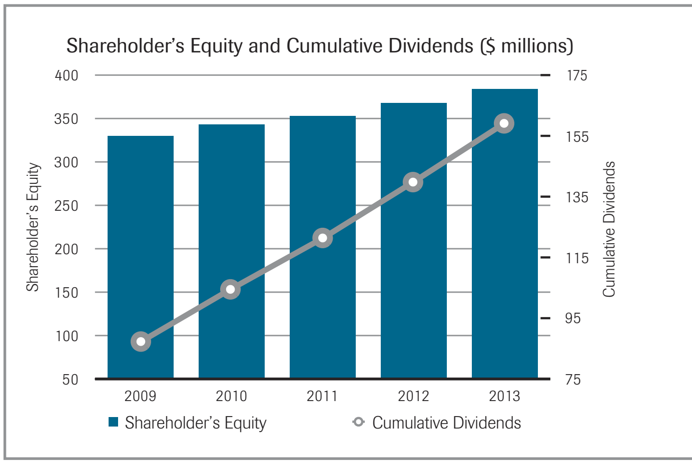
Shareholder value increased by 13 percent

Hydro Ottawa continued to provide excellent value to its shareholder in 2013, with a return on equity of 8.6 percent. Total shareholder value — including dividends paid and earnings retained with the company — increased 13 percent during the year.

Since 2005, Hydro Ottawa has delivered $159.2 million in dividends to the City of Ottawa, including $19.3 million arising from 2013 results.

With strong performance in both 2012 and 2013, Hydro Ottawa has delivered $37.9 million of the $90 million dividend commitment set out in the *2012–2016 Strategic Direction*.

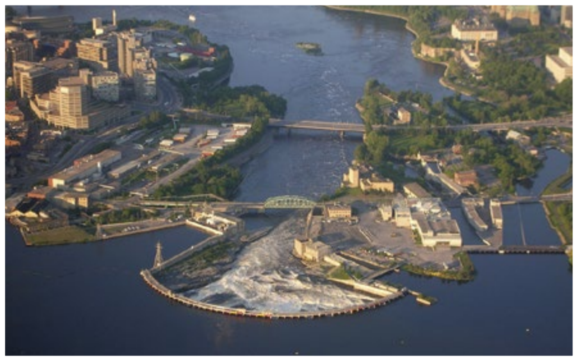
Based on this record of strong operational performance and prudent management of business risks, Hydro Ottawa continued to maintain its "A" credit rating with a "Stable" trend in 2013, and was able to issue long-term debt of $150 million to fund our capital programs and the purchase of the three hydroelectric plants at Chaudière Falls.



$19.3 million in dividends to the City of Ottawa

We continued to pursue business growth

To enhance the company's ability to respond to changing needs and expectations, and to ensure long-term financial sustainability, Hydro Ottawa kept its focus on business growth opportunities. In 2013, Hydro Ottawa pursued the expansion of its renewable generation capacity at Chaudière Falls, and early in 2014, was awarded a 40-year power purchase agreement by the Ontario Power Authority. This will see the construction of a new 29-megawatt generation facility, which will increase our hydroelectric generation capacity by over 50 percent. Construction is to commence in 2015.



Customer Value

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

The essence of Hydro Ottawa's business strategy is to put the customer at the centre of everything we do. Understanding and responding to the customer's needs and expectations – for quality service, cleaner energy, and help in controlling their energy consumption and electricity 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.

Feedback from our customers continued to show we're on the right track

Overall customer satisfaction remained strong at 90 percent, and customer complaint escalations continued to trend downwards.

90 percent customer satisfaction rate

We kept our focus on improving the customer's experience

Hydro Ottawa's innovative "Go Paperless" tree planting campaign in 2013 to promote customer self-serve and paperless billing and payment options resonated with customers; by year end, more than 104,000 customers were subscribed to MyHydroLink, while more than 66,000 customers had signed up for E-Billing. It also earned us the Communications Excellence Award from the Electricity Distributors' Association.

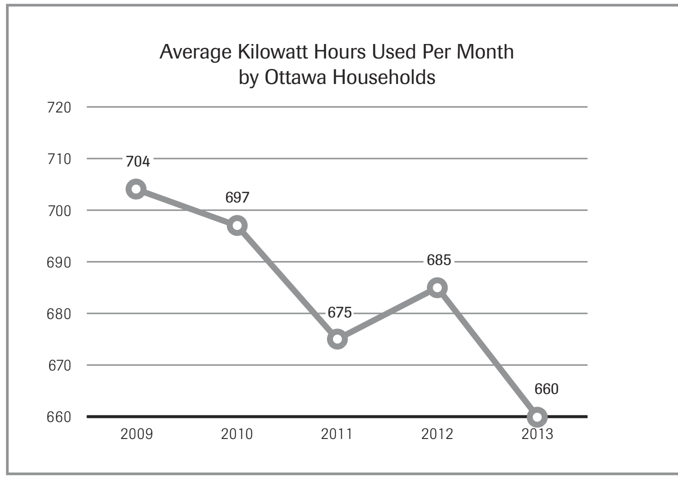
14,414 customers registered for E-Billing as a result of our "Go Paperless" campaign

We continued to support our customers and other stakeholders on a variety of social media platforms including Twitter, Facebook, YouTube and LinkedIn. Our Twitter followers more than doubled in 2013 to 4,987.

We continued to help people conserve and control their electricity costs

Hydro Ottawa continued to be a leader in promoting energy conservation in our community, helping residents and businesses use our product efficiently and wisely. In 2013, our Pit Crew took to residential streets with free In-Home Displays and at year-end, more than 32,600 households were participating in the *peaksaver* PLUS® program.

It was also an excellent year for the Small Business Lighting program with 1,100 small businesses taking advantage of professionally installed energy efficient lighting. Another 780 larger commercial customers took advantage of our retrofit program to upgrade to much more efficient technologies.



40 Million kWh saved from our residential, small business and large commercial conservation programs, in addition to peak demand savings of 27MWs — enough electricity to power 4,000 homes for a year

We re-invested in our electricity distribution system

Like most utilities in Ontario, Hydro Ottawa faces a need to replace aging distribution system equipment at an accelerated pace. Our plan is to continue to make significant investments of more than half a billion dollars over the course of our *2012–2016 Strategic Direction* to achieve the maximum benefit for our customers and reduce the occurrence of interruptions caused by defective equipment.

Hydro Ottawa continued to experience reliability performance challenges due to episodes of bad weather as well as increasing failure rates for aging distribution assets. A concerted effort was made to reverse this trend and 2013 was another record year for distribution system investments. Our overall investment in asset management projects was over $131 million, with a particular focus on areas with reliability issues, new station capacity, plant relocation, system expansion, and small residential and commercial infill.

Significant milestones in 2013 included energizing the new Terry Fox station to better serve customers in Kanata and Stittsville, expansion of the Fallowfield station for the growing community of Barrhaven, and extensive work to replace aging infrastructure including poles, underground cables, transformers and switchgear, and line extensions throughout our service territory.

New $25 million Terry Fox Station in Kanata

Record year for distribution system investments: $131 million to address reliability, aging infrastructure and growth

Distribution rates remained stable

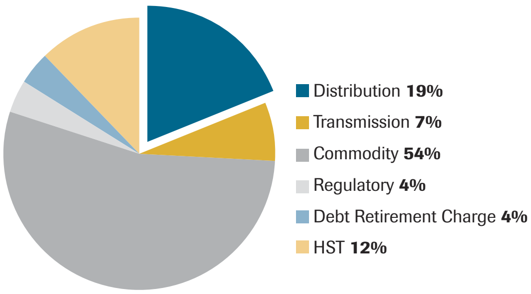
Hydro Ottawa's electricity distribution rates are set through open public hearings by the Ontario Energy Board (OEB), Ontario's electricity and natural gas regulator, which regulates the sector and receives policy direction from the Government of Ontario. The OEB approves rates for the distribution of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

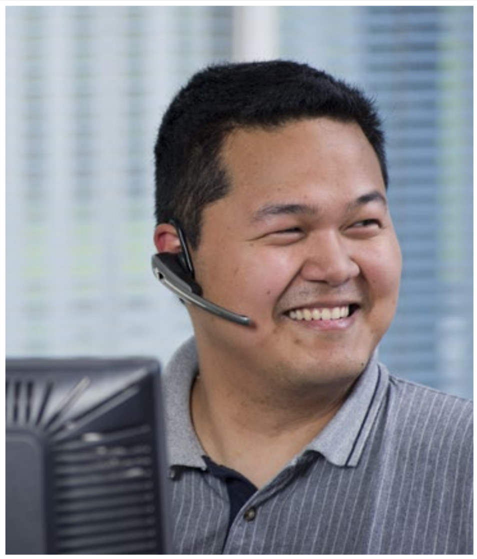
In 2013, Hydro Ottawa's distribution rates made up less than 20 percent of the customer's total electricity bill. The remaining 80 percent consists of pass-through charges that Hydro Ottawa collects for others, with no markup, including the cost of the electricity commodity.

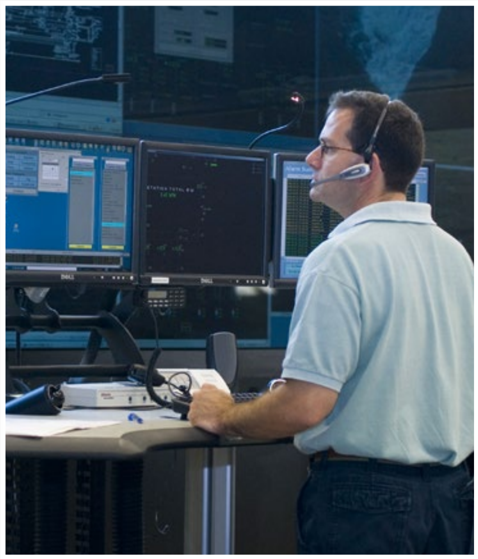
Hydro Ottawa's distribution rates ensure there are sufficient revenues to maintain a reliable electricity distribution system and provide high quality service.

