Holding Inc.

2011 Annual Report

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.

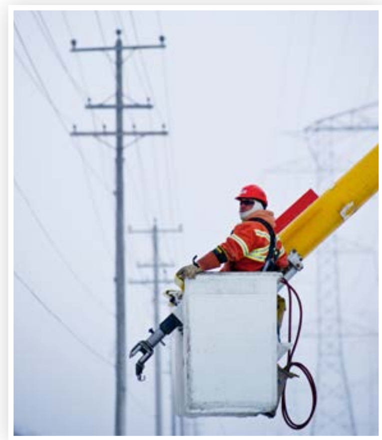
Hydro Ottawa is both a community asset and an investment for our shareholder, the City of Ottawa. As a community asset, our goal is to provide effective, efficient and reliable service to our customers, and to be a strong strategic partner for our City, helping to deliver on its economic development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

Table of Contents

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 2011, 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 305,000 residential and commercial customers across a service area of 1,104 square kilometres. As a condition of its distribution license, the company is required to meet conservation and demand management targets established by the Ontario Energy Board. Hydro Ottawa Limited added approximately 4,600 new customers to its distribution system in 2011, an increase of 1.5 percent, while the volume of electricity delivered through its distribution network increased by approximately 0.2 percent over the prior year. The company's capital assets grew by $32.6 million, or 6.1 percent.

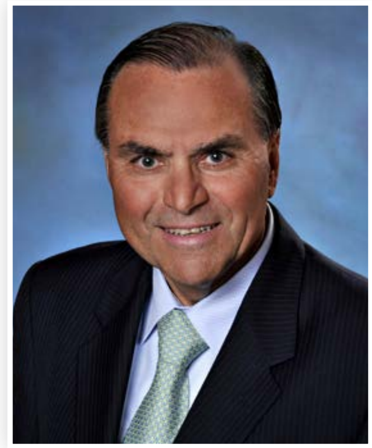
Energy Ottawa Inc.

Energy Ottawa is Ottawa's largest producer of green power, and a provider of commercial energy management services. Its run of the river hydro-electric facilities at Chaudière Falls in the city's core produce more than 125,000-megawatt hours (MWh) of EcoLogo certified green power. In addition, the Trail Road landfill gas-to-energy plant, a joint venture 60 percent owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. In total, Energy Ottawa's generation plants produced approximately 142,000 MWh of renewable energy in 2011—enough to meet the annual needs of approximately 17,000 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 600 dedicated employees, we are very pleased to provide this Annual Report to our shareholder, the City of Ottawa.

This report marks the final year we will report against our *2008-2012 Strategic Direction and Financial Outlook*. For the fourth consecutive year, Hydro Ottawa has surpassed the financial targets set out in the strategy. Over the first four years of the plan, normalized net income has exceeded projections by 24 percent, and dividends have been higher than target by 40 percent. Shareholder value has grown by more than $135 million. Over the period, Hydro Ottawa has paid over $52 million in income and capital taxes to senior levels of government, and over $7 million in property taxes to the City of Ottawa.



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

Given these strong cumulative results, we believe it is time to set new strategic goals. In 2012, we will develop a new strategy for 2012-2016, strengthening our commitment to enhancing customer value while growing our business.

During 2011, we maintained 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.

Our 2011 normalized net income of $27.6 million exceeded the strategic plan projection by $2.6 million; and the resulting dividend payment of $16.6 million to the City of Ottawa surpassed the strategic plan target by $1.6 million.

Over the past four years, our strong financial performance has been achieved through growth in revenues, as well as stringent cost control. In the most recent survey by the Ontario Energy Board, Hydro Ottawa is well within the top quartile of electricity distributors in terms of lowest cost per customer. In 2011, our operations, maintenance and administration costs came in $1.0 million below target.

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

Keeping costs under control results in affordable distribution rates for our more than 305,000 residential and commercial customers. Hydro Ottawa distribution rates for a typical residential customer have actually decreased by just over 10 percent since May 2010, mainly as a result of one-time rate credits approved by the Ontario Energy Board.

Overall, our continuing financial strength was a key factor in the confirmation by the major rating agencies of our "A" credit rating with a "Stable" trend.

While maintaining a strong focus on financial performance, we continue to build a customer-centred culture at Hydro Ottawa. In 2011, once again our customer satisfaction results outperformed the provincial average, and we continued to introduce customer service innovations to remain an industry leader in this area.

A major accomplishment during the year was the transition of all eligible customers to time-of-use billing, with almost no negative feedback. Our studies show that the first 4,000 customers on these rates achieved a small savings over the year.

Hydro Ottawa Holding Inc.

Energy conservation programs continue to be a key customer offering, as we work with businesses and homeowners to use electricity more efficiently, and to save money. Since the inception of the program in 2006, our customers have saved enough electricity to power about 52,000 homes for a year.

Reliability was a challenge in 2011, as a consequence of three major storms that caused widespread outages. As a result, we did not achieve our reliability targets for the year. To improve reliability, we made a gross increase in capital investments, from $83.2 million in 2010 to $99.7 million in 2011, an increase of $16.5 million. Our highest capital investment ever, it will help us strengthen our infrastructure and capture the benefits of new technologies.

On the electricity generation side of our business, revenues from the production of our green power stations increased during the year. We broke ground in 2011 on a new landfill gas-to-energy generating station, which will add to our renewable energy capacity. We are proud to be Ottawa's largest green power generator.

Safety remained a core value of Hydro Ottawa during the year. We lost only two days because of injuries—a remarkable achievement. In 2011, our employees worked 1.2 million hours without a new lost-time injury.

Being financially strong, providing customer value, and increasing our effectiveness as an organization are key values of Hydro Ottawa. Equally important is corporate citizenship. Our electricity, conservation and safety specialists represent us by speaking to schools and community groups, and many of our employees are community volunteers.

As good citizens, we try to strengthen the fabric of our community. Our employees and Hydro Ottawa donated almost $188,000 to the United Way Ottawa 2011 campaign—our workplace campaign is now the largest contributor in the Construction, Manufacturing and Services category. During the year, we launched the Brighter Tomorrows Fund to help social assistance agencies invest in improving the energy efficiency and comfort of their facilities. We also continued to support low income households needing help to pay their electricity bills, benefiting more than a thousand adults and children.

Hydro Ottawa's performance in 2011 was recognized through a number of awards, in the areas of customer service, environmental protection, employee and corporate giving, and employee engagement. For the fourth year in a row we were named one of Ottawa's top 25 employers, and we were also honoured to be named as one of Canada's 50 Greenest Employers.

We are pleased with our 2011 results, and to have exceeded the major financial targets over the first four years of the 2008-2012 strategic plan. It is time to raise the bar with a new strategy for the next five years.

Our future will continue to be characterized by technological change in the electricity industry, the evolving expectations of our customers, and the need to provide excellent value to our shareholder. We have created a strong foundation for our business. Hydro Ottawa is ready to turn its focus towards the new challenges and opportunities that await us.

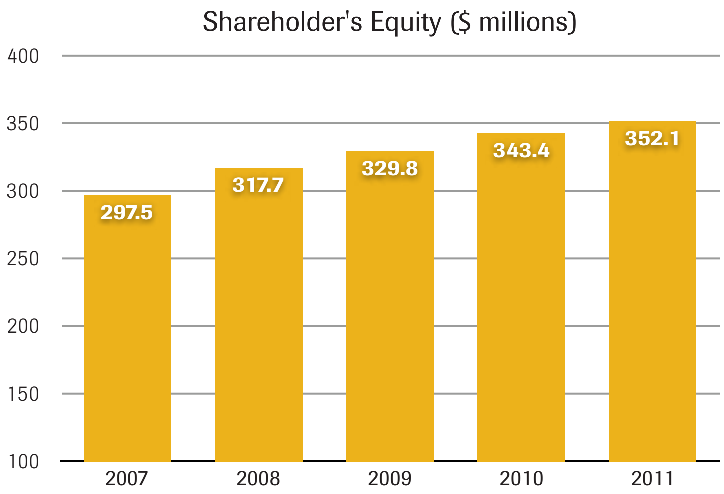
Sincerely,

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

Bryce Conrad
President and Chief Executive Officer

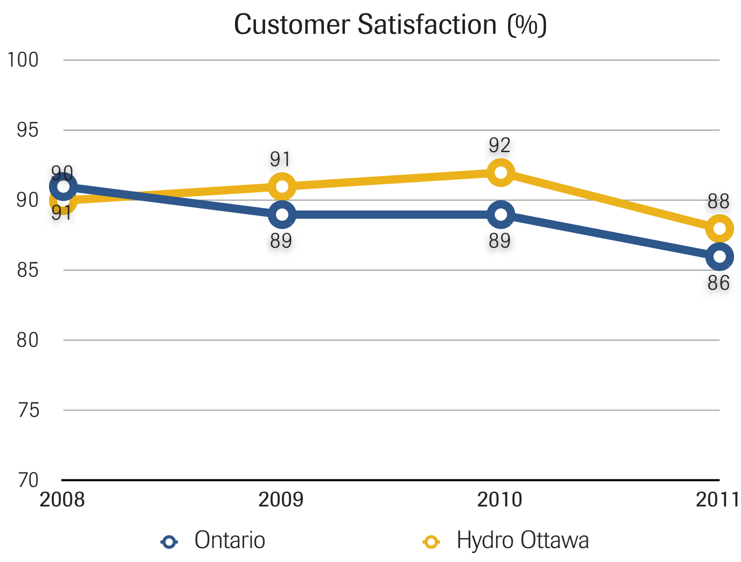
Performance Highlights

Over the past four years in which Hydro Ottawa has been guided by its *2008-2012 Strategic Direction and Financial Outlook*, the corporation has shown itself to be an industry leader in providing value to its shareholder, its customers, and its community.

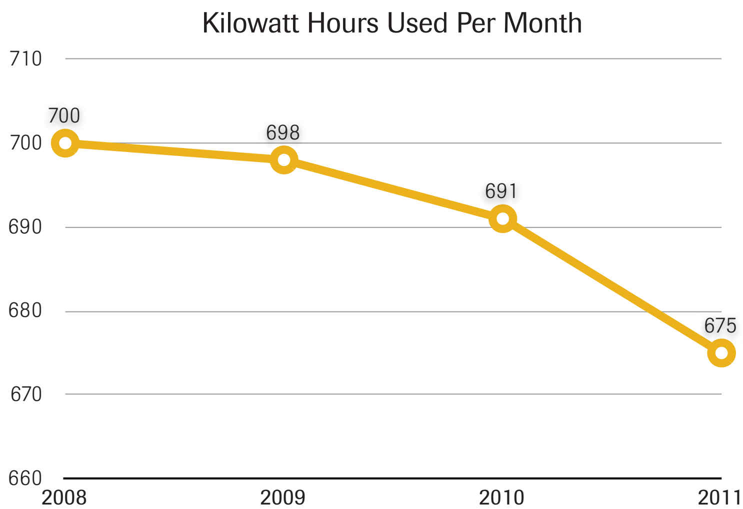


Through prudent financial management and continued investment in our assets, Hydro Ottawa has increased shareholder's equity by $54.6 million since the start of the *2008-2012 Strategic Direction and Financial Outlook*, in addition to the delivery of $80.9 million of dividends.

88 percent of customers expressed satisfaction with the service they received in 2011.



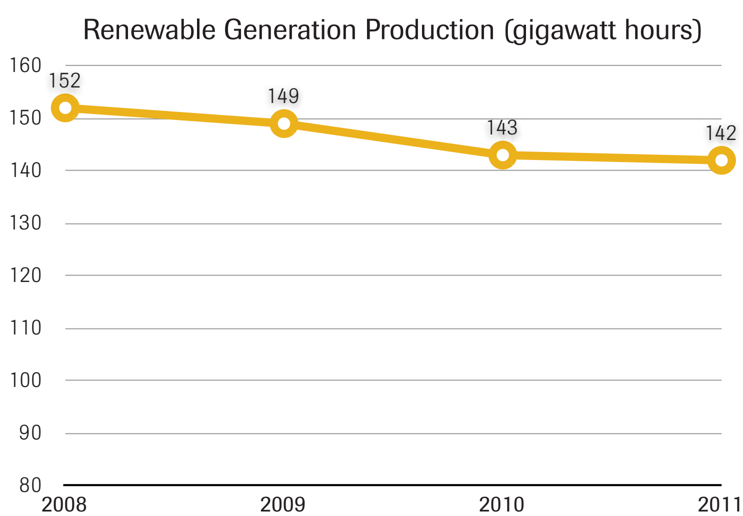
Hydro Ottawa has been measuring customer satisfaction through an independent, third-party survey for several years. Through a concerted focus on customer service, our scores continue to remain strong, and above the provincial average.



The average use of electricity by Ottawa households continues to decrease, saving money for customers. We offer targeted conservation programs for customers, and information on the benefits of conservation.

500 million kilowatt-hours saved so far through Hydro Ottawa's energy conservation programs, enough electricity to power about 52,000 homes for a year.

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



Energy Ottawa has a number of green energy projects in development, and is Ottawa's largest green energy provider.

* Generation output was reduced in 2010 and 2011 in response to requests by Public Works and Government Services Canada for forced outages to enable repairs at the Chaudière Bridge. Hydro Ottawa is to receive full compensation for the lost output.

Hydro Ottawa Holding Inc.

Hydro Ottawa's campaigns have raised more than $1 million in support of United Way/Centraide Ottawa over the past decade.

$342.4 million in investments in Hydro Ottawa's infrastructure since 2008.

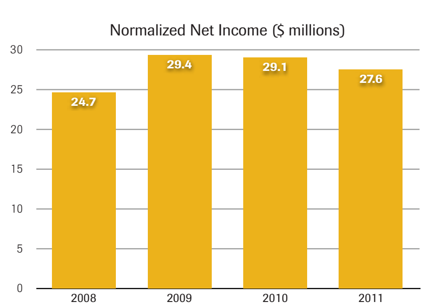
Modern technologies allow closer monitoring of Hydro Ottawa's distribution system, and increasingly, they enable system operators to remotely trouble-shoot problems and restore power more quickly.

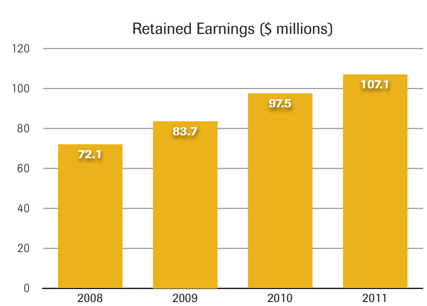
HydroOttawa Holding Inc.