While the overall customer bill increased in 2013, the approved distribution rate increase for the Hydro Ottawa portion was 1.08 percent effective January 1, 2013.

Typical Residential Monthly Bill with TOU
November 1, 2013 (with average usage of 800 kWh)







Organizational Effectiveness

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

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

Our performance continued to be recognized

Our efforts to build a top-performing organization were recognized once again in 2013

- For the fifth year in a row as one of the National Capital Region's Top Employers
- For the fourth consecutive year as an Achievers 50 Most Engaged Workplaces in Canada
- For the third year in a row as one of Canada's Greenest Employers
- Minister's Award for Apprenticeship Training
- Infrastructure Health and Safety Association President's Awards for 250,000, 500,000, 750,000 and 1,000,000 hours worked without a new lost time injury

Winner of the Electricity Human Resources Canada Employer's Award for Innovation in HR Practices for our Retiree and Older Worker Engagement Strategy

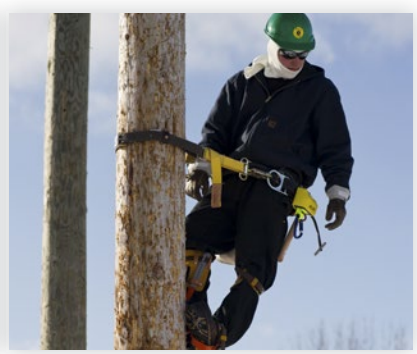
Maintaining a healthy and safe work environment remained a top priority

Maintaining a healthy and safe work environment is a fundamental commitment to our employees. In 2013, Hydro Ottawa provided an average of more than 23 hours of safe work practices training per employee, focusing on higher risk trade employees, who received an average of 47 hours per employee. Our integrated Occupational Health, Safety and Environment management system continues to be certified to the internationally-recognized standards of OHSAS 18001 and ISO 14001.

Canadian Society of Safety Engineering Local Chapter and National Achievement Award for Hydro Ottawa's Safe Supervisor Program

Infrastructure Health & Safety Association™

1,000,000 hours worked without a new lost time injury



We kept our focus on ensuring a prepared and sustainable workforce

In light of shifting demographic trends, anticipated retirements and changing skill requirements, we continued to plan and prepare both for management succession and continuity of skilled trades and technical capacity to ensure a prepared and sustainable workforce over the next five to ten years.

- Our leadership development program, offered in partnership with the MEARIE Group and the Schulich School of Business, York University, graduated 22 participating Hydro Ottawa leaders with a Masters Certificate in Energy Sector Leadership
- We developed our Diversity Plan to create and support a talented workforce that is reflective of the diversity in the communities we serve
- We expanded our Algonquin College Powerline Technician Diploma Program partnership through a double intake of students in 2013 and graduated 17 students from the first program cohort
- Our five Apprenticeship Programs continued to grow — 13 new apprentices were hired in 2013, bringing the total to 36 apprentices, representing 21 percent of our trades workforce
- Our Engineering Intern Program continued to create a talent pool with three interns receiving their P.Eng. designation for a total of 10 to date, and two program alumni promoted to supervisory levels
- Our Summer and Co-op Student Programs continued to be a vital part of our talent supply strategies — providing meaningful opportunities to young workers
- Our Retiree and Older Worker Engagement Strategy, branded as '*Prime Time*' via an all-employee survey, has been key to engaging workers and managing knowledge transfer

HydroOttawa PRIME TIME

21 percent of our trades workforce is now made up of apprentices hired through our five Apprenticeship Programs

We continued to look for ways to improve our operations

A number of productivity improvements were implemented in 2013 with a continued focus on the capital project execution process. Through more efficient use and scheduling of internal crews and external contractors, we were able to complete our largest capital program to date.

We revitalized our Employee Reward and Recognition framework to emphasize performance and introduced the CEO's Award for Productivity and Innovation.

As part of our strategy to improve the efficiency and effectiveness of our operations, we advanced our Real Estate Rationalization Plan. The plan involves the sale of three of our existing facilities that are nearing end of useful life and require major capital investments in the next several years, and the construction of two combined facilities in the east and south ends of the city. In 2013, Hydro Ottawa concluded the acquisition of two new properties: one is near Hunt Club Road and Highway 417 and the other near Fallowfield Road and Highway 416. The Request for Qualifications for the design and build phase was also completed, together with the appointment of a Fairness Commissioner. When fully implemented, the plan is expected to deliver savings of $3 million annually through a combination of cost reductions and productivity improvements. It will also enhance service through more strategically located and better-equipped facilities, and help to reduce the environmental impact of our operations.

Corporate Citizenship

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

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

We continued to give where we live

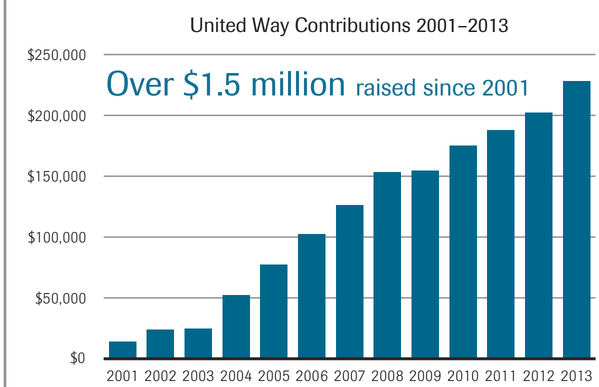
As a community company that delivers essential services to Ottawa residents, contributing to the well-being of our community has always been a part of Hydro Ottawa's core mandate. In 2013, we continued to be active in our community. We partnered with Christie Lake Kids to establish the Hydro Ottawa Sustainable Youth Leadership Centre, which provides a unique opportunity for disadvantaged youths to learn experientially about alternative energy, while building leadership skills. We were honoured with the United Way Community Builder Award for *Best Community Campaign* for our 2012 efforts and raised a record $228,415 in 2013. Whether by educating 17,635 children and youths about electricity safety and conservation, providing $139,946 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless through our Brighter Tomorrows Fund, or providing $187,912 to struggling customers under the Low-Income Energy Assistance Program, Hydro Ottawa was there.

900 children with disabilities enjoyed exclusive access to the Gloucester Fair, thanks to Hydro Ottawa employee volunteers

17,635 students trained about electricity safety and conservation in area schools

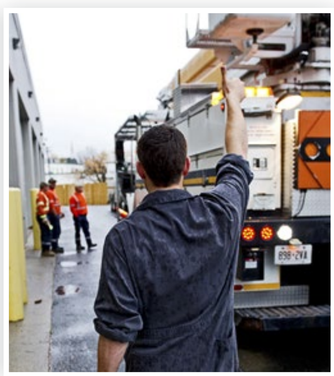
$139,946 in financial assistance to front-line agencies that serve people who are homeless or at risk of being homeless.

$228,415 raised for United Way Ottawa from employee donations and corporate matching



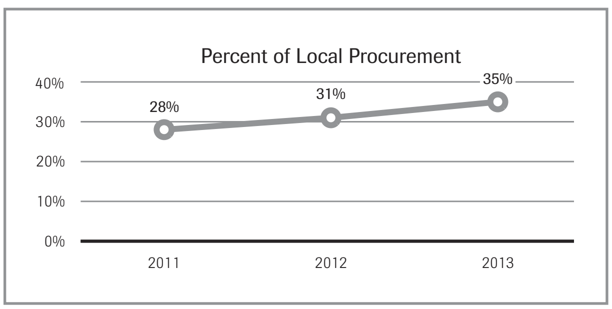
We assisted those in need outside our community

Our employees are always willing to lend a helping hand to those in need. During the spring of 2013, tens of thousands of customers in Peterborough and the surrounding area were without power due to wind and freezing rain downing power lines. Hydro Ottawa responded immediately to requests for help in restoring power and repairing broken poles. In December 2013, the Toronto area and much of eastern and central Ontario experienced a significant ice storm where hundreds of thousands of customers lost power. Without hesitation, our employees volunteered to give up their holidays with family and loved ones to help restore power to residents in the hard hit communities of Picton, Brampton and Toronto.



We kept our focus on being green

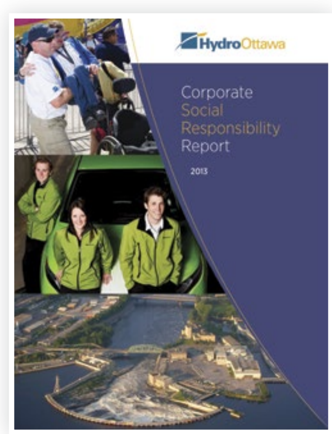
Given the inextricable link between energy and the environment, Hydro Ottawa's approach to corporate citizenship includes a strong focus on environmental sustainability. In 2013, we continued to practice what we preach by carefully managing our own impacts on the environment. We added a second electric vehicle to our fleet and swapped in 36 flex-fuel vehicles, and maintained a high rate of non-hazardous waste diversion at 91 percent. We also completed the installation of building automated systems in 52 of our substations, and continued to green our supply chain and procurement processes by purchasing 35 percent of our goods and services from local suppliers. And for the third year in a row, Hydro Ottawa was recognized as one of Canada's Greenest Employers for incorporating environmental values into our corporate culture.



91 percent non-hazardous waste diverted from landfill

And we continued to walk the talk

At Hydro Ottawa, we believe that good governance is the glue that holds together responsible business practices. By making governance a core focus over the past several years, we have established leading practices for a company of our size and mandate. Accordingly, in 2013 we refreshed our Code of Business Conduct to provide greater clarity and guidance to employees and board members in making the right decisions. In addition, we produced our inaugural Corporate Social Responsibility Report to demonstrate our commitment and leadership in this area and share our progress with our stakeholders.



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, 2013. 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.

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 88 percent of the Corporation's capital assets and 90 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company ['LDC'] that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally owned LDC in the province of Ontario. Hydro Ottawa Limited delivers electricity reliably and safely to approximately 315,000 residential and commercial customers across a service area of approximately 1,100 square kilometres. As a condition of its distribution licence, Hydro Ottawa Limited is 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 85 distribution stations, 169 station class transformers, 2,800 kilometres of underground cable, 2,900 kilometres of overhead lines, 35,600 distribution transformers and 48,000 hydro poles. Hydro Ottawa Limited added 5,400 net new customers to its distribution system in 2013, an increase of 1.7 percent.

Energy Ottawa Inc. (Energy Ottawa): A generator of renewable energy and provider of commercial energy management services, Energy Ottawa is the largest municipally owned producer of green power in Ontario. Energy Ottawa now owns and operates six run-of-the-river hydroelectric 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 operates a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario.

Moose Creek Energy LP ['Moose Creek LP'] is a 50.1 percent owned joint venture that operates a generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario.

Chaudiere Water Power Inc. ['CWPI'] is a 66.66 percent owned joint venture that operates the Chaudière Dam facilities on the Ottawa River.

Energy Ottawa's green energy production now exceeds 48 MW annually, which is enough to power 40,000 homes. On February 7, 2014, Energy Ottawa's subsidiary Chaudiere Hydro L.P., was granted a 40-year Hydroelectric Standard Offer Program – Municipal Stream Contract ['HESOP Contract'] by the Ontario Power Authority ['OPA'] to produce renewable waterpower. As a result of this contract, Chaudiere Hydro L.P. will expand its generation facilities increasing Energy Ottawa's total capacity from 38 megawatts to 58 megawatts ['Chaudière expansion']. The Chaudière expansion will require a major investment, and have a significant impact on operations in the coming years. The anticipated commercial operation date is in the fourth quarter of 2017.

Vision and Strategy

OUR VISION

Hydro Ottawa's vision is to be a leading and trusted integrated utility services Corporation. This vision is built upon the objectives that were set out for the Corporation at its inception – to increase the value of the Corporation for its Shareholder, to deliver efficient and effective 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 Corporation from 'good to great', leveraging our position as a leading and trusted service provider to become one of Canada's most successful integrated utilities.

LEADING

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

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

TRUSTED

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

We are a Corporation with very deep roots in our community, established through more than 100 years of providing an essential service to homes and businesses. Through an independent third party survey conducted in 2013, Hydro Ottawa scored higher results than National and Ontario industry comparables when customers were asked to rate their satisfaction with items such as:

- provides consistent, reliable energy;
- quickly handles outages;
- provides good value for money;
- operates a cost effective hydroelectric system;
- deals professionally with customer problems;
- works with customers to keep their energy costs affordable;
- proactive in communicating changes;
- quickly deals with issues that affect customers;
- adapts well to changes in customer's expectations; and
- overall provides excellent quality services.

We are proud of our legacy and continue to seek out ways to be of service to our customers.

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 savings, and additional value for the Shareholder and enhanced service to customers.

OUR STRATEGY

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

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

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

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.

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. completed the purchase of three additional run-of-the-river hydroelectric plants at Chaudière Falls from Domtar Inc. Energy Ottawa's hydroelectric generating capacity has more than doubled to 38 megawatts with this purchase. In addition, the Chaudière Falls site is one of the largest remaining hydroelectric sites available in Ontario.

On January 25, 2013, the landfill gas collection plant at the Laflèche landfill site in Moose Creek, Ontario commenced commercial operations.

On February 7, 2014, Chaudiere Hydro L.P. was granted a 40-year HESOP Contract by the OPA to produce renewable waterpower. As a result of this contract, Chaudiere Hydro L.P. will expand its generation facilities increasing Energy Ottawa's total capacity from 38 megawatts to 58 megawatts. The anticipated commercial operation date is in the fourth quarter of 2017.

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;
- Settle: Act as the billing agent for other organizations in Ontario's electricity system;
- Collect: Manage payment collection;
- Conserve: Promote conservation and demand management programs; and
- Customer Care: Manage the relationship with customers.

REGULATORY 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 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 an electricity retailer and generator.

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 its 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.

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 five 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. During 2013, the details of each of the regulatory models was developed with input from working groups comprised of electricity distributor staff, ratepayer groups and OEB staff. In November 2013, the OEB issued its final report on the details of 4th Generation Incentive Rate-setting and the Annual Incentive Rate-setting Index. Hydro Ottawa was actively engaged in the policy-making process through working groups and in other ways, which influenced the final design of the regulatory models. With the final details determined, electricity distributors can file applications under one of the three new models for 2015 rates.

Hydro Ottawa's rates for 2013 were established by means of the 3rd Generation Incentive rate-setting Index. Under this method, Hydro Ottawa's rates were adjusted, commencing January 1, 2013, by an inflationary adjustment of 1.08 percent increase. This inflationary adjustment was determined by the OEB as appropriate for electric distributors for 2013.

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 *2012 Yearbook of Electricity Distributors* [August 2013], Hydro Ottawa ranked in the top quartile of distributors in terms of lowest costs per customer [19th out of 73 electricity distributors].

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, 2013.

CONSOLIDATED STATEMENT OF INCOME [SUMMARY]

(in thousands of Canadian dollars)	2013	2012	Change
Revenues			
Power recovery	768,079	709,935	58,144
Distribution sales and other revenue	208,288	190,840	17,448
	976,367	900,775	75,592
Expenses			
Purchased power	765,151	707,552	57,599
Operating costs	114,291	105,471	8,820
	879,442	813,023	66,419
EBITDA	96,925	87,752	9,173
Depreciation and amortization	40,322	37,121	3,201
Other expenses and recoveries	14,645	10,422	4,223
Payments in lieu of corporate income taxes	9,410	8,928	482
	64,377	56,471	7,906
Non-controlling interest	(406)	(292)	(114)
Net income and comprehensive income	32,142	30,989	1,153

Net income increased by approximately $1.2 million [4 percent].The increase in net income is largely attributable to the growth in revenues resulting from the acquisition of generation assets at Chaudière Falls from Domtar Inc. in late 2012, the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant, and the start of commercial operations at the Moose Creek landfill gas to energy plant in early 2013.

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 $58.1 million [8 percent], mainly due to increases in commodity and global adjustment rates included in purchased power costs.

Revenues, excluding power recovery, increased $17.4 million [9 percent] from 2012. Electricity distribution revenue is reflective of OEB approved distribution rates and the amount of electricity consumed. Revenue from distribution sales increased $0.4 million [0.3 percent] from 2012 as a result of new rates established by means of the 3rd Generation Incentive rate-setting index. Both CDM program revenues and revenues from other sundry activities increased $3.5 million respectively over the prior year as business has increased. Energy Ottawa's electricity generation revenues increased by $10.0 million over the prior year mainly due to new revenue as a result of the acquisition of generation assets at Chaudière Falls from Domtar Inc., the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant, and the start of commercial operations at the Moose Creek landfill gas to energy plant in early 2013. Energy Ottawa's commercial energy management services revenues were in line with the prior year.

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, transmission charges and the global adjustment levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by $57.6 million [8 percent], due mainly to increased commodity and global adjustment 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 $114.3 million increased by $8.8 million over 2012 due in large part to compensation costs which have increased over the prior year by approximately $6.4 million. The increase in compensation costs is due to increased number of employees as a result of the Chaudiere Hydro L.P. acquisition on November 20, 2012 as well as negotiated and inflationary increases. CDM program costs have also increased over the prior year by $3 million in conjunction with the increase in program revenues.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses increased by $3.2 million, primarily due to the acquisition of generation assets at Chaudière Falls from Domtar Inc., the addition of a sixth generating engine at the PowerTrail landfill gas to energy plant, and the start of commercial operations and thus depreciation of the Moose Creek landfill gas to energy plant in early 2013. Also contributing to the increase are acquisitions and improvements to information systems and a global increase of investments in the electricity distribution infrastructure of the Corporation.

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, 2007* (Ontario) ['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 increased from 22.2 percent in 2012 to 22.4 percent in 2013. The year-over-year increase is a result of impacts of permanent and temporary differences between the accounting and tax basis of assets and liabilities.

CONSOLIDATED BALANCE SHEET [SUMMARY]

(in thousands of Canadian dollars)	2013	2012	Change
Current assets	183,147	172,075	11,072
Non-current assets	824,859	753,826	71,033
Total assets	1,008,006	925,901	82,105
Current liabilities	161,689	234,195	(72,506)
Non-current liabilities	462,164	323,988	138,176
Total liabilities	623,853	558,183	65,670
Shareholder's equity	384,153	367,718	16,435
Liabilities and shareholder's equity	1,008,006	925,901	82,105

ASSETS

Total assets increased by approximately $82.1 million during the year. This increase is largely attributable to property, plant and equipment and intangible assets, which have increased by $70.3 million. This is a result of our continuing investment in electrical distribution and generation infrastructure. In addition, accounts receivable and unbilled revenue have increased by $11.5 million due in large part to the global adjustment amount included in unbilled revenue.

LIABILITIES

Total liabilities increased by $65.7 million in 2013. This change is largely attributable to the issuance of Senior Unsecured Debentures in the amount of $150 million discussed below under the Statement of Cash Flows [Summary], offset by a $68.5 million decrease in bank indebtedness and a $10.2 million decrease in regulatory liabilities, primarily attributable to variances associated with the electricity and global adjustment costs.

STATEMENT OF CASH FLOWS [SUMMARY]

(in thousands of Canadian dollars)	2013	2012
Cash (bank indebtedness), beginning of year	(77,357)	2,856
Cash provided by Operating Activities	49,430	80,804
Cash used in Investing Activities	(112,184)	(142,727)
Cash provided by (used in) Financing Activities	131,258	(18,290)
Bank indebtedness, end of year	(8,853)	(77,357)

CASH PROVIDED BY OPERATING ACTIVITIES

Cash generated by operating activities provided approximately $31 million less cash flow than in 2012. 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 an increase in the global adjustment amount included in unbilled revenue.