Financial Highlights

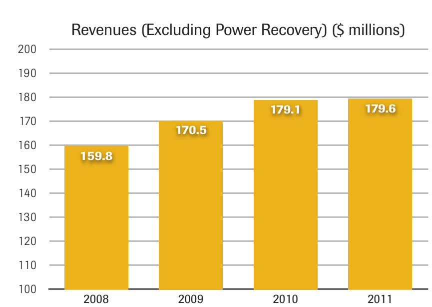
($ 000)	2011	2010
Revenues (thousands)		
Power recovery	663,855	624,414
Distribution sales	142,688	144,434
Other revenues	33,604	31,767
	840,147	799,615
Earnings from continuing operations		
EBITDA	93,964	100,341
EBIT	48,528	55,975
Net income	26,216	31,231
Sources (uses) of cash		
Generated from operations	99,627	70,993
Capital Assets	(99,164)	(79,882)
Financing	2,450	3,512
Ratios		
Working capital	1.39	1.45
Debt capitalization ratio	42:58	42:58
GWh consumption		
GWh consumption[1]	7,851	7,840

[1] *Purchased power*





Figures are adjusted for dividends paid in the following year. Hydro Ottawa has also delivered $80.9 million in dividends during this period.



Report on Operations

Introduction

Hydro Ottawa's 2011 Annual Report is the fourth to report against the company's *2008-2012 Strategic Direction and Financial Outlook*.

The goal of the *Strategic Direction* is to solidify Hydro Ottawa's position as a leading and trusted service provider, while capitalizing on an evolving industry landscape to become one of Canada's most successful integrated utilities.

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

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

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

Hydro Ottawa Holding Inc.

Financial Strength

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

Hydro Ottawa's financial performance remained strong during 2011. Our commitment is to provide sustained shareholder value, and to deliver effective and reliable service to our more than 305,000 customers, while keeping costs and distribution rates as low as possible.

Financial Results

Revenues for 2011 were $179.6 million, an increase of $0.5 million from 2010. Consolidated net income in 2011, normalized to exclude non-recurring items, was $27.6 million, down from $29.1 million in 2010.

Net income for 2011 surpassed the annual target established in our publicly-released 2008-2012 strategic plan by $2.6 million. Over the first four years of this plan, normalized net income has exceeded expectations by $21.4 million, or 24 percent.

Shareholder Value

For the first four years of the strategic plan, dividends have surpassed projections by $23.5 million, or 40 percent. Since 2005, Hydro Ottawa has delivered dividends of $121.3 million, including the $16.6 million dividend arising from 2011 performance, paid in April, 2012. Shareholder equity has grown by $104.3 million during that time.

Return on equity for the Hydro Ottawa Group of Companies was 7.5 percent in 2011. The Corporation continues to merit an "A" credit rating with a "Stable" trend. Hydro Ottawa's continuing favourable credit rating is a reflection of its low-risk financial policies and strong operational performance.

Rates and Cost Control

Since 2010, electricity distribution rates have decreased for Hydro Ottawa customers. The distribution rate for January 2012, approved in 2011, represents a decrease of 7 percent for an average residential customer using 800 kWh per month, and affects only the distribution portion of the bill, which is about 23 per cent of the total bill. This decrease results from one-time rate credits approved by our regulator, as well as cost management and productivity improvements across the Corporation over the past few years.

Our operations, maintenance and administration costs were below target by $1.0 million in 2011, in spite of unplanned maintenance and overtime costs incurred for power restoration from the major storms that affected the Ottawa region. Lower costs help us keep distribution rates down for customers.

Energy Management and Electricity Generation

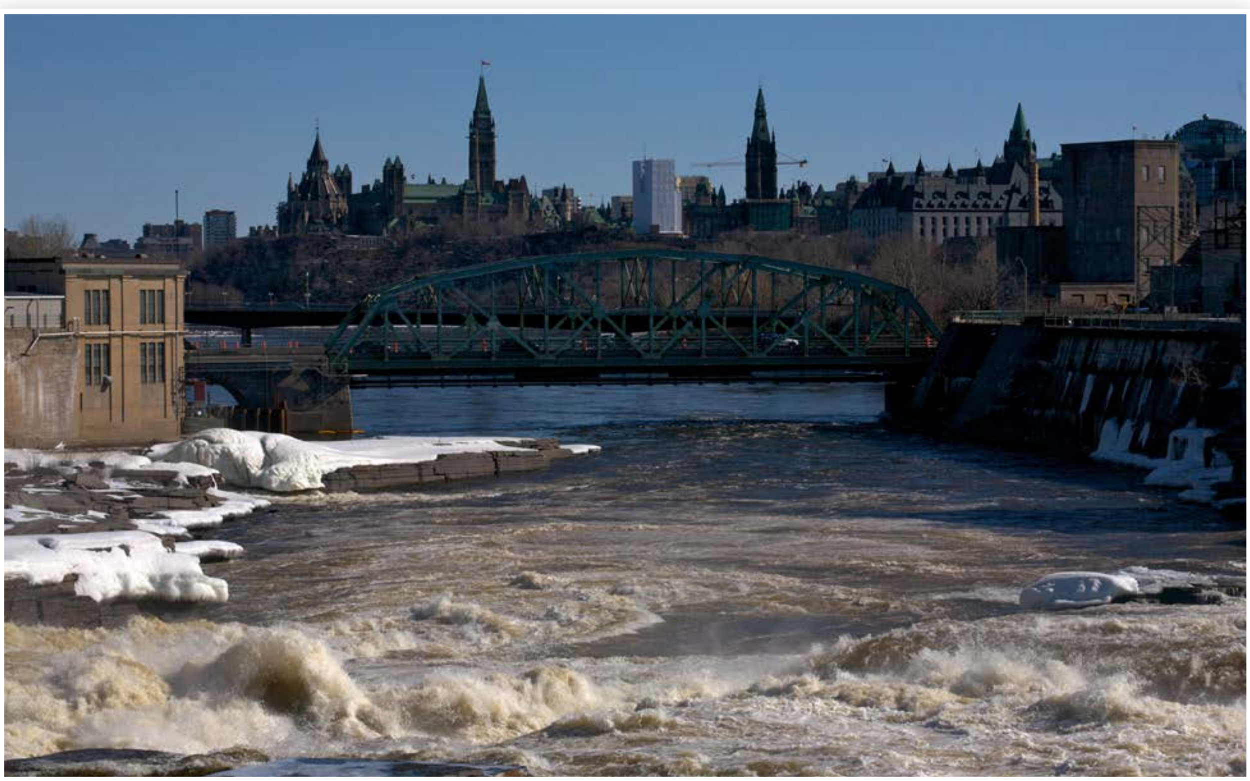
Revenues from energy management services were $3.9 million in 2011, with demand for energy management expertise in the commercial sector especially strong. Electricity generation was more than 142,000 megawatt-hours of green power; revenues from electricity generation increased by 5 percent in 2011. We continue to benefit from our long-term, fixed-price electricity generation contracts, which provide steadily growing returns.

During the year we began construction of a new 4.5 megawatt landfill gas-to-energy facility at the Laflèche Landfill site in Moose Creek, Ontario. This new electricity generating plant will create green electricity by converting millions of tonnes of methane gas from decomposing landfill waste into renewable electricity. With potential revenues of approximately $70 million over 20 years, the project is a partnership with Integrated Gas Recovery Services.

We have entered into an agreement with the City of Ottawa to develop a new solar energy park at the Trail Road Landfill site. Once constructed, it will have an electricity generating capacity of 12 megawatts, and will be capable of producing enough electricity to power 1,500 homes. In addition, we entered into an agreement with the City of Ottawa to install 20 rooftop solar systems on municipal buildings. Both projects are pending approval by the Ontario Power Authority.

We are also expanding our landfill-to-gas energy facility at the Trail Road Landfill site with the addition of a sixth generating unit to be operational in 2012.

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



Customer Value

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

What do customers want from their electricity provider? Invariably they tell us that they want a reliable supply of electricity at a reasonable cost, with helpful services.

In response, we strive to deliver an extremely reliable product, while keeping our distribution rates affordable, our service efficient and friendly, and our costs as low as possible. Providing excellent customer value means putting the customer first.

Service Quality and Customer Satisfaction

We continued to enhance our customer service during 2011. Customer survey results show that satisfaction with our call centre performance continued to improve, with year-over-year gains in courtesy, knowledge, first call resolution and overall satisfaction. Customer complaint escalations dropped 14 percent during 2011 to a record low.

We are determined to keep improving our customers' experiences with Hydro Ottawa through initiatives such as the *MyHydroLink* web portal. In 2011, we expanded the information provided on the web portal—including customer consumption data, current account balance, and options to register for pre-authorized payment and e-billing.

We also unveiled a new online Outage Map that shows the location of any outages, the estimated number of customers affected, the cause of the outage and the estimated time of restoration, when known. Updated every 15 minutes, this is another way to keep customers informed during outages.

Other customer services initiated during 2011 included enhancements to our telephone Interactive Voice Response system; and credit card payments for the convenience of our customers.

By harnessing technology, we're improving efficiency and delivering the added value that ultimately increases customer satisfaction. In 2011, enrolment in our *MyHydroLink* customer service portal increased by 42 percent to 66,000. More than 10,000 customers also enrolled in E-Billing in 2011, translating into a 60 percent increase.

During 2011, we moved all eligible customers to time-of-use pricing in a seamless manner. A recent Hydro Ottawa study showed that the average customer saved about 73 cents per month on time-of-use rates, compared to the traditional tiered rates. These results are based on analyzing bills for the first 4,000 customers billed on time-of-use rates over a one-year period .

Hydro Ottawa was honoured to be awarded the Electricity Distributors Association's Customer Service Excellence Award for its efforts in 2011, for our use of technology to improve efficiency and customer satisfaction.

We continue to outperform the industry average on customer satisfaction, and are focused on developing new and innovative programs for our customers.

Reliability

Hydro Ottawa has been one of the top performers in our industry over the past several years in maintaining high levels of supply reliability, and in restoring power quickly when outages do occur. In 2011, three major storms affected Ottawa in the spring and summer, causing widespread outages. As a result, our reliability indicators were negatively impacted.

On April 28, 2011 a severe wind storm caused extensive damage to Hydro Ottawa's distribution system. More urban hydro poles were damaged than during the 1998 ice storm.

In 2011, we continued to invest in our infrastructure. The management of these assets is critical to providing safe, reliable and efficient service to our customers. Capital investments increased from $83.2 million in 2010 to $99.7 million in 2011, an increase of $16.5 million. Investments included:

- The new Janet King transformer station brought into service to provide back-up to the Stittsville area;
- Start of construction on the new Terry Fox transformer station;
- 972 new poles installed;
- 454 new transformers installed; and
- 195 km of new overhead power lines installed.

Keeping Rates Competitive

While the overall customer bill is increasing, we continue to hold the line on distribution rates. The distribution rates approved for May 2011 decreased by 0.3 percent for an average residential customer using 800 kilowatt-hours per month. This affected only the distribution portion of the bill which represented 23 percent of the total bill. The remaining 77 percent is passed through for generation, transmission of electricity to the Ottawa area, and other provincial services.

In December 2011, Hydro Ottawa's rate application was approved which resulted in a further reduction of 7 percent in distribution rates for an average residential customer using 800 kilowatt-hours per month. In 2012, distribution will represent only 20 percent of the total bill.

These decreases resulted from one-time rate credits approved by our regulator, as well as cost management and productivity improvements across the Corporation. Hydro Ottawa's distribution rates ensure there are appropriate revenues to maintain the reliability of our existing electricity distribution infrastructure, and to deploy new infrastructure through our planned capital program to meet the growing needs of our customers.

Organizational Effectiveness

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

In order to deliver on our commitment to provide effective and efficient service to our customers and value to our shareholder, we strive for performance excellence in every area of our operations.

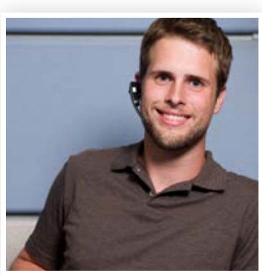
Our efforts to build a top organization were recognized externally in 2011. For the fourth year in a row, Hydro Ottawa was selected as one of the National Capital Region's Top 25 Employers. We were also recognized once again with an Achievers 50 Most Engaged Workplaces™ Award for displaying leadership and innovation in engaging our workforce.

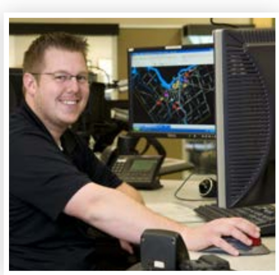
Performance and Productivity

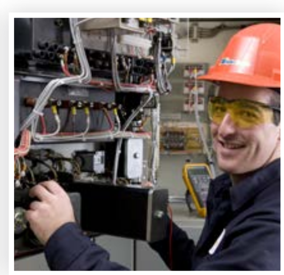
Each year the Ontario Energy Board compares the operating costs per customer of all Ontario electricity distributors. In the most recent survey, Hydro Ottawa ranked well within the top quartile of distributors in the province in terms of lowest costs per customer—thirteenth out of 77 electricity distribution companies.

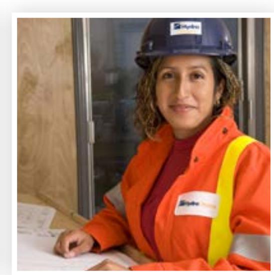
Our industry is seeing a rapid convergence of operational technology and information technology (IT), and IT plays an increasing role in all areas of our business, giving our employees and our customers new tools that enhance service and efficiency. In 2011, Hydro Ottawa put in place a robust information technology security framework to ensure that our critical assets are protected. Targeted investments were also made in critical business systems including our customer information system, financial and human resource management system, and various information management and technology back-up systems.

A number of productivity improvements were implemented in 2011 with a focus on the capital execution process, from planning and design through to construction and project closure. This was a direct contributor to the success of the 2011 capital program.









HydroOttawa Holding Inc.

Prepared and Sustainable Workforce

Maintaining a healthy and safe work environment is a fundamental part of Hydro Ottawa's commitment to our employees. In 2011, Hydro Ottawa achieved the milestone of working more than 1.2 million hours without a new lost time injury. In addition, our Occupational Health, Safety and Environment management system continued to be certified to the OHSAS 18001 and ISO 14001, two internationally-recognized standards.

A number of key initiatives were also undertaken in 2011 targeted to key employee groups in light of shifting demographics, anticipated retirements and changing skill requirements.

Hydro Ottawa remained focused on strengthening our leadership and management succession capabilities by providing training and development opportunities.

Our leadership development program, offered in partnership with the MEARIE Group and the Schulich School of Business, York University, graduated 23 participating directors and managers with a Masters Certificate in Energy Sector Leadership.

In 2011, our extensive in-house apprenticeship programs, as well as an engineering intern training and development program, continued to ensure a solid foundation of qualified tradespersons and professional engineers.

Hydro Ottawa signed a partnership agreement with Algonquin College to deliver a two-year Power Line Technician Program. As part of this program, Hydro Ottawa provides safety and core skills instruction and hands-on practical learning.




Both the Algonquin College collaboration and our in-house apprenticeship programs are an important part of our workforce planning. Recruiting, developing and retaining skilled employees will ensure that we will continue to deliver excellent service to our customers.

Hydro Ottawa also partnered with Carleton University's Sustainable and Renewable Energy Engineering Department in 2011 to establish an innovative smart grid laboratory to foster research on electrical power systems and promote the training of engineers in the new smart grid environment.

Towards the end of the year, we launched our second employee engagement survey, with over 90 percent employee participation and an increase in employee engagement levels over the previous survey.

Corporate Citizenship

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

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

Investing in the Ottawa Community

Our 2011 United Way Ottawa Workplace Campaign raised a record $187,932 through employee donations and corporate matching dollars, pushing our fundraising efforts for the past 11 years over the $1 million mark. Hydro Ottawa's United Way Campaign Committee was honoured with a Community Builder Award. Thanks to their leadership, and with the support of employees across the company, Hydro Ottawa's workplace campaign is now the largest donor among the more than 80 companies in the Construction, Manufacturing and Services sector.

During 2011, Hydro Ottawa launched the Brighter Tomorrows Fund using the employer contributions to our United Way campaign. This community investment program supports front-line agencies that serve people who are homeless, or those at risk of being homeless, to invest in energy-efficient retrofits. We provided $134,132 to 12 organizations during the year.

We also participated in the provincial Low-Income Energy Assistance Program, a year-round emergency financial assistance program. In total, $154,956 was distributed to 404 low-income households to help pay their electricity bills. This program benefited 648 adults and 527 children.




At Hydro Ottawa, we are proud of our employee volunteers. In 2011, employees prepared meals at St. Joseph's Supper Table and painted at Options Bytown. Hydro Ottawa and the International Brotherhood of Electrical Workers worked together to connect the electrical service to Wellspring House cancer support centre. We also participated in Special Needs Day, an annual event in which about 40 Hydro Ottawa volunteers help provide more than 900 physically and mentally challenged children from schools across Ottawa with exclusive access to the Gloucester Fair.

In the area of public education, Hydro Ottawa reached more than 19,000 students on the topics of electrical safety and energy conservation, through 158 presentations at 48 elementary schools.

Helping People Conserve

It is our responsibility not only to provide electricity, but also to help people use our product efficiently—which saves money on their bills, and helps protect the environment. Our Conservation and Demand Management program is approaching 500 million kilowatt-hours of savings since the program began in 2006. That is enough saved electricity to power 52,000 homes for a year.

We brought energy conservation advice and program information to several consumer and business events during the year, and also participated with the City of Ottawa in Earth Hour. Our Conservation Van participated in 109 community events, and we made 49 presentations about energy conservation to more than 1,800 Grade 5 students at 33 schools.

Protecting Our Environment

Hydro Ottawa believes a commitment to sustainability is important not only because it benefits the environment; it also improves our business.

2011 Canada's Greenest Employers

Our certified ISO 14001 management system has been in place since 2004, and it is audited annually. Our commitment to sustainability is guided by an environmental sustainability strategy, aimed at making our operations more energy efficient, decreasing our emissions and reducing wastes.

In 2011, our non-hazardous waste diversion rate was almost 95 percent. We took steps to make our vehicle fleet greener, adding a plug-in Chevy Volt to our vehicle fleet, as well as a hybrid bucket truck and four flex fuel vans. To make our buildings more energy efficient, we added building automated systems to 15 of our substations, and installed lighting retrofits in six of them.

Our green power generating facilities, which emit no pollution or greenhouse gases, are a major part of our commitment to the environment. So too are our programs which educate our customers and the community on the environmental and customer-bill reducing benefits of energy conservation and efficiency.

Hydro Ottawa's environmental strategy was recognized in 2011 in the Sustainable Electricity Program Annual Report of the Canadian Electricity Association as an industry success story for the second consecutive year. We were also recognized as one of Canada's 50 Greenest Employers in 2011.

Powering our vehicles through electricity contributes to our goal of conducting our operations with minimal impact on the environment.

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, 2011. The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP); including accounting principles prescribed by the Ontario Energy Board (OEB) in the Accounting Procedures Handbook, and are expressed in Canadian dollars.

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

The Business of Hydro Ottawa Holding Inc.

Hydro Ottawa Holding Inc. (Hydro Ottawa or the Corporation) is a holding company created in 2000, wholly owned by the City of Ottawa (the Shareholder), and governed by an independent Board of Directors appointed by the Shareholder. The Corporation and its subsidiaries are incorporated under the *Business Corporations Act* (Ontario).

The Corporation's core businesses are electricity distribution, renewable energy generation and related services. In 2011, Hydro Ottawa owned and operated 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 94 percent of the Corporation's capital assets and 93 percent of revenues. Hydro Ottawa Limited is a regulated electricity local distribution company (LDC) that owns and operates distribution infrastructure in the City of Ottawa and the Village of Casselman. Hydro Ottawa Limited is the largest LDC in eastern Ontario and the third largest municipally-owned LDC in the Province of Ontario. Hydro Ottawa Limited delivers electricity reliably and safely to over 305,000 residential and commercial customers across a service area of 1,104 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 transports it across a distribution network comprising 85 distribution stations, 2,700 kilometres of underground cable, 2,900 kilometres of overhead lines, 43,000 transformers and 48,400 hydro poles. Hydro Ottawa Limited added approximately 4,600 net new customers to its distribution system in 2011, an increase of 1.5 percent.

Energy Ottawa Inc. (Energy Ottawa): a generator of renewable energy and provider of commercial energy management services, Energy Ottawa is Ottawa's largest producer of green power. Its run of the river hydro-electric facilities at Chaudière Falls in the city's core produce on average more than 125,000-megawatt hours (MWh) of certified green electricity and are under a 20 year power purchase agreement with the Ontario Power Authority (rates are guaranteed and include annual inflation protection until 2030). In addition, the Trail Road landfill gas-to-energy plant, PowerTrail Inc., a joint venture 60 percent owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. Finally, construction is now underway for a second jointly-owned landfill gas-to-energy plant in Eastern Ontario which is scheduled to begin production early in 2013. Altogether, Energy Ottawa's generation plants produced over 142,000 MWh of renewable, emission-free energy in 2011. This output is enough to meet the annual needs of more than 17,000 homes.

Vision and Strategy

The Corporation's vision is to be a leading and trusted integrated utility services company. The Corporation will achieve that vision through a strategy focused on four key areas of performance:

- Customer Value
- Financial Strength
- Organizational Effectiveness
- Corporate Citizenship

In pursuing its strategic direction, Hydro Ottawa intends to preserve and grow its core electricity distribution and renewable generation assets, and capitalize on the opportunities presented in its business environment.

Looking forward, the Corporation's targeted growth strategy involves three components: expanding the electricity distribution business; expanding hydroelectric and other renewable generation capacity; and building on existing core strengths to diversify business lines, focusing on compatible low risk business opportunities.

In April of 2011, the Corporation's subsidiary Energy Ottawa finalized a partnership agreement with Integrated Gas Recovery Services Inc. (IGRS) for the development, construction and operation of a 4.5 megawatt landfill gas collection and utilization system at the Laflèche landfill site in Moose Creek, Ontario. With construction underway and operations expected to commence in 2013, this project reflects Hydro Ottawa's commitment to actively pursue co-generation opportunities using proven environmental technologies. In addition, the Corporation continues to pursue solar energy projects, including those through partnership with the City of Ottawa.

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, which has a legislated mandate to oversee many aspects of the electricity industry. Hydro Ottawa Holding Inc. and Energy Ottawa also have restrictions on business activities because they are affiliates to a distributor that is owned directly 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 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 is also licensed by the OEB as an electricity 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, in addition to the existing permitted activities of 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 promoting 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 Independent Electricity System Operator (IESO), Electrical Safety Authority (ESA), Ontario Power Authority (OPA) and the Smart Meter Entity (SME). The Electricity Act further establishes both rights and obligations for distributors. Upon request, distributors are obligated to connect any building that lies along their distribution systems and access to this system must be non-discriminatory. The Green Energy Act establishes mandatory timelines and information requirements for each step of a process established for the connection of generation facilities that will sell electricity through the distribution grid.

The Ontario electricity commodity market is open to competition at both the wholesale and retail levels. 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 maintained 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.

RATE REGULATION

Electricity bills include charges for the commodity, wholesale market services, transmission services, distribution services, debt retirement, charges for Ministry of Energy Conservation and Renewable Energy Programs, 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 are tracked as a regulatory asset or liability to be cleared through rates in a subsequent period. For distribution services, Hydro Ottawa Limited applies to the OEB for approval of distribution rates which include a fixed charge and a variable charge based on electricity consumption or peak demand.

To establish rates for distribution service, the OEB has adopted an incentive regulation mechanism (IRM). Under IRM, a distributor first sets base rates through a cost-of-service application every four years. This application determines the appropriate revenue requirement to cover forecasted costs, plus a regulated return. For the subsequent three years in which no cost-of-service application is filed, rates are adjusted by an inflation factor less a productivity factor. Further adjustments may be permitted for incremental capital above a prescribed threshold, or for recovery of extraordinary event costs.

Hydro Ottawa Limited last established base rates effective May 1, 2008 using 2008 forecast costs and a rate of return on equity (ROE) deemed by the OEB at 8.57 percent. For 2009, the OEB approved an adjustment to rates effective May 1, 2009 using the IRM mechanism. Rates were increased by an inflation factor of 2.3 percent determined from the Gross Domestic Product Implicit Price Index on Final Domestic Demand (GDP-IPI FDD) for 2008, less a factor of 1.12 percent established by the OEB to encourage productivity improvements for a net increase of 1.18 percent. For 2010, the OEB approved an adjustment to rates effective May 1, 2010 also using the IRM mechanism. Rates were increased by an inflation factor of 1.3 percent, less a productivity factor of 1.12 percent for a net increase of 0.18 percent. For 2011, the OEB approved an adjustment to rates effective May 1, 2011 also using the IRM mechanism. Rates were once again increased by an inflation factor of 1.3 percent, less a productivity factor of 1.12 percent for a net increase of 0.18 percent.

In 2009, the OEB held a proceeding to determine if formulas used for calculating the deemed components of the cost of capital were appropriate. The OEB concluded that the formulas should be amended to ensure that they adequately and appropriately accommodate changing economic and financial conditions. As a result, the deemed ROE was adjusted to start from 9.75 percent at September 2009, applicable upon approval within a cost-of-service application, and is to be adjusted based on interest rates going forward. Hydro Ottawa Limited's current deemed ROE under the OEB's previous formula is 8.57 percent. An adjustment in accordance with the new formula was applied for via the cost-of-service application for 2012 rates, as described below.

On June 17, 2011, Hydro Ottawa Limited submitted a cost-of-service application to the OEB for new rates commencing January 1, 2012. This application would adjust rates for Hydro Ottawa Limited's customers based upon a forecast of the costs to serve customers in 2012. The application included detailed information and supporting evidence which outlined Hydro Ottawa Limited's proposed capital and operating plans along with strategic initiatives for 2012.

The OEB's process for review of the application includes the ability of interested stakeholder groups to review and ask questions about Hydro Ottawa Limited's supporting documentation. This process also allows stakeholders and Hydro Ottawa Limited to negotiate on all or portions of the application. All parties were able to agree on a number of areas of the application including Hydro Ottawa Limited's capital spending plan for 2012. However, the stakeholders and Hydro Ottawa Limited were unable to reach an agreement on a number of issues and therefore these were addressed in the oral hearing portion of the process.

On December 28, 2011, the OEB issued its decision on Hydro Ottawa Limited's cost-of-service application for 2012 rates. The OEB agreed with Hydro Ottawa Limited's supporting evidence surrounding the working capital allowance, load forecast, lost revenue adjustment mechanism and an implementation date of January 1, 2012. The OEB quantitatively reduced Hydro Ottawa Limited's request for Operating Maintenance and Administration (OM&A) and long-term debt costs. As part of the approval process, the OEB approved a ROE of 9.42% commencing January 1, 2012. In summary, it is the opinion of the Corporation that the rates approved by the OEB for 2012 will allow Hydro Ottawa Limited to operate effectively, spend the capital required to meet its infrastructure needs and progress on all strategic initiatives.

Capability to Deliver Results

LIQUIDITY AND CAPITAL RESOURCES

The table below shows the debt and liquidity profile of the Corporation as at December 31.

($ 000)	2011	2010
Debt		
Bank indebtedness	–	239
Notes payable	252,155	251,930
Letters of credit	14,466	14,293
Liquidity		
Unused bank facilities	129,384	128,457

SOURCES OF 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 26, 2011, the Corporation renewed its pre-existing credit facility for a revised amount of $143.65 million, a $1.0 million increase over the previous year's amount. The facility is more than adequate for current and projected needs. The Corporation may use up to $75 million of the facility for general operating requirements and annual capital expenditures. In addition, a $50 million five-year revolving credit line remains available for larger capital expenditures and acquisitions. Capital expenditure requirements in excess of this, if any, will be funded through future bond issuances. The increase over the prior year relates to a new million dollar commercial card facility which improves the efficiency of the Corporation's purchasing processes relating to high-volume, low-dollar value expenses.

As at December 31, 2011, the Corporation had drawn $14.3 million in standby letters of credit against its credit facility. The remaining facility is adequate to support the short-term working capital deficit experienced each month to settle the IESO costs of power invoice in advance of receiving payment from customers.

One of the Corporation's joint ventures, PowerTrail Inc., 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, 2011, the joint venture had drawn $0.1 million in standby letters of credit against this credit facility.

Hydro Ottawa Holding Inc.

SUMMARY OF SOURCES AND USES OF CASH

($ 000)	2011	2010
Cash (bank indebtedness), beginning of year	(239)	3,489
Net cash provided by operations	99,627	70,993
Net acquisition of capital assests	(77,932)	(60,636)
Dividends paid to the City of Ottawa	(17,500)	(17,600)
Other investing and financing	(1,100)	3,515
Cash (bank indebtedness), end of year	2,856	(239)

CASH PROVIDED BY OPERATING ACTIVITIES

Cash generated by operating activities provided $28.8 million more cash flow than in 2010. The majority of the increase arises from more cash flow being generated from working capital primarily due to the timing of payments to suppliers and an increase in settlement variances due to an increase in cash collected in 2011 on pass-through charges, net of the continuing recovery of deferred smart meter costs.

CASH USED IN INVESTING ACTIVITIES

Total investment in property, plant and equipment and intangible assets in 2011 was $99.2 million, offset by contributions in aid of construction and proceeds from the disposition of assets, for net cash impact of $77.9 million. Most of this was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. Capital investments in 2011 included approximately $54.4 million on sustainment capital to replace aging infrastructure and modify the existing distribution system; $32.7 million on demand projects (including smart meters) less contributed capital of $19.6 million, which includes third-party driven growth projects such as new residential or commercial installations, and municipal improvement projects; and $9.5 million on general plant and CDM.

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2011, 972 new poles, 454 transformers and 195 km of overhead lines were installed. Over 170 demand capital projects were initiated including the addition of 5,563 new residential and 484 new commercial connections.

Additional capital investments of $3.2 million were made to maintain or enhance the generation capability of Energy Ottawa facilities, including the design and preliminary construction of the new Moose Creek landfill gas collection and utilization system.