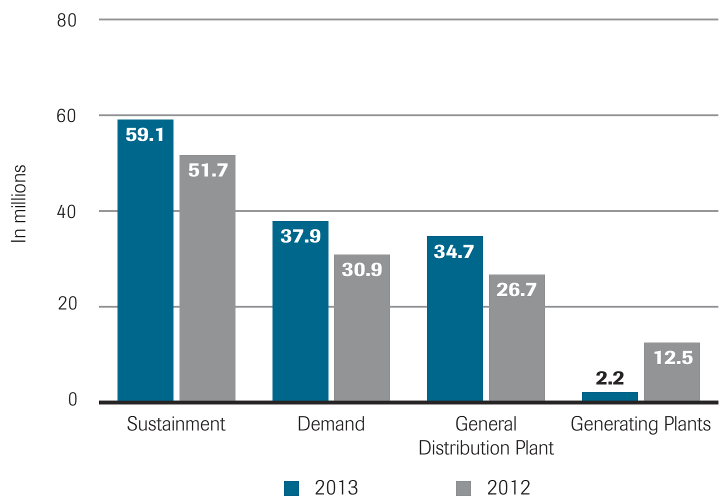
CASH USED IN INVESTING ACTIVITIES

The total investment in property, plant and equipment and intangible assets, net of contributions in aid of construction in 2013 is approximately $112 million. Capital investments in 2013 included approximately $59 million on sustainment capital to replace aging infrastructure and to modify the existing distribution system; $38 million on demand projects [less contributed capital of $22 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; $35 million on general plant items including Information Technology infrastructure, land purchases for new facilities, fleet, and other sundry items; and $2 million in generating plants.

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2013, 1,087 new poles, 543 overhead transformers, and 233 km of overhead cables were installed. Over 250 demand capital projects were initiated, including the addition of 5,388 new residential and 1,084 new commercial connections.

Investments in generation operations during 2013 saw a large decrease from the prior year. In 2012 the Corporation made major investments, which included the $46.3 million purchase of three additional run-of-the-river hydroelectric plants at Chaudière Falls from Domtar Inc., and $10.6 million on construction costs related to 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. on November 20, 2012.



CASH PROVIDED BY FINANCING ACTIVITIES

Dividends were paid to the Shareholder in 2013 in accordance with the approved dividend policy. The 2013 payment totalled $18.6 million based on 2012 results, and the 2012 payment totalled $16.6 million based on 2011 results.

On May 14, 2013, the Corporation issued $150 million in Senior Unsecured Debentures. The debentures bear interest at a rate of 3.991 percent per annum, payable semi-annually in arrears in equal instalments on November 14 and May 14, and is due on May 14, 2043.

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 July 15, 2013, the Corporation renewed its credit facility for $193.5 million. 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.

As at December 31, 2013, the Corporation had drawn $16 million in standby letters of credit and $5 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 expects to renew the $200 million bond maturing in February 2015. 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, 2013, $0.1 million in standby letters of credit were drawn against this credit facility.

CWPI also maintains a credit facility consisting of a $0.5 million operating credit line secured by the 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, 2013, CWPI had not drawn this operating line.

CREDIT RATINGS

As at December 31, 2013, 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 and a recession resistant 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 Notes 14 and 15 of the consolidated financial statements for further details]. The Corporation is in compliance with these covenants as at December 31, 2013.

Accounting Estimates and Policies

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:

- Useful lives of property, plant and equipment and intangible assets [Note 2(j) and (k)]
- Unbilled revenue [Note 2(g)(iii)]
- Regulatory assets and liabilities [Note 6]
- Employee future benefits [Note 13]
- Payments in lieu of corporate income taxes [Note 21]

CHANGES IN ACCOUNTING POLICIES – FUTURE

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises ['PAEs'] would be required to transition 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.

On the original transition date, IFRS did not contain a standard governing rate-regulated activities ['RRA']. Due to the significance of this issue in Canada, the AcSB postponed the original IFRS transition date to January 1, 2015 for qualifying entities with RRA pending the completion of an interim standard by the International Accounting Standards Board ['IASB']. Until January 1, 2015, qualifying entities are permitted to continue reporting under pre-changeover Canadian GAAP.

On January 30, 2014, the IASB issued interim standard IFRS 14 – Regulatory Deferred Accounts ['IFRS 14'] which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing RRA practices. This standard is effective January 1, 2016 with early adoption permitted. The Corporation will adopt IFRS and early adopt IFRS 14 on January 1, 2015.

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, 156 employees of Hydro Ottawa will be eligible to retire with an unreduced pension. Almost 60 percent are trades and technical employees; the other 40 percent are management, administrative, professional, and clerical employees. This reflects a broader trend of workforce demographics seen by utilities in Ontario and across Canada.

In 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 journeypersons and professional engineers;
- A succession planning and management program and training and development program to ensure that there are qualified employees in the talent pipeline for key positions;
- A proactive approach to knowledge management and knowledge transfer for key positions, including an older worker and retiree engagement strategy so that work is seamlessly transitioned from our veteran workforce to the next generations;
- A Diversity Plan to create and support a talented workforce that is reflective of the diversity in the communities we serve; and
- Partnerships with industry and educational institutions to support the implementation of the talent management strategy. These include, most notably, collaborations with Algonquin College to deliver the College’s new Powerline Technician diploma program, and with Carleton University’s Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory to foster innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

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. A Retirement Committee has been created to undertake the management, operation and administration of the pension plan; this Committee through the Governance and Management Resources Committee reports to the Hydro Ottawa Holding Inc. Board of Directors.

INTERNAL PROCESSES

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

With the successful completion of the Province's Smart Meter and Time-of-Use rate programs in 2011, in 2013 the Corporation continued to focus on leveraging customer access to their account information through customer self-serve options not available prior to the Smart Metering initiative. These options result in improved customer satisfaction, fewer complaints and improved efficiencies.

By year end 2013 over 104,000 customers [33 percent of all customers] had subscribed to *MyHydroLink*, a web-based customer portal that provides a number of self-service options. Over 66,000 customers have opted to receive their Hydro Ottawa bill electronically, and over 63,000 customers have subscribed to an automated payment process which is more convenient for them and more efficient for the utility.

Customer use of Hydro Ottawa's leading mobile web offering continued to increase in popularity in 2013. This mobile service features many customer account information options along with access to Hydro Ottawa's award winning Outage Communications system. Hydro Ottawa Mobile is available to customers with a smart phone such as an iPhone, Android device or BlackBerry.

In 2013 Hydro Ottawa continued to deploy 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 8,400 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'] which began in 2011 has been completed and deployed in early 2014. In conjunction with this upgrade, Hydro Ottawa converted all residential and small commercial customers to a monthly billing cycle, in place of the bi-monthly cycle.

In 2013 Hydro Ottawa completed its most extensive Customer Market Research which enabled the development of a series of customer persona profiles. This foundational research will be utilized in the development of Hydro Ottawa's Customer Experience Strategic Plan and is being applied in the deployment of several initiatives throughout the Corporation.

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. In 2013 Hydro Ottawa launched a corporate-wide team to develop a five-year strategy to help the entire Corporation prioritize and put into place plans for productivity improvements. This team was tasked with identifying new initiatives for 2014 which will have a notable and positive impact on productivity. These initiatives include the deployment of an Asset Optimization Tool and a Mobile Workforce Management Tool. Coincident with the development the five-year strategy, will be the development of a scorecard to monitor and report on overall productivity of the Corporation.

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

Political uncertainty in the province of Ontario could affect opportunities for growth, in both electricity distribution [e.g. potential consolidation and integration of local distribution companies] and electricity generation [e.g. rates for new power purchase agreements; approval of new Feed-In Tariff projects].

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, with OEB-approved incentive regulation applications thereafter. 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

Significant future changes in business or financial risks could affect the Corporation's existing credit rating of [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

The Corporation provides a defined benefit pension plan for the majority of its employees, through the Ontario Municipal Employees Retirement System ['OMERS']. As OMERS is a multi-employer, contributory, defined benefit pension plan, it is not practicable to determine the Corporation's portion of pension obligations or the fair value of plan assets. OMERS' future funding shortfalls and net losses, if any, may entail temporary contribution increases from both members and employers.

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.

CUSTOMER, MEDIA PERCEPTIONS

Electrical utilities across Ontario are confronted with risks arising from negative customer and media perceptions, driven by rising electricity prices and inconsistent service levels, including reported billing inaccuracies. With Hydro Ottawa's cutover in early 2014 to a new customer care and billing system, and the phased transition of its customers to monthly billing, these risks could become more prominent.

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 [hydroelectric], 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, the completion of a second landfill gas collection plant and the upcoming expansion of generation facilities at Chaudière Falls.

Consolidated Financial Statements

December 31, 2013

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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

Geoff Simpson
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, 2013, 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, 2013, 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 3, 2014.

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]

	2013	2012
Revenue		
Power recovery [Note 24]	**$ 768,079**	$ 709,935
Distribution sales [Note 24]	**152,392**	151,936
Generation revenue	**21,047**	11,009
Other revenue [Note 24]	**34,849**	27,895
	976,367	900,775
Expenses		
Purchased power	**765,151**	707,552
Operating costs [Note 24]	**114,291**	105,471
Depreciation	**31,891**	30,449
Amortization	**8,431**	6,672
	919,764	850,144
Income before other expenses (recoveries) and payments in lieu of corporate income taxes	**56,603**	50,631
Financing costs [Note 20]	**14,645**	11,101
Recovery of regulatory asset write-down [Note 6]	**-**	(679)
	14,645	10,422
Income before payments in lieu of corporate income taxes	**41,958**	40,209
Payments in lieu of corporate income taxes [Note 21]	**9,410**	8,928
Net income and comprehensive income	**32,548**	31,281
Attributable to non-controlling interest [Note 17]	**406**	292
Attributable to equity shareholder	**32,142**	30,989
Retained earnings, beginning of year	**138,242**	123,853
Dividends declared and paid [Note 16]	**(18,600)**	(16,600)
Recovery of refundable dividend taxes paid [Note 16]	**1,489**	-
Retained earnings, end of year	**$ 153,273**	$ 138,242

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

HydroOttawa Holding Inc.

Hydro Ottawa Holding Inc.