CASH USED IN FINANCING ACTIVITIES

Dividends were paid to the Shareholder in 2011 in accordance with the approved dividend policy. The 2011 payment totalled $17.5 million resulting from 2010 continuing operations, net of a $2.1 million after-tax gain on insurance proceeds resulting from the 2009 Beaconhill station fire. The 2010 payment totalled $17.6 million resulting from 2009 continuing operations.

CREDIT RATINGS

As at December 31, 2011, 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 and Poor's Rating Services Inc. (S&P) reaffirmed Hydro Ottawa Holdings Inc.'s rating at "A" with a Stable trend. In particular, the S&P report noted once again that the Corporation's strong competitive position, supportive regulator and a recession-proof customer base promotes an excellent business risk profile.

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

The Corporation's bonds carry covenants normally associated with this type of debt (see Note 17 of the consolidated financial statements for further details). The Corporation is in compliance with these covenants as at December 31, 2011.

CRITICAL NON-CAPITAL RESOURCES

The Corporation employs over 600 people. Hydro Ottawa Limited employs over 90 percent of this workforce.

Over the next five years, over 100 employees in Hydro Ottawa Limited will be eligible for early retirement with an unreduced pension. Approximately 50 percent are trades and technical employees; the other 50 percent are administrative/clerical and management group employees. This reflects a broader trend of workforce demographics seen by utilities in Ontario and across Canada.

In preparation for these retirements, Hydro Ottawa Limited has a comprehensive talent management strategy to ensure a sustainable and prepared workforce. This includes extensive in-house apprenticeship programs as well as an engineering intern training and development program to ensure the availability of qualified tradespersons and professional engineers. A succession planning and management program and training and development programs are in place to ensure that there are qualified employees in the talent pipeline for key positions. Partnerships with industry and educational institutions have also been formed to support the implementation of the talent management strategy, most notably collaborations with Algonquin College to deliver the College's new Powerline Technician program; and with Carleton University's Sustainable and Renewable Energy Engineering Department for the establishment of a smart grid laboratory to foster innovative research on electrical power systems and promote the training of engineers in the smart grid environment.

With the resignation of the incumbent President and Chief Executive Officer in 2011, Hydro Ottawa's Board of Directors appointed Bryce Conrad as President and Chief Executive Officer following an extensive search. Mr. Conrad is a former executive in the federal government with extensive experience in infrastructure management, complex negotiations and leading large organizations. He has an impressive record of achievement that shows an ability to execute business strategies that create value and serve the public interest, as well as experience in managing billions of dollars worth of infrastructure and capital projects. Mr. Conrad's leadership skills enable Hydro Ottawa to execute its strategies and deliver results efficiently and effectively.

INTERNAL PROCESSES

Various technologies and processes have been introduced to better manage electrical distribution assets and improve customer service, including by increasing the automation and reliability of the network through faster restoration times and enhancing sustainability.

Hydro Ottawa's commitment to the Province's Smart Meter and Time-of-Use rate programs implementation continued throughout 2011. The transition for residential and small commercial customers to Time-of-Use rates was successfully completed in 2011. The transition to Time-of-Use billing was completed over the course of two billing periods to enable customers to familiarize themselves with the Time-of-Use program and provide them with an opportunity to alter their consumption habits. Although this initiative was a major overhaul to our meter-to-cash processes and new technologies were introduced, there were no increases in call volumes and customer contacts.

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.

An upgrade to the Corporation's enterprise financial system was completed in 2011 in preparation for transition to International Financial Reporting Standards (IFRS). A key and significant upgrade to the Customer Information System (CIS) began in 2011 and will continue through 2013.

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 line with these objectives, Hydro Ottawa continues to make progress with its "Lean" process improvement methodology to improve the efficiency and effectiveness of core business processes while enhancing customer service and improving employee engagement. In 2011, significant effort has been spent on the capital execution process from planning and designs through to construction and project closure.

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.

($ 000)	2011	2010	Change $	Change %
Revenues				
Power recovery	663,855	624,414	39,441	
Distribution and other	176,292	175,201	1,091	
	840,147	799,615	40,532	
Expenses				
Purchased power	660,515	620,516	39,999	
Operating costs	85,668	78,758	6,910	
	746,183	699,274	46,909	
EBITDA	93,964	100,341	(6,377)	-6%
Depreciation and amortization	45,436	44,366	1,070	
Gain on insurance settlement	–	(2,683)	2,683	
Interest and financing	11,916	12,020	(104)	
Taxes	10,193	14,980	(4,787)	
Other	17	490	(473)	
	67,562	69,173	(1,611)	
Net income and comprehensive income	26,402	31,168	(4,766)	-15%
Net income and comprehensive income attributable to non-controlling interest	186	(63)	249	
Net income and comprehensive income attributable to shareholder	26,216	31,231	(5,015)	

NORMALIZED NET INCOME

Adjusting for unusual non-recurring items, normalized net income attributable to Hydro Ottawa decreased $1.5 million from 2010. The Corporation has recorded impairment charges relating to its investment in Streetlight Intelligence Inc. (SLI) as SLI went into receivership during the year. In 2010 Hydro Ottawa Limited recognized a $2.1 million after-tax gain on insurance proceeds resulting from the 2009 Beaconhill station fire.

($ 000)	2011	2010
Net income attributable to shareholder Adjusted for non-recurring items, net of tax	26,216	31,231
Impairment charges	1,400	–
Gain on insurance settlement	–	(2,083)
Net income attributable to shareholder	27,616	29,148

The year over year reduction in normalized net income is primarily attributable to flat revenues and increased costs. The increase in electricity distribution rates effective May 2011 under the IRM mechanism was only 0.18%. However, increased costs were incurred for expansion of selected key priority initiatives such as the Customer Service and Information Technology strategies, negotiated labour, and unplanned maintenance costs arising from storm activity in 2011.

REVENUES

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

Hydro Ottawa Limited's power recovery—a flow-through of purchased power costs to the customer—increased $39.4 million, mainly due to increases in volume, commodity rates including the global adjustment, and transmission rates.

Revenues, excluding power recovery, increased $1.0 million (0.6 percent) from 2010. Electricity distribution revenue is reflective of OEB approved distribution rates and the amount of electricity consumed. Revenue from distribution sales decreased $0.7 million (0.5 percent) from 2010 as a result of reduced kW and kWh sales due to conservation efforts and the mild winter months in the 4th quarter of 2011. Additional revenue of $1.2 million was also earned from the continuation of Provincial CDM programs and incentives provided by the OPA. Energy Ottawa's electricity generation revenues increased by $0.6 million over the prior year with the April 1, 2010 implementation of the Hydroelectric Contract Initiative (HCI) twenty year pricing agreement for the Chaudière plant, and improved production at the PowerTrail joint venture landfill gas to energy plant. Energy management services revenues were $0.5 million lower in 2011 than 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 and transmission charges levied by the IESO, net of energy generated by Energy Ottawa and supplied to Hydro Ottawa Limited as an embedded generator within Hydro Ottawa Limited's service territory. The cost of purchased power increased by $40.0 million, due mainly to increases in purchases, commodity rates (specifically the global adjustment) and transmission rates as noted above. The global adjustment accounts for differences between the market price and the rates paid to regulated and contracted generators and for conservation and demand management 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 $85.7 million increased by $6.9 million over 2010. Notable increases in operating costs related to additional labour costs, inflationary increases on purchased services and overtime incurred due to storms that occurred during the year. Additional expense increases included Hydro Ottawa Limited's expanding CDM program ($1.1 million) and a one-time impairment charge related to strategic investments ($1.4 million).

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses rose by $1.1 million, primarily due to recent acquisitions and improvements to information systems and a global increase of investments in the electricity distribution infrastructure of the corporation. In the past few years, Hydro Ottawa has maintained its position as a modern utility by making required investments in information technology through various enterprise system upgrades and enhancements. Considering that computer hardware and software have a lower estimated service life than most of Hydro Ottawa's assets, this has in turn increased depreciation and amortization expense. Finally, Hydro Ottawa's continued investment in long living electricity distribution assets also contributes to higher year-over-year depreciation and amortization expenses.

PAYMENTS-IN-LIEU OF CORPORATE TAXES (PILS)

The Corporation's effective income tax rate was 28.0 percent in 2011 compared to 32.4 percent the previous year. The year-over-year decrease is a result of favourable impacts of permanent and temporary differences between the accounting and tax basis of assets and liabilities, coupled with a decrease in the Federal and Ontario statutory corporate income tax rates applicable to the 2011 fiscal year.

BALANCE SHEET SUMMARY

($ 000)	2011	2010	Change $	Change %
Assets	815,324	773,256	42,068	5.4%
Current liabilities	130,577	118,169		
Non-current liabilities	331,896	311,118		
Total liabilities	462,453	429,287	33,166	7.7%
Shareholder's equity	352,871	343,969	8,902	2.6%
Liabilities and shareholder's equity	815,324	773,256	42,068	5.4%

ASSETS

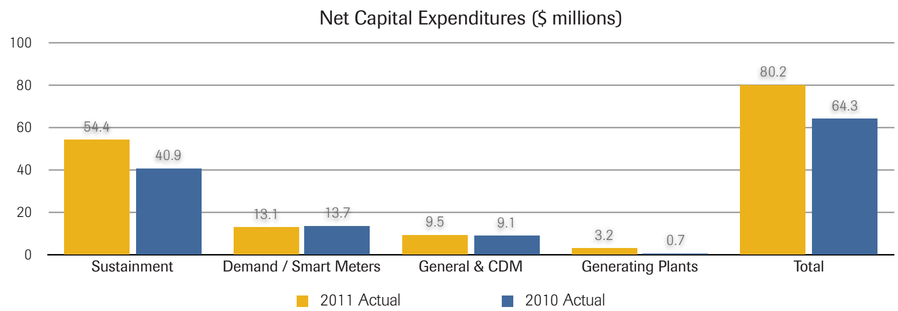
Total assets increased by $42.1 million during the year. This increase is largely attributable to property, plant and equipment and intangible assets, which are up $36.1 million resulting from a continuing investment in electrical distribution and generation infrastructure, net of contributions in aid of construction and depreciation and amortization. Secondly, accounts receivable and unbilled revenue have increased in total by $4.5 million primarily as a result of increase in commodity prices offset by the Ontario Clean Energy Benefit (OCEB) credit of 10% applied to customer's bills as at January 1, 2011. Offsetting these increases is a $2.4 million decrease in net regulatory assets as a result of recoveries related to deferred late payment charges, special purpose charges and smart meter costs along with other variances.

LIABILITIES

Total liabilities increased by $33.2 million in 2011. This change is largely attributable to an increase in net regulatory liability balance of $20.7 million primarily due to a reversal in settlement variances. Moreover, a $13.2 million increase in accounts payable and accrued liabilities was primarily a result of an increase in commodity prices and increase in construction deposits relating to increased construction activities offset by the refund of residential security deposits.

NET CAPITAL EXPENDITURES

Net capital expenditures increased by $15.5 million in 2011 compared to 2010, primarily due to the construction and expansion of electricity substations and increased pole replacement in accordance with the Asset Management Plan. Sustainment lifecycle capital spending levels are forecast to be maintained in 2012, while General Plant capital will increase with the upgrade of the customer care and billing system.



SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with Canadian GAAP, requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and the disclosure of commitments and contingencies at the date of the 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 our financial statements and, as such, are considered to be critical. Most of these are disclosed in the notes to the Corporation's consolidated financial statements for the year ended December 31, 2011:

- Estimated service lives, Note 2(g)
- Unbilled revenue, Note 2(n) (iv)
- Net regulatory assets and liabilities, Note 7
- Asset retirement obligations, Note 14
- Employee future benefits, Note 15
- Payment in lieu of corporate income taxes, Note 22

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The financial statements contain an estimate of bad debts arising from uncollectible accounts receivable, calculated based on a combination of reviewing specific accounts and taking a specific percentage of balances outstanding over 90 days.

UNBILLED REVENUE

Management establishes unbilled revenue balances based upon an estimate of customer electricity consumption to the end of each financial reporting period. Consumption estimates are necessary when meter readings are not available at the end of a financial reporting period. This requires management to estimate based on historical usage.

International Financial Reporting Standards

BACKGROUND

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

In December 2008, the International Accounting Standards Board (IASB) initiated a project on the application of IFRS to rate-regulated activities (RRA). In July 2009, the IASB issued an Exposure Draft on RRA which had many similarities to Canadian GAAP in accounting for rate-regulated activities. The IASB received numerous comment letters relating to this exposure draft, many of which were not supportive. The deliberation of the Exposure Draft and the comment letters by the IASB and the IASB staff occurred over many months, resulting in a final meeting on this topic on September 16, 2010. At this meeting, the IASB members remained divided and determined that the matter could not be easily resolved, resulting in a consensus to include this matter as part of their next triennial agenda consultation process which began during the second half of 2011.

In the interim, due to the uncertainty at the international level, the AcSB issued an Exposure Draft on July 28, 2010 proposing that qualifying entities with rate-regulated activities be permitted to continue applying Canadian GAAP for an additional two years. On September 10, 2010, the AcSB issued its final decision which stated that the deferral period would be granted, but only for one year.

Given these developments and the continued uncertainty around accounting for rate-regulated activities under IFRS, the Corporation elected to take the one year deferral. The new adoption date for IFRS became January 1, 2012 and requires the restatement, for comparative purposes, of amounts reported for the year ended December 31, 2011 and the opening balance sheet as at January 1, 2011.

Hydro Ottawa's non-regulated subsidiary did not qualify for the one year deferral, therefore effective January 1, 2011, Energy Ottawa was required to adopt either Accounting Standards for Private Enterprises (ASPE) or IFRS as the primary basis of accounting. The Corporation decided to adopt ASPE for its non-regulated subsidiary for the year ended December 31, 2011 and IFRS for the year ending December 31, 2012 to align with the Corporation's conversion to IFRS. Upon the adoption of ASPE, management of the Corporation has determined that there are no material effects on the financial statements of its non-regulated subsidiary.

CONVERSION PROJECT

The Corporation is on track with its IFRS conversion project. The project commenced in the third quarter of 2008 with the establishment of a formal project governance structure. This structure included a steering committee consisting of management from Finance, Information Technology, Operations and Regulatory. Regular updates are provided to the Audit Committee and Board of Directors.

The Corporation's project, covering a time frame of approximately five years, consists of five phases:

1. Diagnostic
2. Design and planning
3. Solution development
4. Implementation
5. Post implementation

The Corporation is currently in the fourth phase, implementation.

KEY DIFFERENCES

The following describes the key and material areas of change anticipated for the Corporation's 2012 financial reporting upon conversion from Canadian GAAP to IFRS:

RATE REGULATED ACTIVITIES (RRA)

Under Canadian GAAP, the Corporation's regulated subsidiary capitalizes a regulatory asset if it is probable that the costs incurred will be recovered through future rates. Similarly, regulatory liabilities are capitalized that arise from differences in amounts billed to customers for services versus the costs incurred to purchase such services. As noted previously, there is currently no specific RRA standard under IFRS. In the absence of such guidance, a transition to IFRS would likely result in the derecognition of some or perhaps all of the Corporation's regulatory assets and liabilities, and as a result net income may be subject to increased volatility.

Given the current uncertainty surrounding this issue and its potential significance to the Corporation's financial statements, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

The Ontario Energy Board has issued numerous documents pertaining to the impact of IFRS on the regulatory framework. The OEB supports IFRS with the modification of inclusion of regulatory assets and liabilities. The OEB refers to IFRS as modified by regulatory requirements as Modified IFRS (MIFRS). In 2011, Hydro Ottawa Limited filed a cost of service application for new rates effective January 1, 2012. As this date coincided with the IFRS conversion date, the application was filed and approved on a MIFRS basis.

Looking forward, based on current IFRS, Hydro Ottawa will adopt MIFRS as the financial reporting standard for 2012, and as such, will accept a qualified audit opinion.

Conversion work continues in this area and includes monitoring the IASB, the AcSB, and IFRS Interpretations Committee agenda consultation process.

Hydro Ottawa Holding Inc.

PROPERTY, PLANT AND EQUIPMENT (PP&E)

IFRS requires that an item of PP&E be separated into components when those components are significant in relation to the total cost of the asset. Each component is then depreciated separately over its estimated useful life. In addition, as a large portion of the Corporation's assets are in its regulated subsidiary, the Corporation was required to consider findings in the depreciation study commissioned by OEB in the development of the regulated subsidiary's asset useful lives.

The Corporation has increased the number of components and reassessed the useful lives of each component. Overall, the useful lives have been extended, and therefore depreciation expense will be reduced going forward.

IFRS also requires that components of PP&E be derecognized (expensed) as soon as they are taken out of service. Under Canadian GAAP, a common practice is the employment of "group depreciation" for large population of similar low cost items such as switching equipment and poles as the cost of tracking the cost and useful life of each individual item would be onerous. Group depreciation removed the requirement to track specific cost of indivdiual items that were replaced. As a result of adoption to IFRS, more assets will be derecognized.

CAPITALIZATION POLICY

IFRS prescribes that only costs that are directly attributable to a specific asset can be capitalized. The capitalization of administration and other general overhead costs is specifically prohibited. As a result, portions of previously capitalized overheads will be expensed under IFRS.

EMPLOYEE BENEFITS

IFRS allows a first-time adopter to record all cumulative actuarial gains and losses at the date of transition. The result is an increase to the Corporation's employee future benefit liabilities and a decrease in retained earnings on January 1, 2011. Going forward, expenses related to the previous amortization of these losses will be reduced as a result of this one-time adjustment.

NOTE DISCLOSURE

The Corporation will also experience an increase in disclosure resulting from the adoption of IFRS for the financial statements for the year ending December 31, 2012.

Risks and Uncertainties

The ability to manage and mitigate risk, to maintain flexibility, and to respond effectively to changes in our business environment will be 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, nonetheless, that some of these risks could adversely impact Hydro Ottawa's results and objectives. These include but are not restricted to, the weather, the policy and regulatory environment, the state of the economy and macro-economic trends, government policies relating to the production and procurement of renewable and clean energy as well as carbon emissions and conservation, labour force demographics with a particular emphasis on the renewal of human resources in the trades, and the impact of fiscal policies on customers. In addition, the evolution of the industry presents new and emerging risks that need to be managed effectively.

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

POLICY AND REGULATORY ENVIRONMENT

Hydro Ottawa's businesses operate in a regulated environment. Business performance could be adversely affected by significant policy and regulatory changes, including but not limited to changes in rate regulation, policies relating to the production, procurement 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 has sought and obtained OEB approval to a rebasing of its distribution rates, which will go into effect from January 1, 2012. If actual experience varies from the projections, the Corporation's net income will be affected. Hydro Ottawa's distribution revenue declines as CDM targets are met or 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.

PENSION PLAN RISK

In 2012 as well as in 2013, the Corporation and its employees will continue to make increased contributions to the Ontario Municipal Employees Retirement System (OMERS). These increases will be in accordance with the planned three-year annual temporary contribution increase for both members and employers instituted by OMERS in 2011 with a view to closing the OMERS Primary Plan's funding shortfall of $1.5 billion as of December 31, 2009, and also to offset nearly $5 billion of net losses (incurred in the 2008 financial crisis). Accordingly, the varying performance of such pension investments poses a risk the financial performance of Hydro Ottawa.

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 (TOU) 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.

In response to the complex and changing technological environment, Hydro Ottawa has implemented a comprehensive Information Management/Information Technology Strategic Plan, with a focus on security. This plan was first presented in 2010 and was rolled out through 2011.

SUSTAINABLE WORKFORCE

Given current workforce demographics at Hydro Ottawa and across the electricity sector, where retirements are outpacing new entrants to the workforce, as well as the risk of departure of key executive and management staff, Hydro Ottawa's ability to capitalize on its investments in both apprenticeship and succession planning programs is essential to ensuring a sustainable and prepared workforce. Hydro Ottawa has recently partnered with local educational institutions to bolster its apprentiship training for skilled trades along with increasing its focus on succession training and development for management and executive positions.

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.

With the successful approval of the 2012 Electricity Distribution Rate Application by the OEB on December 28, 2011, the Corporation's regulated subsidiary is well positioned for 2012 and beyond.

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 commencement of construction of a second landfill gas collection and utilization system by its newly formed joint venture: Moose Creek Energy LP.

Hydro Ottawa is positioned to continue the track record of solid financial performance.

Hydro Ottawa Holding Inc.

Consolidated Financial Statements

December 31, 2011

TABLE OF CONTENTS

Hydro Ottawa Holding Inc.

Report of Management

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

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

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

On behalf of Management,

Bryce Conrad
President and Chief Executive Officer

Alan Hoverd
Chief Financial Officer

Independent Auditors' Report

To the Shareholder of Hydro Ottawa Holding Inc.

We have audited the accompanying consolidated financial statements of Hydro Ottawa Holding Inc., which comprise the consolidated balance sheet as at December 31, 2011, and the consolidated statements of income, comprehensive income, 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, 2011, 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

Chartered Accountants
Licensed Public Accountants

Ottawa, Canada
April 4, 2012

Hydro Ottawa Holding Inc.

Consolidated Statement of Income, Comprehensive Income and Retained Earnings

Year ended December 31 [amounts are in thousands of dollars]	2011	2010
Revenues [Note 25]		
Power recovery	663,855	624,414
Distribution sales	142,688	143,434
Other revenue	33,604	31,767
	840,147	799,615
Expenses [Note 25]		
Purchased power	660,515	620,516
Operating costs	87,111	78,245
Depreciation	37,672	36,553
Amortization	7,764	7,813
	793,062	743,127
Income before other expenses (recoveries) and payments in lieu of corporate income taxes	47,085	56,488
Financing costs [Note 21]	11,916	12,020
Provision for (recovery of) regulatory asset write-down	(1,443)	513
Gain from insurance settlement [Note 8]	–	(2,683)
Payments in lieu of provincial capital tax	17	490
	10,490	10,340
Income before payments in lieu of corporate income taxes	36,595	46,148
Payments in lieu of corporate income taxes [Note 22]	10,193	14,980
Net income and comprehensive income	26,402	31,168
Attributable to non-controlling interest [Note 19]	186	(63)
Attributable to equity shareholder	26,216	31,231
Retained earnings, beginning of year	114,971	101,340
Dividends paid [Note 18]	(17,500)	(17,600)
Retained earnings, end of year	123,687	114,971

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

Consolidated Balance Sheet

As at December 31 [amounts are in thousands of dollars]	2011	2010
Current assets		
Cash	2,856	–
Accounts receivable [Note 4]	65,255	72,239
Payments in lieu of corporate income taxes receivable	6,020	1,133
Unbilled revenue [Note 5]	93,685	82,221
Inventory [Note 6]	8,397	8,532
Other assets [Note 10]	1,835	2,168
Regulatory assets [Note 7]	3,379	4,738
Future income tax assets [Note 22]	615	713
	182,042	171,744
Non-current assets		
Net regulatory assets [Note 7]	3,100	4,172
Property, plant and equipment [Note 8]	581,120	543,271
Intangible assets [Note 9]	22,324	24,090
Other assets [Note 10]	1,599	2,203
Future income tax assets [Note 22]	25,139	27,776
Total assets	815,324	773,256
Current liabilities		
Bank indebtedness [Note 11]	–	239
Accounts payable and accrued liabilities [Note 12]	129,809	116,650
Payments in lieu of corporate income taxes payable	133	723
Regulatory liability for future income tax assets [Note 22]	615	557
	130,557	118,169
Non-current liabilities		
Net regulatory liabilities [Note 7]	30,760	10,075
Regulatory liability for future income tax assets [Note 22]	25,139	27,776
Future income tax liabilities [Note 22]	4,452	3,853
Other liabilities [Note 13]	13,854	12,151
Employee future benefits [Note 15]	5,536	5,333
Notes payable [Note 16]	252,155	251,930
	462,453	429,287
Shareholder's equity		
Share capital [Note 18]	228,453	228,453
Retained earnings	123,687	114,971
Non-controlling interest [Note 19]	731	545
	352,871	343,969
Total liabilities and shareholder's equity	815,324	773,256

Contingent liabilities [Note 23]

Commitments [Note 24]

Marion Harvey

ON BEHALF OF THE BOARD: Director Director

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

Hydro Ottawa Holding Inc.

Consolidated Statement of Cash Flows

Year ended December 31 [amounts are in thousands of dollars]	2011	2010
Net inflow (outflow) of cash related to the following activities:		
Operating		
Net income and comprehensive income	26,402	31,168
Items not affecting cash		
Depreciation	37,672	36,553
Amortization	7,764	7,813
Gain on disposal of property, plant and equipment [Note 8]	(54)	(3)
Gain on insurance proceeds [Note 8]	–	(2,587)
Allowance for funds used during construction [Note 8]	(933)	(893)
Employee future benefits	203	189
Impairment charges [Note 10]	1,400	–
Amortization of debt issue costs	225	225
Future payments in lieu of corporate income taxes	755	591
Changes in non-cash working capital and other operating balances		
Decrease (increase) in accounts receivable	6,984	(11,175)
Increase in payments in lieu of corporate income taxes receivable	(5,477)	(552)
(Increase) decrease in unbilled revenue	(11,464)	4,205
Decrease (increase) in inventory	135	(1,444)
Increase in other assets	(567)	(334)
Decrease in regulatory assets, net of liabilities	23,184	14,768
Increase (decrease) in accounts payable and accrued liabilities	13,398	(7,531)
	99,627	70,993
Investing		
Acquisition of property, plant and equipment	(93,122)	(74,355)
Acquisition of intangible assets	(6,042)	(5,527)
Proceeds from disposal of property, plant and equipment	182	40
Proceeds from insurance on disposal of property, plant and equipment [Note 8]	–	2,587
Other assets	–	(978)
	(98,982)	(78,233)
Financing		
Contributions in aid of construction	21,050	19,206
(Decrease) increase in customer deposits [Note 13]	(1,086)	1,929
Dividends paid [Note 18]	(17,500)	(17,600)
Repayable grant [Note 13]	(14)	(23)
	2,450	3,512
Net change in cash	3,095	(3,728)
Cash (bank indebtedness), beginning of year	(239)	3,489
Cash (bank indebtedness), end of year	2,856	(239)
Supplementary cash flow information		
Interest paid	12,531	12,448
Payments in lieu of corporate income taxes paid	15,064	15,006

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

Notes to the Consolidated Financial Statements

December 31, 2011 [amounts are in thousands of dollars]

1. DESCRIPTION OF BUSINESS

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

Hydro Ottawa Limited – 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 – A power generation company that generates and markets EcoLogo certified green power. Energy Ottawa also offers a range of expert energy management and procurement services to large energy-consuming organizations and companies. Energy Ottawa holds a 60% interest in PowerTrail Inc. ['PowerTrail'], a 50.05% interest in Moose Creek Energy LP ['Moose Creek LP'], a 50% interest in Moose Creek Energy Inc. ['Moose Creek GP'] and a 28.33% interest in Chaudière Water Power Inc. ['CWPI']. PowerTrail is a 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. Moose Creek LP is a limited partnership created on April 15, 2011 to construct a second generation plant and gas collection system at the Laflèche landfill site in Moose Creek, Ontario, with operations expected to commence in 2013. Moose Creek GP was incorporated on April 15, 2011 and is the general partner of Moose Creek LP. CWPI is a joint venture incorporated to act as an agent for the principals of CWPI with a mandate to operate the Chaudière Dam on the Ottawa River.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ['Canadian GAAP'] for publicly accountable entities, 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, Energy Ottawa, which includes the accounts of PowerTrail and Moose Creek LP, and Telecom Ottawa Holding Inc. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

(b) Consolidation of variable interest entities

The Corporation consolidates variable interest entities ['VIEs'] in which the Corporation is the primary beneficiary, as described in the *Canadian Institute of Chartered Accountants* ['CICA'] *Accounting Handbook* – 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. The VIEs have non-controlling interests which are reported separately.

(c) Investments in joint ventures

The Corporation holds a 28.33% interest in CWPI, a joint venture incorporated to act as an agent for the three principals of CWPI, with the mandate to control, operate and maintain the Chaudière dam. The dam and related assets are not owned by CWPI; they are owned jointly by the principals. In accordance with the joint venture agreement, all costs incurred by CWPI in relation to the dam and its related assets are reimbursed in full by the principals at the end of each year. The Corporation proportionately consolidates its 28.33% share of the costs incurred by CWPI as operating or capital expenditures, based on the nature of the costs.

The Corporation holds a 50% 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% is owned by Integrated Gas Recovery Services Inc. ['IGRS'] of Thorold, Ontario. While the Corporation proportionately consolidates the assets, liabilities and earnings of Moose Creek GP, this entity essentially "flows through" payments and transactions on behalf of Moose Creek LP, and therefore does not contain significant assets, liabilities, earnings or losses.

(d) Measurement uncertainty

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

Accounts receivable, unbilled revenue and regulatory assets and liabilities are reported net of an appropriate allowance for unrecoverable amounts. Other significant estimates are used in determining the useful lives and asset impairments of long-lived assets and to calculate payments in lieu of corporate income taxes, employee future benefits and certain accruals.

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.

(e) Regulation

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

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

Hydro Ottawa Limited applies for distribution rates based on estimated costs of service. Once the rate is approved, it is not adjusted as a result of actual costs of service being different from those which were estimated, other than for certain prescribed costs that are eligible for deferral treatment and are either collected or refunded in future rates. The OEB has the general power to include or exclude costs and revenues 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. Balances accumulated in regulatory assets and liabilities to December 31, 2010 have been approved for disposition and included in the regulatory liabilities refund account.

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

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

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.