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

	2013	2012
Assets		
Current assets		
Accounts receivable [Notes 4 and 24]	**$ 70,276**	$ 75,408
Payments in lieu of corporate income taxes receivable	**2,372**	1,482
Unbilled revenue [Note 5]	**106,551**	89,935
Prepaids	**3,099**	2,653
Regulatory assets [Note 6]	**31**	1,969
Future income tax assets [Note 21]	**818**	628
	183,147	172,075
Non-current assets		
Regulatory assets [Note 6]	**12,441**	7,603
Property, plant and equipment [Note 7]	**725,656**	669,740
Intangible assets [Note 8]	**66,126**	51,787
Future income tax assets [Note 21]	**19,947**	24,222
Retirement benefit asset [Note 13]	**689**	474
Total assets	**1,008,006**	925,901
Liabilities and shareholder's equity		
Current liabilities		
Bank indebtedness [Note 9]	**8,853**	77,357
Accounts payable and accrued liabilities [Notes 10 and 24]	**132,348**	132,791
Payments in lieu of corporate income taxes payable	**157**	702
Regulatory liabilities [Note 6]	**19,173**	22,097
Notes payable [Note 14]	**340**	620
Regulatory liability for future income tax assets [Note 21]	**818**	628
	161,689	234,195
Non-current liabilities		
Regulatory liabilities [Note 6]	**12,915**	20,144
Regulatory liability for future income tax assets [Note 21]	**19,893**	24,165
Employee future benefits [Note 13]	**9,065**	10,780
Notes payable [Note 14]	**400,413**	251,459
Future income tax liabilities [Note 21]	**6,464**	5,179
Other liabilities [Note 11]	**13,414**	12,261
	623,853	558,183
Shareholder's equity		
Share capital [Note 16]	**228,453**	228,453
Retained earnings	**153,273**	138,242
Non-controlling interest [Note 17]	**2,427**	1,023
	384,153	367,718
Total liabilities and shareholder's equity	**$ 1,008,006**	$ 925,901

Contingent liabilities and commitments [Notes 22 and 23]

ON BEHALF OF THE BOARD:

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]

	2013	2012
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income and comprehensive income	**$ 32,548**	$ 31,281
Items not affecting cash		
Depreciation	**31,891**	30,449
Amortization	**8,431**	6,672
Loss on disposal of property, plant and equipment	**1,083**	1,779
Allowance for funds used during construction [Notes 7 and 8]	**(2,411)**	(2,056)
Future payments in lieu of corporate income taxes	**1,288**	671
Amortization of debt-issuance costs	**237**	225
Employee future benefits [Notes 6 and 13]	**107**	188
Change in retirement benefit asset [Note 13]	**(215)**	7
Changes in non-cash working capital and other operating balances		
Decrease (increase) in accounts receivable	**5,132**	(9,833)
Increase in unbilled revenue	**(16,616)**	(2,680)
Increase in prepaids [Note 18]	**(446)**	(742)
(Increase) decrease in regulatory assets, net of liabilities [Notes 6 and 13]	**(14,949)**	13,456
Increase in accounts payable and accrued liabilities [Notes 7, 8 and 13]	**3,296**	6,280
Increase in payments in lieu of corporate income taxes receivable/payable [Note 16]	**54**	5,107
	49,430	80,804
Investing		
Acquisition of property, plant and equipment [Notes 7 and 18]	**(112,299)**	(107,695)
Acquisition of intangible assets [Notes 8 and 18]	**(23,069)**	(10,929)
Proceeds from disposal of property, plant and equipment	**1,765**	45
Acquisition of assets from Domtar Inc. [Note 18]	**-**	(46,339)
Contributions in aid of construction [Note 7]	**21,419**	22,191
	(112,184)	(142,727)
Financing		
Proceeds from bond issuance, net of debt-issuance costs [Note 14]	**148,857**	-
Increase (decrease) in customer deposits [Notes 10 and 11]	**435**	(1,375)
Dividends paid [Note 16]	**(18,600)**	(16,600)
Repayment of notes payable [Note 14]	**(420)**	(300)
Repayable grant [Note 7]	**(12)**	(15)
Contributed capital from non-controlling interest [Note 17]	**998**	-
	131,258	(18,290)
Net change in cash	**68,504**	(80,213)
(Bank indebtedness) cash, beginning of year	**(77,357)**	2,856
Bank indebtedness, end of year	**$ (8,853)**	$ (77,357)
Supplemental cash flow information		
Interest paid	**$ 16,864**	$ 12,723
Payments in lieu of corporate income taxes paid, net of refunds	**$ 7,858**	$ 3,199

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2013
[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. ['TOHI'], 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 renewable energy. Energy Ottawa also offers a range of expert energy management and procurement services to large energy-consuming organizations and companies. Energy Ottawa holds interests in the following entities:

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

- Moose Creek Energy LP ['Moose Creek LP'] is a 50.10% 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.

- Chaudiere Water Power Inc. ['CWPI'] is a 66.67% 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 *Chartered Professional Accountants Canada 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 intercompany balances and transactions have been eliminated in these consolidated financial statements.

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 18 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 consolidated financial statements provisional amounts for the items for which the accounting is incomplete. Within one year, the Corporation will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as 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.

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 and unbilled revenue 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, 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 an incentive regulation mechanism ['IRM'] prescribed by the OEB. Under an IRM, a distributor first sets base rates through a cost-of-service application every four years. This application determines the appropriate revenue requirement to recover approved costs, and provides a rate of return on a deemed capital structure applied to approved rate base assets. For subsequent years in which no cost-of-service application is filed, rates are adjusted by an inflation factor less a productivity factor.

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.

Hydro Ottawa Limited 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. If the requirement for a provision becomes more likely than not, the Corporation will recognize the provision in operating costs for the period.

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.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2013
[in thousands of Canadian dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(f) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

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:

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

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

- 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.

Hydro Ottawa Holding Inc.

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

(f) Regulation [continued]

(i) Regulatory assets and liabilities [continued]

- In its Guidelines released January 5, 2012, the OEB required Hydro Ottawa Limited to record the difference between the actual authorized Conservation and Demand Management ['CDM'] activities and activities included in Hydro Ottawa Limited's load forecast. This variance is recorded in the Lost Revenue Adjustment Mechanism variance account.

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

(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 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.

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]

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

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.

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 that has not yet been billed at year end.

(iv) Generation revenues

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]

(g) Revenue recognition [continued]

(v) Other revenue

Other revenue related to the provision of services is recognized as services are rendered. Other revenue includes contract revenue, commercial services revenue and conservation and demand management ['CDM'] revenue.

Contract revenue and commercial services revenue are accounted for using the percentage-of-completion method, whereby revenue and the corresponding costs are recognized proportionately with the degree of completion of the services under contract. Losses on contracts are fully recognized when they become evident. CDM revenue stems from the delivery of provincial government programs that promote conservation and is recognized on a cost-recovery basis.

(h) Bank indebtedness

Bank indebtedness includes short-term advances and/or 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, customer deposits 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.

Hydro Ottawa Holding Inc.

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

(j) Property, plant and equipment

Property, plant and equipment consist principally of electricity distribution infrastructure, generating plant and equipment, 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.

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. The Corporation's primary measure of fair value is based on discounted cash flows.

(k) Intangible assets

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

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
December 31, 2013
[in thousands of Canadian dollars]

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(k) Intangible assets [continued]

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 computer software under development are not subject to amortization.

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.

Hydro Ottawa Holding Inc.

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

(m) Employee future benefits [continued]

(i) Pension plans [continued]

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

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.
- 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 estimates. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are recognized in income immediately, however for Hydro Ottawa Limited, these amounts are deferred as a regulatory asset or liability as permitted by the OEB.

2. SIGNIFICANT ACCOUNTING POLICIES [CONTINUED]

(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.

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

(p) Debt-issuance costs

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

3. FUTURE CHANGES IN ACCOUNTING POLICIES

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises ['PAEs'] would 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.

On the original transition date, IFRS did not contain a standard governing rate-regulated activities ['RRA']. Due to the significance of this issue in Canada, the AcSB postponed the original IFRS transition date to January 1, 2015 for qualifying entities with RRA pending the completion of an interim standard by the International Accounting Standards Board [‘IASB’]. Until January 1, 2015, qualifying entities are permitted to continue reporting under pre-changeover Canadian GAAP.

On January 30, 2014, the IASB issued interim standard IFRS 14 - Regulatory Deferred Accounts ['IFRS 14'] which permits rate-regulated entities that have not yet transitioned to IFRS to use its existing RRA practices. This standard is effective January 1, 2016 with early adoption permitted. The Corporation will adopt IFRS and early adopt IFRS 14 on January 1, 2015.

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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4. ACCOUNTS RECEIVABLE

		2013		2012
Electricity receivables, net of allowance for doubtful accounts of $1,919 [2012 – $1,411]	**$**	**52,125**	$	52,449
Other receivables, net of allowance for doubtful accounts of $66 [2012 – $139]		**11,954**		17,159
Amounts due from related parties [Note 24]		**6,197**		5,800
	$	**70,276**	$	75,408

5. UNBILLED REVENUE

		2013		2012
Unbilled revenue	**$**	**106,757**	$	90,003
Less allowance for doubtful accounts		**(206)**		(68)
	$	**106,551**	$	89,935

6. 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 regulatory assets and liabilities is as follows:

		2013		2012
Regulatory assets				
Deferred smart meter costs	**$**	**-**	$	1,939
OPEB deferral account [Note 13]		**3,109**		4,977
Settlement variances		**5,527**		-
RARA		**475**		253
Other		**3,361**		2,403
		12,472		9,572
Less current portion		**(31)**		(1,969)
Total non-current regulatory assets	**$**	**12,441**	$	7,603

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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6. REGULATORY ASSETS AND LIABILITIES [CONTINUED]

		2013		2012
Regulatory liabilities				
Settlement variances	**$**	**27,374**	$	39,917
Deferred smart meter costs		**1,045**		-
RLRA		**2,002**		678
Other		**1,667**		1,646
		32,088		42,241
Less current portion		**(19,173)**		(22,097)
Total non-current regulatory liabilities	**$**	**12,915**	$	20,144

(a) Regulatory asset/liability refund accounts

The RARA/RLRA is the net aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition and includes accrued interest costs up to December 31, 2013 of $178 [2012 – interest cost of $107] less amounts already settled through distribution rates.