Regulatory balances are comprised principally of the following:

Regulatory Liability Refund Account – On December 28, 2011, Hydro Ottawa Limited received a decision from the OEB for new rates for the rate period beginning January 1, 2012, resulting from a cost of service application filed in June 2011. The new rates include the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to December 31, 2010.

Settlement variances – Settlement variances relate to the charges Hydro Ottawa Limited incurred for transmission services, the commodity, wholesale market operations and the global adjustment from the Independent Electricity System Operator ['IESO'] and Hydro One Networks Inc. ['HONI'] 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 period end dates in accordance with rules prescribed by the OEB.

Deferred smart meter costs – The OEB has allowed electricity distributors to track the differences between the amounts funded through rates for smart meters and 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.

Deferred payments in lieu of corporate income taxes ['PILs'] – The OEB has established a PILs variance account in which distributors record the tax impact of legislative or regulatory changes to the tax rates or rules assumed in the electricity distribution rate application.

Other variances and deferred costs

(i) The OEB allows electricity distributors to record the difference between low voltage charges paid to HONI and those charged to customers.

(ii) The OEB allows electricity distributors to recognize the net cost of providing retailer billing services and transaction request services as a variance amount.

(iii) 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.

(iv) In 2010, the OEB through the Ministry of Finance ['MOF'], issued an assessment for a Special Purpose Charge ['SPC'] referred to in sections 26.1 and 26.2 of the *Ontario Energy Board Act, 1998*. The assessments for the Ministry of Energy and Infrastructure Conservation and Renewable Energy Program costs are to be recorded in a variance account which represents the difference between: (a) the amount remitted to the MOF for the distributor's SPC assessment; and (b) the amounts recovered from customers on account of the assessment. Hydro Ottawa Limited has paid the assessment and is recovering the charge through rates from May 1, 2010 to April 30, 2012.

(v) 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.

(vi) The Late Payment Charge ['LPC'] penalties account relates to the settlement costs accrual associated with the LPC class action [(Note 23)(i)]. The July 22, 2010 court order formalized a settlement which involves payments by all utilities imposing late payment charges. On February 22, 2011, the OEB issued a decision that allows distributors to recover the costs and damages arising from the LPC class action over a 12-month period starting May 1, 2011.

(vii) The OEB directed distributors to record the incremental input tax credits ['ITCs'] received on the distribution revenue requirement items that were previously subject to provincial sales tax ['PST'] and which became subject to the harmonized sales tax ['HST'] on July 1, 2010. The OEB concluded that fifty percent [50%] of the balances should be returned to the ratepayers.

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. The OEB uses the Scotia Capital Inc. All Corporates Mid Term Average Weighted Yield as the approved rate of interest. The average annual interest rate for 2011 was 4.2% [2010 – 4.3%].

Payments in lieu of corporate income taxes

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ['MEU'] for purposes of the PILs regime contained in the *Electricity Act, 1998*, as all of its share capital is indirectly owned by the City of Ottawa and not more than 10% of its income is derived from activities carried on outside the municipal boundaries of the

City of Ottawa. The *Electricity Act, 1998* provides that a MEU that is exempt from tax under the *Income Tax Act (Canada)* ['ITA'] and the *Taxation Act, Ontario* ('TAO') is required to make, for each taxation year, a PILs payment to the Ontario Electricity Financial Corporation ['OEFC'] in an amount approximating the tax that it would be liable to pay under the ITA and the TAO if it were not exempt from tax.

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

The AP Handbook provides for the recovery of PILs by Hydro Ottawa Limited through annual distribution rate adjustments as approved by the OEB. Hydro Ottawa Limited recognizes regulatory liabilities and assets for the amounts of future income taxes expected to be refunded to or recovered from customers in future electricity rates.

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

PowerTrail is taxable under the ITA and TAO as less than 90% of its share capital is owned by the City of Ottawa. PowerTrail provides for corporate income taxes using the liability method.

Moose Creek LP is not a taxable entity for federal and provincial income tax purposes. Tax on Moose Creek LP's net income (loss) is borne by the individual partners through the allocation of taxable income.

(f) Financial instruments

All financial instruments are initially recorded at fair value, unless fair value cannot be reliably determined. The subsequent measurement of each financial instrument depends on the consolidated balance sheet classification elected by the Corporation.

The Corporation classifies and measures its financial instruments as follows:

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

(ii) 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 *CICA Handbook* Section 3840, *Related Party Transactions*. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable.

(iii) Bank indebtedness, accounts payable and accrued liabilities and notes payable are classified as other financial liabilities and are initially measured at their fair value with the exception of related party transactions which are measured at the carrying amount determined in accordance with *CICA Handbook* Section 3840, *Related Party Transactions*. Subsequent measurements are recorded at amortized cost using the effective interest rate method, if applicable. Advance payments and deposits are classified as held-for-trading and are measured at fair value.

(iv) Equity instrument investments that do not have a quoted market price in an active market are classified as available-for-sale investments and are measured at cost. Transaction costs that are directly attributable to the acquisition of available-for-sale investments are recognized immediately in income.

(v) Derivative investments that are linked to and must be settled by delivery of equity instruments of another entity whose fair value cannot be reliably measured are classified as held-for-trading investments and are measured at cost. Transaction costs that are directly attributable to the acquisition of held-for-trading investments are recognized immediately in income.

When there are indications of possible impairment, the Corporation determines if there has been a significant adverse change to the expected timing or amounts of future cash flows expected from a financial asset. The amount of any impairment loss is determined by comparing the carrying amount of the financial asset with the highest of three amounts:

(i) The present value of the cash flows expected to be generated by holding the asset, discounted using a current market rate of interest appropriate to that asset;

(ii) The amount that could be realized by selling the asset at the date of the consolidated balance sheet; and,

(iii) The amount expected to be realized by exercising its rights to any collateral held to secure repayment of the asset, net of all costs necessary to exercise those rights.

(g) Property, plant and equipment

Property, plant and equipment include generation plant, distribution equipment, facilities and buildings, as well as construction and operating equipment.

Hydro Ottawa Limited treats spare transformers, switchgear and meters as property, plant and equipment. Spare transformers, switchgear and meters are items that are expected to be substituted for the original distribution plant transformers, switchgear and meters when these original plant assets are being repaired, and are held and dedicated for the specific purpose of backing up plant in service as opposed to assets available for other uses. Hydro Ottawa Limited begins depreciating these assets as soon as they are designated as standby equipment in order to align Canadian GAAP accounting treatments with regulatory accounting requirements.

Energy Ottawa classifies major spare parts and standby equipment as property, plant and equipment when it expects to use them during more than one period. Energy Ottawa does not depreciate these assets until they are put into service.

Property, plant and equipment are recorded at cost and include contracted services, materials, labour, engineering costs, overheads and an allowance for the cost of funds used during construction. 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 and are included in property, plant and equipment. The amount is amortized by a charge to accumulated depreciation and a credit to 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	25 to 50 years
Furniture and equipment	5 to 10 years
Rolling stock	4 to 8 years
Electricity distribution infrastructure	10 to 40 years
Generating plant and equipment	10 to 60 years

Assets under construction 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.

(h) 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 through charges to income. A gain or loss may be incurred upon settlement of the liability.

(i) Intangible assets

Intangible assets include a connection cost agreement, land and water rights, and computer software.

Intangible assets are recorded at cost and amortized on a straight-line basis over the estimated service life of the related asset.

Estimated service lives for intangible assets are as follows:

Land and water rights	50 years
Computer software	5 to 10 years

Assets which are not ready for use are not subject to amortization.

The Corporation reviews its intangible assets 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.

(j) Leases

The Corporation classifies leases as capital or operating at the outset of the lease agreement based on whether the terms transfer substantially all of the benefits and risks incidental to ownership to the Corporation.

(k) Deferred costs

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

Deferred royalty costs consist of royalties paid under a long-term contract for the utilization of landfill gas to generate electricity at the Trail Road landfill site in Ottawa, Ontario. Deferred royalty costs are amortized on a straight-line basis over the term of the contract.

(l) Employee future benefits

Pension plan

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 contributory-defined benefit pension plan, which is financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. The Corporation recognizes the expense related to this Fund as contributions are made.

Employee future benefits other than pension plan

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

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

Employee future benefits are recorded on an accrual basis. The accrued benefit obligation and current service costs are calculated using the projected benefit method prorated on service and based on assumptions that reflect management's best estimate. The current service cost for a period is equal to the actuarial present value of benefits attributed to employees' services rendered in the period. Actuarial gains and losses resulting from experience different from that assumed or from changes in actuarial assumptions are amortized based on the excess of unamortized net actuarial gains and losses over a 10% corridor calculated in the aggregate for all groups. The expected average remaining service life as at December 31, 2011 is 13 years [2010 – 13 years].

(m) 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.

(n) 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) Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by Hydro Ottawa Limited.

(ii) Distribution sales

Electricity distribution sales represent charges for providing distribution services, and are recorded on the basis of regular meter readings and estimates of current usage from the last meter reading to the end of the fiscal period.

(iii) Other revenues

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

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

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

(iv) Unbilled revenue

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

3. CHANGES IN ACCOUNTING POLICIES

(a) Current – Business combinations, consolidated financial statements and non-controlling interests

On January 1, 2011, in accordance with its transitional provisions, the Corporation adopted new *CICA Handbook* Sections 1582, *Business Combinations*; 1601, *Consolidated Financial Statements*, and 1602, *Non-controlling Interests*, which replace previous *CICA Handbook* Sections 1581, *Business Combinations* and 1600, *Consolidated Financial Statements*. Section 1582 revises certain details and definitions in applying the acquisition method [formerly, the purchase method] to business combinations, most notably the definition of a business, the recognition of additional assets and disclosures, and the accounting treatment of acquisition related costs. Section 1602 revises the financial statement classification of non-controlling interest from long-term liabilities to equity, separate from the equity of the owners of the parent. In addition, the income statement of the controlling parent requires the 100 percent inclusion of the subsidiary's results and the presentation of the allocation of income between the controlling and non-controlling interests. Changes resulting from the adoption of Section 1582 are not material and have been applied prospectively. Changes resulting from Sections 1601 and 1602 have been applied retrospectively and resulted in a prior year change in presentation on the consolidated balance sheet [non-controlling interest amount of $545 from non-current liabilities to a portion of total equity in the comparative consolidated financial statements] and a presentation change on the consolidated statement of income, comprehensive income and retained earnings [prior year net income in the amount of $31,168 is allocated between the controlling portion of $31,231 and the non-controlling portion of ($63)].

(b) Future – International Financial Reporting Standards

On February 13, 2008, the Canadian Accounting Standards Board ['AcSB'] confirmed that publicly accountable enterprises will be required to adopt IFRS as issued by the International Accounting Standards Board ['IASB'] in place of Canadian GAAP for interim and annual reporting purposes for fiscal years beginning on or after January 1, 2011.

On September 10, 2010, the AcSB issued an amendment to the introduction of Part I of the *CICA Handbook* revising the mandatory date for first-time adoption of IFRS by qualifying entities with rate regulated activities to interim and annual financial statements relating to annual periods beginning on or after January 1, 2012. While earlier adoption is permitted, management elected to defer the adoption of IFRS until January 1, 2012 due to the uncertainty around the timing, scope and eventual adoption of a rate-regulated accounting ['RRA'] standard under IFRS and its potential material impact on the Corporation's main subsidiary Hydro Ottawa Limited's financial statements. As a result, the Corporation has prepared its December 31, 2011 consolidated financial statements in accordance with Part V, *Pre-changeover accounting standards* of the *CICA Handbook*.

The Corporation's assessment to identify the key accounting differences between Canadian GAAP and IFRS has been completed, however the IASB has deferred its project on RRA. Without specific guidance on RRA by the IASB, a transition to IFRS would likely result in the derecognition of some or perhaps all, of the Corporation's regulatory assets and liabilities, and as a result net income may be subject to increased volatility.

Due to the ongoing uncertainty regarding RRA under IFRS, the Corporation cannot reasonably quantify the impact of adopting IFRS on its consolidated financial statements.

The adoption of IFRS will require restatement, for comparative purposes, of amounts reported by the Corporation for its year ended December 31, 2011 and the opening balance sheet as at January 1, 2011.

4. ACCOUNTS RECEIVABLE

	2011	2010
Electricity receivables, net of allowance for doubtful accounts of $1,329 [2010 – $553]	50,006	58,554
Other receivables, net of allowance for doubtful accounts of $69 [2010 – $34]	10,745	8,991
Due from related parties, net of allowance for doubtful accounts of $nil [2010 – $46]	4,504	4,694
	65,255	72,239

5. UNBILLED REVENUE

	2011	2010
Unbilled revenue	94,012	82,832
Less: allowance for doubtful accounts	(327)	(611)
	93,685	82,221

6. INVENTORY

Inventory consists primarily of parts and supplies acquired for internal construction or consumption and is stated at the lower of cost and net realizable value, with cost determined on a weighted average basis.

The amount of inventory consumed by the Corporation and recognized as an expense during the year was $1,738 [2010 – $1,862].

7. NET REGULATORY ASSETS AND LIABILITIES

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

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

	2011	2010
Regulatory assets		
Deferred smart meter costs	6,400	7,753
Regulatory assets recovery account	–	26
Other variances and deferred costs	410	2,183
	6,810	9,962
Provision for doubtful recovery	(331)	(1,052)
Total net regulatory assets	6,479	8,910
Less: current portion	(3,379)	(4,738)
	3,100	4,172
Regulatory liabilities		
Settlement variances	20,743	8,664
Regulatory liabilities refund account	10,017	–
Deferred payments in lieu of corporate income taxes	–	211
	30,760	8,875
Provision for doubtful recovery	–	1,200
Total net regulatory liabilities	30,760	10,075

(a) Regulatory assets

Deferred smart meter costs include accrued interest costs of $395 [2010 – $115] and other variances and deferred costs include accrued interest earned of $22 [2010 – $17].

(b) Regulatory liabilities

The regulatory liabilities refund account is the aggregate of all regulatory assets and liabilities which have been approved for recovery or disposition plus accrued net interest costs of $237 [2010 – $1,639] up to December 31, 2011 less amounts already settled through distribution rates.

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

Other regulatory liabilities are comprised of settlement variances, which include accrued interest costs of $354 [2010 – $27] and deferred payments in lieu of corporate income taxes, which include accrued interest costs of $nil [2010 – $10].

(c) Income before PILs

In the absence of rate regulation, the income before PILs for the year ended December 31, 2011 would be higher by $23,116 [2010 – higher by $14,629].

(d) Provision for doubtful recovery

The Corporation continues to assess the likelihood of recovery of all regulatory assets subject to recovery through a future rate filing. The absence of OEB approval is a consideration in this evaluation. The Corporation has recorded a net provision of $331 [2010 – $2,252] against regulatory assets. If future recovery becomes assured, the Corporation will recognize the recovery in the income for the period during which such a decision is made.

8. PROPERTY, PLANT AND EQUIPMENT

	2011		
	Cost	Accumulated depreciation	Net book value
Land	5,372	–	5,372
Buildings and fixtures	74,586	17,236	57,350
Furniture and equipment	18,446	13,267	5,179
Rolling stock	21,719	14,828	6,891
Electricity distribution infrastructure	978,414	387,428	590,986
Generating plant and equipment	44,245	10,693	33,552
Assets under construction	35,416	–	35,416
	1,178,198	443,452	734,746
Contributions in aid of construction	(192,828)	(39,202)	(153,626)
	985,370	404,250	581,120

	2010		
	Cost	Accumulated depreciation	Net book value
Land	5,372	–	5,372
Buildings and fixtures	74,760	17,582	57,178
Furniture and equipment	17,056	11,049	6,007
Rolling stock	20,898	14,516	6,382
Electricity distribution infrastructure	948,092	392,520	555,572
Generating plant and equipment	42,844	9,769	33,075
Assets under construction	19,549	–	19,549
	1,128,571	445,436	683,135
Contributions in aid of construction	(171,778)	(31,914)	(139,864)
	956,793	413,522	543,271

Included in the cost of generating plant and equipment is $1,306 [2010 – $1,298] related to Energy Ottawa's undivided interest in the Chaudière dam.

During the year, the Corporation capitalized an AFUDC of $933 [2010 – $893].

The OEB permits a deemed AFUDC to be attributed to the cost of an item of property, plant and equipment that is acquired, constructed, or developed over time. Since AFUDC includes not only carrying costs directly attributable to the acquisition, construction, or development activity, the actual capitalized amounts could differ for rate regulation purposes. In the absence of rate regulation, the income before PILs for the year ended December 31, 2011 would be higher by $250 [2010 – higher by $212].

During the year, the Corporation incurred a gain on disposal of property, plant and equipment of $54 [2010 – $3]. This gain does not include the effects of the Ontario government's smart meter initiative which resulted in conventional meters amounting to $205 [2010 – $380] being removed from service, and would have resulted in a loss on disposal of $68 [2010 – $138] in the absence of rate regulation. This loss on disposal is deemed by the OEB to be a regulatory asset to be recovered through future rates.

The Corporation entered into significant non-cash transactions that have been excluded from the consolidated statement of cash flows. These transactions were related to property, plant and equipment additions of $11,773 [2010 – $8,873], of which $11,563 represent amounts included in accounts payable and accrued liabilities and $210 in construction holdbacks at December 31, 2011.

On March 13, 2009, a fire destroyed a transformer station located in the east end of Ottawa and, as a result, equipment with a net book value of $116 was written off in 2009. The Corporation had adequate property insurance coverage and recorded insurance proceeds receivable of $116 in respect of the damaged equipment, and $1,095 for the recovery of expenses incurred to clean up and restore services at the site. No gain or loss related to damaged equipment was reflected in 2009. In 2010, the Corporation negotiated a settlement with the insurance company and recognized a gain for accounting purposes from insurance settlement of $2,683. The insurance settlement proceeds of $2,703 [net of deductible] relates to damaged equipment, and $1,191 [net of deductible] to the recovery of expenses to clean up and restore services at the site.

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, 2011, the unamortized balance of the non-repayable funding received of $47 [2010 – $50] is included in contributions in aid of construction. The current portion of the remaining repayable balance amounts to $14 [2010 – $13] and is included in accounts payable and accrued liabilities, while the long-term portion in the amount of $55 [2010 – $70] is included in repayable grant.

9. INTANGIBLE ASSETS

	2010	Acquisitions	Retirements	2011
Cost				
Land and water rights	3,546	75	(496)	3,125
Computer software	60,043	5,250	–	65,293
Connection cost agreement	–	567	–	567
	63,589	5,892	(496)	68,985

	2010	Amortization	Retirements	2011
Accumulated amortization				
Land and water rights	1,709	48	(496)	1,261
Computer software	37,790	7,610	–	45,400
	39,499	7,658	(496)	46,661

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2011			
Land and water rights	3,125	1,261	1,864
Computer software	65,293	45,400	19,893
Connection cost agreement	567	–	567
	68,985	46,661	22,324

	2009	Acquisitions	Retirements	2010
Cost				
Land and water rights	3,537	9	–	3,546
Computer software	54,030	6,013	–	60,043
	57,567	6,022	–	63,589

	2009	Amortization	Retirements	2010
Accumulated amortization				
Land and water rights	1,662	47	–	1,709
Computer software	30,128	7,662	–	37,790
	31,790	7,709	–	39,499

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2010			
Land and water rights	3,546	1,709	1,837
Computer software	60,043	37,790	22,253
	63,589	39,499	24,090

Included in intangible assets at December 31, 2011 is $3,801 [2010 – $1,136] in computer software that has not yet been amortized as such software is not ready for use.

There was no impairment of intangible assets for the years ended December 31, 2011 and 2010.

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 $569 [2010 – $762], which represent amounts included in accounts payable and accrued liabilities at year end.

10. OTHER ASSETS

	2011	2010
Current		
Available-for-sale investment – Purchase Option with Put Right	–	500
Available-for-sale investment – Second Purchase Option with Second Put Right	–	500
Prepaids	1,835	1,168
	1,835	2,168
Long-term		
Available-for-sale investment – Common Shares	–	500
Deferred royalty costs	1,599	1,703
	1,599	2,203

At December 31, 2010, the Corporation held a $500 available-for-sale financial instrument carrying the option to purchase 5,000,000 Streetlight Intelligence Inc. ['SLI'] common shares ['Purchase Option'] at an exercise price of eleven cents per share, exercisable on or before August 19, 2011. SLI is a Canadian public company that develops advanced street light optimization systems. The Purchase Option included a put right ['Put Right'], whereby the Corporation could require SLI to repurchase and cancel the Purchase Option for $500 plus interest of approximately 10% per annum. To secure the Put Right, SLI granted the Corporation first priority security over all of SLI's assets and over all the assets of SLI's subsidiary. This investment did not have a quoted market price in an active market and was recorded at cost as a short-term investment on the consolidated balance sheet.

At December 31, 2010, the Corporation held a second $500 available-for-sale financial instrument carrying the option to purchase 5,000,000 SLI common shares ['Second Purchase Option'] at an exercise price of twelve cents per share, exercisable on or before January 13, 2012. The Second Purchase Option included a put right ['Second Put Right'], whereby the Corporation could require SLI to repurchase and cancel the Second Purchase Option for $500 plus interest of approximately 10% per annum. To secure the Second Put Right, SLI granted the Corporation first priority security over all of SLI's assets and over all the assets of SLI's subsidiary. This investment did not have a quoted market price in an active market and was recorded at cost as a short-term investment on the consolidated balance sheet.

At December 31, 2010, the Corporation held 4,166,667 units of SLI at a price of twelve cents per unit, as part of a private placement. Each unit consisted of one SLI common share and half of one SLI common share purchase warrant [‘Unit’]. Each whole SLI common share purchase warrant [‘Warrant’] entitled the holder thereof to purchase one common share [‘Warrant Share’] at an exercise price of twenty-four cents per Warrant Share for a period of 12 months from the closing date. This investment did not have a quoted market price in an active market and was recorded at cost as a long-term investment on the consolidated balance sheet.

On April 19, 2011, SLI announced that as of April 15, 2011, all employees of SLI were issued temporary layoff notices and the operations of SLI were suspended. On May 11, 2011, the Corporation notified SLI that it was exercising the Put Right and Second Put Right as a result of the occurrence of a series of events of default pursuant to both Purchase Option agreements. As a result, the Corporation altered its intentions on the holdings of these financial instruments and therefore moved its financial instrument classification from available-for-sale to loans and receivables as of this date. On May 16, 2011, on an application by SLI and its subsidiary Streetlight Intelligence International Inc., the Supreme Court of British Columbia appointed a Receiver of all of the assets of these two companies. On November 21, 2011, the Receiver announced that on November 15, 2011, the Supreme Court of British Columbia approved the sale of substantially all of the assets of SLI and its subsidiary to LED Roadway Lighting Ltd. of Halifax, Nova Scotia. The sale closed on November 18, 2011 for a purchase price of $700.

As a result of the above events, the Corporation has recorded impairment charges with respect to the above financial instruments for the year ended December 31, 2011. Based on information management has obtained from the Receiver, the Corporation has recorded a current receivable of $100 [$50 for each Purchase Option] which represents the expected net proceeds due to the Corporation based on its first priority security over all of SLI’s assets and the assets of SLI’s subsidiary. This resulted in a loan impairment charge of $900 which is recorded in operating costs on the consolidated statement of income, comprehensive income and retained earnings. Secondly, the Units have been valued at $nil by the Corporation given the past year’s events, resulting in an investment impairment charge of $500 also recorded in operating costs at December 31, 2011.

11. CREDIT FACILITY

On July 26, 2011, the Corporation renewed its pre-existing credit facility for a revised amount of $143,650 [2010 – $142,650]. The facility is structured into five types of credit availability and consists of a $75,000 364-day revolving operation line which matures on July 12, 2012, a $50,000 line to fund capital expenditures and growth opportunities which matures July 15, 2015, a $17,500 line to fund letters of credit and other guarantees, a $150 corporate Visa facility and a new $1,000 commercial card facility. This credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of $175,000 at all times. It also requires the debt to capitalization ratio to be at or below 75% on a consolidated basis. As at December 31, 2011, the Corporation had drawn an amount of $14,333 [2010 – $14,193] against its facilities in standby letters of credit.

On October 12, 2011, PowerTrail renewed its existing credit facility for $200 in standby letters of credit to the Ontario Power Authority [‘OPA’]. 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, 2011, PowerTrail had drawn an amount of $133 [2010 – $100] in standby letters of credit against this facility.

CWPI maintains a credit facility consisting of a $500 operating credit line secured by the three principals of CWPI. The operating credit line is repayable on demand, bears interest at the Bank of Canada's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2011, CWPI had not drawn on this operating line [2010 – $nil].

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Purchased power payable	66,741	58,949
Customer credit balances	9,879	8,814
Customer deposits	15,159	18,107
Other accounts payable and accrued liabilities	37,406	30,444
Due to related parties	624	336
	129,809	116,650

13. OTHER LIABILITIES

	2011	2010
Customer deposits	13,172	11,310
Repayable grant [Note 8]	55	70
Asset retirement obligation [Note 14]	627	771
	13,854	12,151

14. ASSET RETIREMENT OBLIGATIONS

	2011	2010
Balance, beginning of year	771	1,167
Liabilities settled during the year	(148)	(178)
Accretion expense	19	9
Revisions in estimated cash flows	(15)	(227)
	627	771

As at December 31, 2011, the Corporation estimates an asset retirement obligation ['ARO'] of $627 [2010 – $771] 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 [2010 – three years] totalling $701 [2010 – $850] and a discount rate of 5.3% [2010 – 5.3%]. No assets have been legally restricted for settlement of the liability.

15. EMPLOYEE FUTURE BENEFITS

Pension plan

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2011 amounted to $4,085 [2010 – $3,417].

Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% [2010 – 3.1%] and a discount rate of 4.3% [2010 – 5.0%] to calculate the liabilities.

Information about the Corporation's defined benefit plans is as follows:

	2011		
	Accumulated liability	Expense for the year	Benefits paid
Life insurance	5,319	659	456
Retirement grant provision	868	76	34
Sick leave	5	–	4
	6,192	735	494
Projected benefit obligation	9,939		
Actuarial deficit	(3,747)		

	2010		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	5,103	554	389
Retirement grant provision	826	85	52
Supplemental pensions	–	(5)	–
Sick leave	9	–	–
	5,938	634	441
Projected benefit obligation	8,678		
Actuarial deficit	(2,740)		

An actuarial valuation was performed as at December 31, 2011. As a result of this exercise, the Corporation increased the projected benefit obligation by $1,261 [2010 – $1,192]. As at December 31, 2011, there were unamortized losses of $3,763 [2010 – $2,748]. The excess over the 10% corridor is being charged to income over the average remaining service life of current employees of 13 years, beginning January 1, 2012.

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities amounts to $656 [2010 – $605] and the non-current portion of $5,536 [2010 – $5,333] is included in non-current liabilities.

16. NOTES PAYABLE

	2011	2010
4.93% Senior Unsecured Debentures, Series 2005-1, due February 9, 2015	199,334	199,119
4.968% Senior Unsecured Debentures, Series 2006-1, due December 19, 2036	49,741	49,731
IGRS promissory note	3,080	3,080
	252,155	251,930

On February 9, 2005, the Corporation issued $200,000 in 4.93% Senior Unsecured Debentures, series 2005-1, due February 9, 2015. The debentures bear interest at a rate of 4.93% per annum, payable semi-annually in arrears in equal installments on February 9 and August 9, which commenced August 9, 2005. The debentures were purchased at 100% of their principal amount.

On December 20, 2006, the Corporation issued $50,000 in 4.968% Senior Unsecured Debentures, series 2006-1, due December 19, 2036. The debentures bear interest at a rate of 4.968% per annum, payable semi-annually in arrears in equal installments on June 19 and December 19, which commenced June 19, 2007. The debentures were purchased at 100% of their principal amount.

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

The IGRS promissory note for $3,080 [2010 – $3,080] 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, and subject to certain conditions. The management of IGRS has confirmed that it does not intend to call this note within one year.

17. CAPITAL DISCLOSURES

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

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

(ii) Ensure compliance with covenants related to the credit facilities and Senior Unsecured Debentures; and

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

The Corporation's capital consists of the following:

	2011	2010
Bank indebtedness	–	239
Notes payable [Note 16]	252,155	251,930
Total debt	252,155	252,169
Shareholder's equity	352,140	343,424
Total capital	604,295	595,593
Debt capitalization ratio	42%	42%

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

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

As at December 31, 2011, Hydro Ottawa Limited's capital structure is aligned with the debt to equity structure recommended by the OEB.

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

18. SHARE CAPITAL

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 [10 votes per share] fourth preferred shares, 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.

Issued

	2011	2010
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), 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 March 31, 2011, the Board of Directors declared a $17,500 dividend to the City of Ottawa, which was paid on April 6, 2011 [2010 – March 26, 2010, the Board of Directors declared a $17,600 dividend to the City of Ottawa, which was paid on May 7, 2010].

19. NON-CONTROLLING INTEREST

The non-controlling interest at December 31, 2011 represents the sum of:

(i) IGRS' non-controlling interest [40%] in the net assets of PowerTrail; and

(ii) IGRS and Moose Creek GP's combined non-controlling interest [49.95%] in the net assets of Moose Creek LP.

20. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, accounts payable and accrued liabilities, customer deposits and notes payable. Regulatory assets and liabilities do not qualify as financial instruments as they do not meet the definition of a financial asset or liability. The only financial instrument recorded at fair value is cash and it is classified as level 1 in the *CICA Handbook* Section 3862 fair value hierarchy. The carrying values of the Corporation's remaining financial instruments, except for the Senior Unsecured Debentures, approximate their fair values because of the short maturities of the instruments, unless otherwise noted.