On December 5, 2013, the OEB approved the disposition of regulatory liabilities of $19,173, consisting of settlement variances and low voltage variance account accumulated up to December 31, 2012. The December 5, 2013 approved disposition will be transferred to RLRA on January 1, 2014, which is when this disposition is effective in rates.

(b) Settlement variances

Settlement variances include accrued interest costs of $284 [2012 – $458].

(c) Other

Other variance and deferred costs include accrued interest earned of $34 [2012 –- $13].

(d) Income before PILs

In the absence of rate regulation, the income before PILs for the year ended December 31, 2013 would be lower by $13,052 [2012 – higher by $12,305].

(e) Recovery of regulatory asset write-down

In 2013, the Corporation recorded a recovery of regulatory asset write-down of nil [2012 – $679].

[in thousands of Canadian dollars]

7. PROPERTY, PLANT AND EQUIPMENT

	2013		
	Cost	**Accumulated depreciation**	**Net book value**
Land	**$ 31,252**	**$ -**	**$ 31,252**
Buildings and fixtures	**87,132**	**22,206**	**64,926**
Furniture and equipment	**18,121**	**11,904**	**6,217**
Rolling stock	**24,754**	**15,455**	**9,299**
Electricity distribution infrastructure	**1,131,820**	**437,739**	**694,081**
Generating plant and equipment	**56,445**	**14,559**	**41,886**
Reservoirs, dams and waterways	**19,293**	**222**	**19,071**
Assets under construction	**44,861**	**-**	**44,861**
	1,413,678	**502,085**	**911,593**
Contributions in aid of construction	**(234,318)**	**(48,381)**	**(185,937)**
	$ 1,179,360	**$ 453,704**	**$ 725,656**

	2012		
	Cost	Accumulated depreciation	Net book value
Land	$ 11,639	$ -	$ 11,639
Buildings and fixtures	78,076	20,135	57,941
Furniture and equipment	20,945	15,152	5,793
Rolling stock	23,708	15,648	8,060
Electricity distribution infrastructure	1,045,845	414,664	631,181
Generating plant and equipment	43,912	12,361	31,551
Reservoirs, dams and waterways	19,144	112	19,032
Assets under construction	74,698	-	74,698
	1,317,967	478,072	839,895
Contributions in aid of construction	(214,046)	(43,891)	(170,155)
	$ 1,103,921	$ 434,181	$ 669,740

During the year, the Corporation capitalized an AFUDC of $1,330 [2012 – $1,751] to property, plant and equipment and credited financing costs [Note 20]. The average annual interest rate for 2013 was 4.5% [2012 – 4.8%].

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 $11,485 [2012 – $12,859], of which $11,485 [2012 –- $11,674] represent amounts included in accounts payable and accrued liabilities and nil [2012 – $1,185] in construction holdbacks, also included in accounts payable and accrued liabilities as at December 31, 2013.

Hydro Ottawa Holding Inc.

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7. PROPERTY, PLANT AND EQUIPMENT [CONTINUED]

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, 2013, the unamortized balance of the non-repayable funding received of $41 [2012 – $44] is included in contributions in aid of construction. The current portion of the remaining repayable balance amounts to $12 [2012 – $12] and is included in accounts payable and accrued liabilities, while the long-term portion in the amount of $29 [2012 – $41] is included in other liabilities.

8. INTANGIBLE ASSETS

	2012	Acquisitions	Retirements	2013
Cost				
Land rights	$ 3,135	**$ 2**	**$ -**	**$ 3,137**
Power purchase agreement	4,578	**-**	**-**	**4,578**
Line connection contributions	3,614	**354**	**-**	**3,968**
Computer software	64,073	**2,167**	**(5,265)**	**60,975**
Water rights	16,941	**-**	**-**	**16,941**
Computer software under development	13,690	**20,246**	**-**	**33,936**
	$ 106,031	**$ 22,769**	**$ (5,265)**	**$ 123,535**

	2012	Amortization	Retirements	2013
Accumulated amortization				
Land rights	$ 1,310	**$ 49**	**$ -**	**$ 1,359**
Power purchase agreement	81	**700**	**-**	**781**
Line connection contributions	974	**70**	**-**	**1,044**
Computer software	51,879	**7,611**	**(5,265)**	**54,225**
	$ 54,244	**$ 8,430**	**$ (5,265)**	**$ 57,409**

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2013			
Land rights	**$ 3,137**	**$ 1,359**	**$ 1,778**
Power purchase agreement	**4,578**	**781**	**3,797**
Line connection contributions	**3,968**	**1,044**	**2,924**
Computer software	**60,975**	**54,225**	**6,750**
Water rights	**16,941**	**-**	**16,941**
Computer software under development	**33,936**	**-**	**33,936**
	$ 123,535	**$ 57,409**	**$ 66,126**

Hydro Ottawa Holding Inc.

Notes to the Consolidated Financial Statements
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8. INTANGIBLE ASSETS [CONTINUED]

	2011	Acquisitions	Retirements	2012
Cost				
Land rights	$ 3,125	$ 10	$ -	$ 3,135
Power purchase agreement	-	4,578	-	4,578
Line connection contributions	3,583	31	-	3,614
Computer software	61,493	2,580	-	64,073
Water rights	-	16,941	-	16,941
Computer software under development	3,801	9,889	-	13,690
	$ 72,002	$ 34,029	$ -	$ 106,031

	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	3,583	974	2,609
Computer software	64,073	51,879	12,194
Water rights	16,941	-	16,941
Computer software under development	13,721	-	13,721
	$ 106,031	$ 54,244	$ 51,787

Water rights and the power purchase agreement were acquired from Domtar Inc. November 20, 2012 [Note 18].

During the year, the Corporation capitalized an AFUDC of $1,081 [2012 – $305] to intangible assets and credited financing costs [Note 20]. The average annual interest rate for 2013 was 4.5% [2012 – 4.8%].

There was no impairment of intangible assets for the years ended December 31, 2013 and 2012.

Hydro Ottawa Holding Inc.

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8. INTANGIBLE ASSETS [CONTINUED]

The Corporation 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 $729 [2012 – $2,119], which represent amounts included in accounts payable and accrued liabilities at year end.

9. CREDIT FACILITY

During the year, the Corporation renewed its credit facility for a revised amount of $193,500 [2012 – $193,650]. The facility is now structured into four types of credit availability and consists of a $75,000 [2012 – $75,000] 364-day revolving operating line which matures on August 2, 2014, a $100,000 [2012 – $100,000] revolving line to fund capital expenditures and growth opportunities which matures on August 2, 2015, a $17,500 [2012– $17,500] line to fund letters of credit and other guarantees and a $1,000 [2012 – $1,000] commercial card facility. The revolving operating line can be used by way of direct advances and/or bankers' acceptances. 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. The Corporation has cancelled its $150 corporate Visa facility which existed in the previous year.

As at December 31, 2013, the Corporation had drawn $4,950 in direct advances against the operating line, and nil against the capital line [2012 – $60,000 in bankers' acceptances against the operating line and $14,000 in bankers' acceptances against the capital line]. The facility allows for continuous renewal of operating and capital bankers' acceptances with maturities of 7 to 180 days. The Corporation has also drawn $16,000 [2012 – $16,000] against its facilities in standby letters of credit.

On October 12, 2013, PowerTrail renewed its existing credit facility for $200 [2012 - $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, 2013, PowerTrail had drawn an amount of $133 [2012 – $133] in standby letters of credit against this facility.

CWPI maintains a credit facility consisting of a $500 [2012 - $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 with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2013, CWPI had not drawn this operating line [2012 – $19].

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Purchased power payable	**$ 67,033**	$ 62,813
Trade accounts payable and accrued liabilities	**43,377**	45,569
Customer deposits	**14,307**	15,174
Customer credit balances	**7,363**	9,146
Due to related parties [Note 24]	**268**	89
	$ 132,348	$ 132,791

Hydro Ottawa Holding Inc.

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11. OTHER LIABILITIES

	2013	2012
Non-current customer deposits	$ 13,085	$ 11,782
Non-current repayable grant [Note 7]	29	41
Asset retirement obligations [Note 12]	300	438
	$ 13,414	$ 12,261

12. ASSET RETIREMENT OBLIGATIONS

	2013	2012
Balance, beginning of year	$ 438	$ 627
Liabilities settled during the year	(141)	(203)
Accretion expense	26	19
Revisions in estimated cash flows	(23)	(5)
	$ 300	$ 438

As at December 31, 2013, the Corporation estimates an asset retirement obligation ['ARO'] of $300 [2012 – $438] 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 two years [2012 – one year] totalling $357 [2012 – $498] and a discount rate of 5.3% [2012 – 5.3%]. No assets have been legally restricted for settlement of the liability.

13. EMPLOYEE FUTURE BENEFITS

(a) Pension plans

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

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2013 amounted to $5,939 [2012 – $5,008].

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 as described in Note 18, 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 pending registration with the Financial Services Commission of Ontario is complete. The Corporation retains all risks and rewards of the plan assets awaiting to be transferred to CHPP and remains liable for the benefits accruing to its members from November 20, 2012 and onward.

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13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plan [continued]

Information about the Chaudiere Hydro Pension Plan is as follows:

(i) Accrued benefit obligation

	2013	2012
Balance, beginning of period	**$ 3,573**	$ 3,538
Current service cost	**264**	19
Interest cost on accrued benefit obligation	**151**	16
Benefit payments and administrative expenses	**(102)**	-
Actuarial gains	**(293)**	-
Balance, end of period	**$ 3,593**	$ 3,573

(ii) Plan assets

	2013	2012
Fair value, beginning of period	**$ 4,047**	$ 4,019
Actual return on plan assets	**48**	21
Employer contributions	**190**	-
Benefit payments and administrative expenses	**(102)**	-
Employee contributions	**99**	7
Fair value, end of period	**$ 4,282**	$ 4,047

(iii) Funded status

	2013	2012
Retirement benefit asset, beginning of period	**$ 474**	$ 481
Change in retirement benefit asset	**215**	(7)
Retirement benefit asset, end of period	**$ 689**	$ 474

Hydro Ottawa Holding Inc.

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13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(a) Pension plan [continued]

No valuation allowance has been recorded by the Corporation as at December 31, 2013 or 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% [2012 – 2.0%], an expected return on plan assets of 4.8% [2012 – 4.7%] and a discount rate of 4.8% [4.0%] to calculate the liabilities.

(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% [2012 – 2% to 3.1%] and a discount rate of 4.8% [2012 – ranging from 3.8% to 4.6%] to calculate the liabilities. The valuations also includes several other economic and demographic assumptions including mortality rates. The mortality assumption at December 31, 2013 has been updated resulting in an actuarial remeasurement of employee future benefits. The mortality assumption is now based on the most recent Canadian Pensioners Mortality information published by the Canadian Institute of Actuaries in July 2013.

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

		2013	
	Accumulated liability	**Expense for the year**	**Benefits paid**
Life, medical and dental insurance	**$ 5,650**	**$ 564**	**$ 434**
Retirement grant provision	**927**	**83**	**21**
Sick leave	**5**	**-**	**-**
	6,582	**647**	**455**
Accrued benefit obligation	**9,691**		
Deferred actuarial loss	**$ (3,109)**		

		2012	
	Accumulated liability	Expense for the year	Benefits paid
Life, medical and dental insurance	$ 5,605	$ 612	$ 510
Retirement grant provision	865	80	32
Sick leave	5	-	-
	6,475	692	542
Accrued benefit obligation	11,452		
Deferred actuarial loss	$ (4,977)		

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13. EMPLOYEE FUTURE BENEFITS [CONTINUED]

(b) Employee future benefits other than pension plans [continued]

An actuarial extrapolation was performed as at December 31, 2013. As a result of this exercise, the Corporation decreased the projected benefit obligation by $1,761 [2012 – increased by $1,509].

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities amounts to $626 [2012 – $672] and the non-current portion was $9,065 [2012 – $10,780].

14. NOTES PAYABLE

	2013	2012
4.930% senior unsecured debentures, Series 2005-1, due on February 9, 2015	**$ 199,762**	$ 199,548
4.968% senior unsecured debentures, Series 2006-1, due on December 19, 2036	**49,762**	49,751
3.991% senior unsecured debentures, Series 2013-1, due on May 14, 2043	**148,869**	-
IGRS promissory note	**2,360**	2,780
	400,753	252,079
Less current portion of IGRS promissory note	**(340)**	(620)
	$ 400,413	$ 251,459

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.

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.

On May 14, 2013, the Corporation issued $150,000 in 3.991% senior unsecured debentures, Series 2013-1, due on May 14, 2043. The debentures bear interest at a rate of 3.991% per annum, payable semi-annually in arrears in equal instalments on November 14 and May 14, which commenced November 14, 2013.

Each of the above 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 the debenture. Each debenture contains customary covenants and events of default, including a covenant to ensure that the aggregate principal amount of the consolidated funded obligations does not exceed 75% of the total consolidated capitalization. Interest payments on these debentures over the next five years will be $18,331 in 2014, $13,401 in 2015 and $8,471 in 2016, 2017 and 2018.

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. During the year, PowerTrail made $420 [2012 – $300] in repayments to IGRS and intends to repay an additional $340 on this note in 2014. Management of IGRS has confirmed that it does not intend to call the remaining $2,020 in 2014.

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15. CAPITAL DISCLOSURES

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

- Ensure continued access to funding to maintain and improve the operations and infrastructure of the Corporation;
- Ensure compliance with covenants related to the credit facilities and senior unsecured debentures; and
- Align Hydro Ottawa Limited's capital structure with the debt-to-equity structure recommended by the OEB.

The Corporation's capital consists of the following:

	2013	2012
Bank indebtedness	**$ 8,853**	$ 77,357
Notes payable	**400,753**	252,079
Total debt	**409,606**	329,436
Shareholder's equity	**381,726**	366,695
Total capital	**$ 791,332**	$ 696,131
Debt capitalization ratio	**52 %**	47 %

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

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

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

16. 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.

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16. SHARE CAPITAL [CONTINUED]

(b) Issued

	2013	2012
214,901,003 Class A common shares	**$ 228,453**	$ 228,453

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

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 4, 2013, the Board of Directors declared an $18,600 dividend to the City of Ottawa, which was paid on April 10, 2013 [2012 – April 3, the Board of Directors declared a $16,600 dividend to the City of Ottawa, which was paid on April 5, 2012].

On May 1, 2008, TOHI sold the shares of both its subsidiaries creating a balance in its refundable dividend tax on hand ['RDTOH'] account. On December 5, 2013, TOHI paid an intercompany dividend to the Corporation to recover its RDTOH balance. This amount is included in payments in lieu of corporate income taxes receivable on the consolidated balance sheet at year end and has been removed from the change in payments in lieu of corporate taxes receivable/payable on the statement of cash flows.

17. NON-CONTROLLING INTEREST

The non-controlling interest as at December 31, 2013 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 [49.90%] [2012 – 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 [effective November 20, 2012].

During 2013, Moose Creek LP issued 1,002,000 Class A units and 998,000 Class B units to its limited partners [Energy Ottawa and IGRS] at a price of one dollar per unit, respectively. These issuances were made to fund the completion of Moose Creek LP's gas collection and generation plant and to provide sufficient working capital during the initial stage of operations.

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18. 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 included 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 was accounted for as an acquisition of a business under Section 1582 Business Combinations of pre-changeover Canadian GAAP. The acquisition has brought the Corporation 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.

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

	Acquisition date fair value
Land	$ 6,256
Buildings and fixtures	1,900
Generating plant and equipment	8,494
Reservoirs, dams and waterways	8,050
Power purchase agreement	4,578
Water rights	16,941
Prepaids	62
Retirement benefit asset	481
Accounts payable and accrued liabilities	(163)
Employee future benefits	(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 were 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 were expensed in operating costs in the previous year. In addition, $313 of operating costs relating to repairs and maintenance were expensed in the previous year as they did not meet the criteria of an asset. From the date of acquisition to December 31, 2012, the assets acquired contributed $1,011 of revenue and $204 of net income. As the Corporation did not have access to the financial information of Domtar Inc., it was 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 shares in CWPI 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.

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18. ACQUISITION OF ASSETS [CONTINUED]

Due to the timing of this acquisition, the retirement benefit asset and employee future benefits were provisional and subject to change. Measurement was finalized in 2013 and no significant adjustments were necessary. Moreover, in 2013, reclass adjustments totaling $1,400 were made out of generating plant and equipment and into buildings and fixtures to more accurately portray the componentization of the assets acquired. As a result, the fixed asset information presented for comparative year purposes has been reclassified to conform to such presentation adopted for the current year.

19. 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, 2013 as amounting to $414,176 [2012 – $264,955]. The fair value has been determined based on discounting all future payments of interest and the principal repayments on February 9, 2015, December 19, 2036 and May 14, 2043 at the estimated interest rate of 4.0% [2012 – 4.0%] that would be available to the Corporation on December 31, 2013.

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.

(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, 2013, the Corporation has nil [2012 – $60,000] of outstanding bankers' acceptances on its operating line. Borrowing requirements on this line are typically for a short duration as 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.

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19. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(i) Market risk [continued]

As at December 31, 2013, the Corporation has nil [2012 – $14,000] of outstanding bankers' acceptances on its capital line. Borrowing requirements on this line are typically for a short duration as advances serve 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, 2013, 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 accounts payable denoted in foreign currencies is not material.

As at December 31, 2013, 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 approximately 315,000 customers, the majority of which are residential. As a result, the Corporation did not earn a significant amount of revenue and does not have a significant receivable from any individual customer.

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 a payment arrangement, 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. Hydro Ottawa Limited continues to hold collateral to support customer accounts receivable on non-residential accounts. As at December 31, 2013, the Corporation held security deposits related to power recovery and distribution sales in the amount of $14,514 [2012 – $12,882].

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.

[in thousands of Canadian dollars]

19. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(ii) Credit risk [continued]

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 assessment 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 operating costs in the consolidated statement of income, comprehensive income and retained earnings. As at December 31, 2013, the allowance for doubtful accounts was $2,191 [2012 – $1,618] 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:

	2013	2012
Accounts receivable	**$ 72,261**	$ 76,958
Total unbilled revenue	**106,757**	90,003
Less allowance for doubtful accounts	**(2,191)**	(1,618)
	176,827	165,343
Of which:		
Outstanding for 30 days or less	**64,637**	69,595
Outstanding for more than 30 days but not more than 120 days	**5,665**	5,845
Outstanding for 120 days or more	**1,959**	1,518
Unbilled revenue	**106,757**	90,003
Less allowance for doubtful accounts	**(2,191)**	(1,618)
	$ 176,827	$ 165,343

As at December 31, 2013, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 10% [2012 – 10%] 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 9, are maintained to meet obligations as they come due while minimizing standby fees and interest.

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19. FINANCIAL INSTRUMENTS [CONTINUED]

(b) Risk factors [continued]

(iii) Liquidity risk [continued]

Liquidity risks associated with financial commitments are as follows:

	2013		
	Due within 1 year	**Due between 1 year and 5 years**	**Due after 5 years**
Bank indebtedness	**8,853**	**$ -**	**$ -**
Accounts payable and accrued liabilities	**132,348**	**-**	**-**
Notes payable			
4.930% senior unsecured debentures, Series 2005-1	**-**	**199,762**	**-**
4.968% senior unsecured debentures, Series 2006-1	**-**	**-**	**49,762**
3.991% senior unsecured debentures, Series 2013-1	**-**	**-**	**148,869**
IGRS promissory note	**340**	**2,020**	**-**
	$ 141,541	**$ 201,782**	**$ 198,631**

20. FINANCING COSTS

	2013	2012
Interest on notes payable	**$ 16,404**	$ 12,593
Short-term interest and fees, net of interest income	**652**	564
Less AFUDC	**(2,411)**	(2,056)
	$ 14,645	$ 11,101

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21. 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:

	2013	2012
Federal and Ontario statutory income tax rate	**26.50 %**	26.50 %
Income before provision for PILs	**$ 41,958**	$ 40,209
Provision for PILs at statutory rate	**$ 11,119**	$ 10,655
Increase (decrease) resulting from:		
Permanent differences	**1,093**	952
Impact of changes to expected future tax rates on opening temporary differences	**-**	(636)
Regulatory offset to temporary differences and changes in future tax rates	**(3,001)**	(996)
Future tax benefit recognized on actuarial gains (losses) recorded in OPEB deferral account	**495**	(1,319)
Prior year adjustments	**(58)**	412
Tax credits	**(162)**	(249)
Change in valuation allowance	**42**	19
Other	**(118)**	90
	$ 9,410	$ 8,928
Effective income tax rate	**22.43 %**	22.20 %

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:

	2013	2012
Current PILs corporate income tax provision	**$ 8,126**	$ 8,257
Future PILs corporate income tax provision		
Future income tax provision before regulatory adjustment	**5,367**	1,632
Regulatory adjustment for the recovery of future income tax provision	**(4,083)**	(961)
	$ 9,410	$ 8,928

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21. 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:

		2013		2012
Assets				
Future income tax assets, current	**$**	**818**	$	628
Future income tax assets, non-current		**19,947**		24,222
		20,765		24,850
Liabilities				
Future income tax liabilities, non-current		**(6,464)**		(5,179)
	$	**14,301**	$	19,671

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

		2013		2012
Property, plant and equipment and intangible assets	**$**	**9,844**	$	14,295
Employee future benefits		**3,354**		3,990
Non-capital loss carryforwards		**697**		909
Other temporary differences		**406**		477
	$	**14,301**	$	19,671

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:

		2013		2012
Regulatory liability for future income tax assets, current	**$**	**818**	$	628
Regulatory liability for future income tax assets, non-current		**19,893**		24,165
	$	**20,711**	$	24,793

The Corporation did not have any unused non-capital tax losses at December 31, 2013 or December 31, 2012. At December 31, 2013, the Corporation had capital losses of $700 [December 31, 2012 – $700] which have not been recognized in the consolidated financial statements.

As at December 31, 2013, Energy Ottawa had corporate minimum tax ['CMT'] carryforwards of nil [2012 – $190].

As at December 31, 2013, PowerTrail had non-capital tax loss carryforwards of $2,627 [2012 – $3,392]. These losses expire between 2026 and 2030.

Hydro Ottawa Holding Inc.

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December 31, 2013
[in thousands of Canadian dollars]

22. 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, 2013, the Corporation had drawn standby letters of credit in the amount of $16,000 [2012 – $16,000] against its credit facility to cover its prudential support obligation.

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

In December 2012, Hydro Ottawa Limited was charged with five charges under the Occupational Health and Safety Act with respect to an incident occurring on March 22, 2012, which resulted in the fatality of an employee of a third party subcontractor. No charges have been or can be brought against directors, officers or employees arising from this incident. The maximum fine for each count is $500. Hydro Ottawa Limited, through external counsel, is defending the charges. At this time, it is not possible to quantify the effect, if any, of these charges on these consolidated financial statements.

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.

23. COMMITMENTS

Hydro Ottawa Limited has $40,714 in total open commitments, of which $32,312 are for 2014, $6,806 for 2015, $1,552 for 2016, $44 for 2017 and nil for 2018. 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.

Moose Creek LP is committed, under a Gas Utilization and Lease Agreement with a third party, to provide a royalty on its gross generation revenues ranging from 4% to 12% through 2033. These royalties are based on certain annual net generation thresholds as defined within the agreement and in 2013 was 6% [2012 – N/A as operations had not yet commenced]. In exchange, the third party provides the use of land for the collection and use of gas generated by the Laflèche landfill site.

Hydro Ottawa Holding Inc.

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23. COMMITMENTS [CONTINUED]

The operating lease obligations of the Corporation are as follows:

2014	$	101
2015		133
2016		126
2017		118
2018		114
Thereafter		1,566
	$	2,158

24. 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.

	2013 Transactions during the year		2013 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]	**$ 33,852**	**$ -**	**$ -**	**$ -**
Commercial energy services [2]	**3,584**	**-**	**-**	**-**
Other services [2]	**7,684**	**-**	**-**	**-**
Fuel, permits and other services [3]	**-**	**1,183**	**-**	**-**
Property taxes [3]	**-**	**2,053**	**-**	**-**
Royalties [3]	**-**	**176**	**-**	**-**
Conservation and demand management initiatives[3]	**-**	**57**	**-**	**-**
Accounts receivable	**-**	**-**	**6,197**	**-**
Accounts payable and accrued liabilities	**-**	**-**	**-**	**268**
	$ 45,120	**$ 3,469**	**$ 6,197**	**$ 268**

[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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[in thousands of Canadian dollars]

24. RELATED PARTY TRANSACTIONS [CONTINUED]

	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

25. SUBSEQUENT EVENTS

On February 7, 2014, Energy Ottawa's subsidiary Chaudiere Hydro L.P., was granted a forty year Hydroelectric Standard Offer Program – Municipal Stream Contract ['HESOP Contract'] by the OPA to produce renewable waterpower. As a result of this contract, Chaudiere Hydro L.P. will expand its generation facilities increasing Energy Ottawa's total capacity from 38 megawatts to 58 megawatts [‘Chaudiere expansion’]. The Chaudiere expansion will require a significant investment, and have a significant impact on the operations of this entity in the coming years. The anticipated commercial operation date is in the fourth quarter of 2017.

26. COMPARATIVE FIGURES

In certain instances, the 2012 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 corporate and division objectives, both financial and non-financial, which are established each year by the Board of Directors. Non-financial targets are designed to achieve continuous improvement in relation to a number of strategic objectives including, but not limited to, customer service, operational and organizational efficiency and effectiveness, and service reliability.

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

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

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

SUMMARY OF COMPENSATION

Officers of the Corporation

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER COMPENSATION ($)[4]
Bryce Conrad President and Chief Executive Officer	2013 2012 2011	$354,579 $344,230 $112,500[5]	N/A N/A N/A	$35,240 $15,734 $4,557
Geoff Simpson Chief Financial Officer	2013	$63,301[6]	N/A	$3,362
Norm Fraser Chief Operating Officer – Distribution and Customer Service	2013 2012 2011	$216,082 $215,919 $211,346	$73,900 $67,367 $89,629	$8,894 $8,714 $9,058
Gregory Clarke Chief Operating Officer – Generation	2013 2012 2011	$175,116 $174,984 $171,256	$59,890 $52,535 $75,064	$8,687 $9,550 $8,545

1 Officers whose earnings are reported are those who occupied the position at December 31, 2013

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

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.

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

Board and Committee Meeting Attendance

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard* (Outgoing Chair)	2/2	7/7
Bryce Conrad (President and CEO)	6/6	N/A
Jim Durrell (Incoming Chair)	6/6	7/8
Dale Craig***	2/3	1/1
Manon Harvey	6/6	7/7
Peter Hume	5/6	1/1
Douglas McLarty	6/6	5/5
Maria McRae	5/6	1/1
Ford Ralph	6/6	7/7
Jim Watson	3/6	3/3
Ken Wigglesworth	6/6	7/7
Carole Workman	6/6	4/4

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard* (Outgoing Chair)	2/2	N/A
George Anderson*	2/2	2/2
Bryce Conrad (President and CEO)	6/6	N/A
Jim Durrell** (Incoming Chair)	4/4	N/A
Manon Harvey	6/6	N/A
Kalai Kalaichelvan**	4/4	2/2
Bob Monette	3/6	N/A
Phil Murray	6/6	4/4
Zaina Sovani	5/6	5/5

* Depicts outgoing Board members who departed in June 2013
** Depicts incoming Board members effective July 2013
*** Depicts incoming Board members effective October 2013

Members of the Board of Directors

Hydro Ottawa Holding Inc.*


Jim Durrell, C.M. (Chair)


Bryce Conrad


Dale Craig


Manon Harvey


Councillor Peter Hume


Douglas McLarty


Councillor Maria McRae


Ford Ralph


Mayor Jim Watson


Ken Wigglesworth


Carole Workman

Hydro Ottawa Limited*


Jim Durrell, C.M. (Chair)


Bryce Conrad


Manon Harvey


Kalai Kalaichelvan


Councillor Bob Monette


Phil Murray


Zaina Sovani

* As at December 31, 2013.

Note: George Anderson served on the Hydro Ottawa Limited Board of Directors from September 12, 2007 to June 30, 2013. Pierre Richard was first appointed to the Hydro Ottawa Holding Inc. Advisory Board on January 17, 2002, and was appointed to the Hydro Ottawa Holding Inc. Board of Directors on November 1, 2004, where he served as Chair until his departure in June 2013. Pierre was also appointed to the Hydro Ottawa Limited Board of Directors on July 1, 2006, and served as Chair from that time onwards. We wish to convey our sincere appreciation to both of these individuals 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 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.

CPA Canada Chartered Professional Accountants Canada represents the CPA 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 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).

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

Cash Sources and Uses

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

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

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






Hydro Ottawa @hydroottawa 3h
Very nice. RT @judithregion3: just saw hydro Ottawa going down our road. thank you to all the hydro workers helping us this weekend ^mb
Expand

Hydro Ottawa @hydroottawa 4h
Proud of our crews, who had a busy weekend restoring 15K people in Peterborough area affected by last Friday's storm. ow.ly/i/1TvRE

Hydro Ottawa @hydroottawa 4h
Nice! RT @markjhaug: SHOUT OUT to Hydro Ottawa for driving 9 trucks and people down to help @Pto_Canada #blessyou pic.twitter.com/9J2D76JpbT
View photo

Hydro Ottawa @hydroottawa 4h
RT @caltek79: Drove past 12+ Hydro Ottawa vehicles heading west on Fleming Drive. Help has arrived for those still without power. #onstorm

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