The carrying values and fair values of the Corporation's financial instruments are as follows:

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Cash	2,856	2,856	–	–
Accounts receivable, net of allowance for doubtful accounts	65,255	65,255	72,239	72,239
Unbilled revenue, net of allowance for doubtful accounts	93,685	93,685	82,221	82,221
Available-for-sale investments – Purchase Options with Put Rights	–	–	1,000	N/A
Available-for-sale investment – Common Shares	–	–	500	N/A

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Bank indebtedness	–	–	239	239
Accounts payable and accrued liabilities	129,809	129,809	116,650	116,650
Customer deposits	13,172	13,172	11,310	11,310
4.93% Senior Unsecured Debentures, Series 2005-1, due February 9, 2015	199,334	208,962	199,119	203,159
4.968% Senior Unsecured Debentures, Series 2006-1, due December 19, 2036	49,741	57,911	49,731	50,166
IGRS promissory note	3,080	N/A	3,080	N/A

The Corporation has determined the fair value of the Senior Unsecured Debentures based on discounting all future payments of interest and the principal repayments on February 9, 2015 and December 19, 2036 at the estimated interest rate of 4.0% [2010 – 5.0%] that would be available to the Corporation on December 31, 2011.

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.

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.

(a) 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.

(i) 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 would 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 and the operating line are based on a margin determined by reference to the Corporation's credit rating. As at December 31, 2011, the Corporation has not drawn down on its operating line and it does not have any outstanding bankers' acceptances. For the most part, the borrowing requirements are for a very short duration as the advances serve to bridge gaps between the cash outflow related to the monthly power bill and the inflows related to the settlements with customers and, as such, there is very limited exposure to interest rate risk.

(ii) As at December 31, 2011, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase a small proportion of goods and services which are denominated in foreign currencies, predominately the US dollar. The impact of the fluctuation of foreign currencies on the gains or losses of payables denoted in foreign currencies is not material to disclose.

(iii) As at December 31, 2011, the Corporation has not entered into any hedging transactions or derivative contracts.

(b) Credit risk is the risk that a counterparty will default on its obligations, causing a financial loss. Concentration of credit risk associated with accounts receivable and unbilled revenue is limited due to the large number of customers the Corporation services. Hydro Ottawa Limited has over 300,000 customers, the majority of which are residential. As a result, Hydro Ottawa Limited 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 an Arrears Management Program, rather than as a deposit to be applied to the final bill. Further, additional amendments prohibit Hydro Ottawa Limited from collecting deposits from low income residential customers. Management has concluded that residential security deposits are no longer as effective for mitigating credit risk. Effective January 1, 2011, Hydro Ottawa Limited ceased collecting residential security deposits, and began refunding all residential deposits on hand. As at December 31, 2011, the Corporation held security deposits related to distribution sales in the amount of $1,035 [2010 – $11,057].

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

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

The carrying amount of accounts receivable and unbilled revenue is reduced by an allowance for doubtful accounts based on the credit risk applicable to particular customers, and historical and other information. The Corporation records an allowance for doubtful accounts when the recoverability of an amount becomes doubtful. The amount of the related impairment loss is recognized in income in the period during which such a decision is made. When the receivable amount is deemed to be uncollectible, it is written off and the allowance for doubtful accounts is adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off are credited to income. As at December 31, 2011, the allowance for doubtful accounts was $1,725 [2010 – $1,244] 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:

	2011	2010
Total accounts receivable	66,653	72,872
Total unbilled revenue	94,012	82,832
Less: allowance for doubtful accounts	(1,725)	(1,244)
	158,940	154,460
Of which:		
Outstanding for less than 30 days	57,722	64,087
Outstanding for more than 31 days but not more than 120 days	7,397	7,590
Outstanding for more than 121 days	1,534	1,195
Unbilled revenue	94,012	82,832
Less: allowance for doubtful accounts	(1,725)	(1,244)
	158,940	154,460

As at December 31, 2011, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties, and approximately 13% [2010 – 12%] 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 less deposits held.

(c) 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 are maintained to meet obligations as they come due while minimizing standby fees and interest.

On July 26, 2011, the Corporation renewed a credit facility which consists of a $75,000, 364-day revolving operating line maturing on July 12, 2012. This line of credit is available to the Corporation to help meet its financial obligations as they come due.

Liquidity risks associated with financial commitments are as follows:

	2011		
	Due within 1 year	Due between 1 year and 5 years	Due after 5 years
Accounts payable and accrued liabilities	129,809	–	–
4.93% Senior Unsecured Debentures, Series 2005-1	–	199,334	–
4.968% Senior Unsecured Debentures, Series 2006-1	–	–	49,741
IGRS promissory note	–	3,080	–
	129,809	202,414	49,741

21. FINANCING COSTS

	2011	2010
Short-term interest [net of interest income]	(202)	(151)
Interest on notes payable	12,580	12,569
Other	471	495
Less: allowance for funds used during construction	(933)	(893)
	11,916	12,020

22. PAYMENTS IN LIEU OF CORPORATE INCOME TAXES

The provision for PILs differs from the amount that would have been recorded using the combined Canadian federal and Ontario statutory income tax rates.

A reconciliation between the statutory and effective tax rates is provided as follows:

	2011	2010
Federal and Ontario statutory income tax rate	28.25%	31.00%
Income before provision for PILs	36,595	46,148
Provision for PILs at statutory rate	10,338	14,306
Increase (decrease) resulting from:		
Permanent differences	1,097	564
Temporary differences	1,208	(668)
Change in valuation allowance	177	(112)
Rate differential on current year temporary differences	(25)	(51)
Changes in future tax rates	411	769
Income tax reassessments	(758)	322
Regulatory offset to temporary differences and changes in future tax rates	(1,735)	(295)
Other	(520)	145
	10,193	14,980
Effective income tax rate	27.85%	32.46%

Provision for PILs consists of the following:

	2011	2010
Current PILs corporate income tax provision	9,437	14,389
Future PILs corporate income tax provision		
Future income tax provision before regulatory adjustment	3,336	1,489
Regulatory adjustment for the recovery of future income taxes in future customer rates	(2,580)	(898)
	10,193	14,980

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

	2011	2010
Assets		
Future income tax assets, current	615	713
Future income tax assets, non-current	25,139	27,776
	25,754	28,489
Liabilities		
Future income tax liabilities, non-current	4,452	3,853
	21,302	24,636

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

	2011	2010
Property, plant and equipment and intangible assets	17,479	20,188
Employee future benefits	2,042	2,051
Non-capital loss carryforwards	1,103	1,462
Other taxable temporary differences	678	935
	21,302	24,636

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:

	2011	2010
Liabilities		
Regulatory liability for future income tax assets, current	615	557
Regulatory liability for future income tax assets, non-current	25,139	27,776
	25,754	28,333

As at December 31, 2011, the Corporation had net taxable temporary differences between the tax basis of assets and their carrying amount for accounting purposes of $214 [2010 – $539]. These amounts translated into a future income tax liability of $232 which has been recognized in the financial statements [2010 – net future tax liability of $140].

As at December 31, 2011, the Corporation had unused non-capital tax losses of $nil [2010 – $599 expiring in 2028 and 2029]. The Corporation also had capital losses of $700 [2010 – $nil] which have not been recognized in the financial statements.

As at December 31, 2011, Energy Ottawa had corporate minimum tax [‘CMT’] carryforwards of $499 [2010 – $900], which have been used to reduce its future income tax liability. These CMT carryforwards begin to expire in 2016.

As at December 31, 2011, PowerTrail had non-capital tax loss carryforwards of $4,240 [2010 – $4,914], which have been applied to reduce its future income tax liability. These losses expire between 2026 and 2030.

Non-capital losses are available to offset taxable income in future years for purposes of the PILs regime. The companies considered to be MEUs are subject to PILs as long as they are exempt from federal taxation under paragraph 149[1][d.6] of the ITA. The non-capital tax losses generated from the PILs regime will not be available to offset taxable income of these companies if the companies are no longer exempt for federal and provincial tax purposes.

23. CONTINGENT LIABILITIES

(i) On November 18, 1998, a class action claiming $500,000 in restitutionary payments plus interest was served on the former Toronto Hydro Electric Commission as the representative of the Defendant Class consisting of all municipal electric utilities in Ontario [‘LDCs’], which have charged late payment charges on overdue utility bills at any time after April 1, 1981. The claim was that late payment penalties result in electric utilities receiving interest at effective rates in excess of what is allowed under Section 347[1][b] of the Criminal Code.

By Order dated July 22, 2010, the Ontario Superior Court of Justice formalized a settlement which involves the payment of $18,382 by all utilities imposing late payment charges. The amount paid by each utility is to be its proportionate share of the settlement amount based on its percentage of distribution service revenue over the period for which it has exposure for repayment of late payment penalties exceeding the interest rate limit in the Criminal Code. Hydro Ottawa Limited’s share, relating to late payment charges collected between 1999 and 2001, amounts to $1,026.

On February 22, 2011, the OEB issued a decision that allows distributors to recover the costs and damages arising from the LPC class action over a 12-month period starting May 1, 2011. Hydro Ottawa Limited has accrued a liability and a regulatory asset arising from the late payment charge settlement and has been collecting on the LPC through a rate rider since May 1, 2011.

(ii) Purchasers of electricity in Ontario, through the IESO, are required to provide security to mitigate the risk of their default based on their expected activity in the market. The IESO could draw on these guarantees if the Corporation fails to make a payment required by a default notice issued by the IESO. A prudential support obligation is calculated based upon a default protection amount and the distributor’s trading limit less a reduction for the distributor’s credit rating. At December 31, 2011, the Corporation had drawn standby letters of credit of $14,000 [2010 – $14,000] against its credit facility to cover its prudential support obligation. In addition, the Corporation provided bank letters of credit of $93 [2010 – $93] to the City of Ottawa as security for construction projects.

(iii) In 2005, Energy Ottawa was awarded a $70,000 twenty-year contract to supply the Government of Ontario with renewable energy, which was subsequently assigned to PowerTrail. PowerTrail has renewed its standby letter of credit for a revised amount of $133 [2010 – $100], expiring on October 12, 2012, related to this contract. In addition, the Corporation has two standby letters of credit to the OPA for a total of $240 [2010 – one for $100], expiring on June 1, 2012 and June 19, 2012, as security for the Feed-in Tariff Program issued by the OPA in 2010.

(iv) 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.

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

24. COMMITMENTS

Hydro Ottawa Limited has $47,402 in total open commitments, of which $36,369 are for 2012, $4,990 for 2013, $4,520 for 2014, $1,523 for 2015 and $nil for 2016. This includes commitments relating to a customer information system services agreement, construction projects, inventory purchases and overhead and underground services.

In 2004, Energy Ottawa entered into a Gas Utilization License of Occupation Agreement with the City of Ottawa, which was subsequently assigned to PowerTrail. Under this agreement, the City of Ottawa is to provide facilities for the collection and use of the gas generated by the Trail Road landfill site in consideration for a royalty of 5.5% of PowerTrail's gross annual receipts derived from the sale of electricity associated with the use of gas from the landfill payable over the term of the agreement and a one-time royalty of up to $2,000, represented by the initial improvements to the gas collection system. As at December 31, 2007, the Corporation had fulfilled its obligation related to the one-time royalty and, as at December 31, 2011, the obligation related to the gross annual receipts royalty was also fulfilled.

During the year, Moose Creek GP [on behalf of Moose Creek LP] entered into a cost-plus Construction Agreement with IGRS for the design, development and construction of a landfill gas collection and generation plant at the Laflèche landfill site in Moose Creek, Ontario. The Corporation expects the project to begin energy production in 2013. Once operational, Moose Creek LP will supply the Government of Ontario with renewable energy under a twenty-year Feed-in Tariff contract ["FIT Contract"] assuming all conditions are met with respect to the FIT Contract.

The operating lease obligations of the Corporation are as follows:

2012	118
2013	67
2014	64
2015	64
2016	64
Thereafter	456
	833

25. RELATED PARTY TRANSACTIONS

The following table provides the transactions entered into with related parties as well as outstanding balances at year end. These transactions occur in the normal course of business and are recorded at the exchange amount [i.e. commercial rates], which is 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.

	2011			
	Transactions during the year		Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Electricity, energy management consulting and other services	37,269	–	–	–
Fuel, permits and other services	–	1,926	–	–
Property taxes	–	1,865	–	–
Royalties	–	153	–	–
Conservation and demand management initiatives	–	247	–	–
Due from related party	–	–	4,504	–
Due to related party	–	–	–	561
	37,269	4,191	4,504	561
CWPI				
Prepaids	–	14	–	–
Operating and maintenance expenses	–	439	–	–
Property, plant and equipment	–	8	–	–
Due to related party	–	–	–	63
	–	461	–	63
Total	37,269	4,652	4,504	624

	2010			
	Transactions during the year		Balances at year end	
	Sales to related parties	Purchases from related parties	Due from related parties	Due to related parties
City of Ottawa				
Electricity, energy management consulting and other services	38,785	–	–	–
Fuel, permits and other services	–	614	–	–
Property taxes	–	1,796	–	–
Royalties	–	134	–	–
Conservation and demand management initiatives	–	144	–	–
Due from related party	–	–	4,694	–
Due to related party	–	–	–	305
	38,785	2,688	4,694	305
CWPI				
Prepaids	–	16	–	–
Operating and maintenance expenses	–	394	–	–
Property, plant and equipment	–	10	–	–
Due to related party	–	–	–	31
	–	420	–	31
Total	38,785	3,108	4,694	336

26. SUBSEQUENT EVENTS

Hydro Ottawa Limited's revenues consist primarily of distribution tariffs based on OEB approved rates and the recovery of the cost of purchased power. On December 28, 2011, the OEB announced its decision regarding Hydro Ottawa Limited's distribution rates. The final rate order was received on January 26, 2012. The rate order included rate riders to dispose of the regulatory liabilities refund account, which were implemented on February 1, 2012.

On April 4, 2012, Energy Ottawa entered into an asset purchase agreement for generation assets. The agreement includes numerous closing conditions which can have a material impact on the value of the agreement. Hence, the value of the purchase commitment is not determinable at this time. The closing of this transaction is currently expected to occur in late fiscal 2012.

27. COMPARATIVE FIGURES

In certain instances, the 2010 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

Hydro Ottawa Holding Inc.

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 is benchmarked to companies of comparable size and scope in both the Ontario and national markets, with the target for total cash compensation set at the 50th percentile, or midpoint, of the market.

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

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

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

SUMMARY OF COMPENSATION

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

NAME AND PRINCIPAL POSITION[1]	YEAR	BASE SALARY ($)[2]	AT RISK PERFORMANCE INCENTIVE ($)[3]	OTHER ANNUAL POSITION COMPENSATION ($)[4]
Bryce Conrad President and Chief Executive Officer	2011	$112,500[5]	N/A	$4,557
Alan Hoverd Chief Financial Officer	2011	$227,419[6]	$107,457	$14,523
	2010	$219,151	$107,984	$11,405
	2009	$215,000	$34,496[7]	$17,375
Norm Fraser Chief Operating Officer – Distribution and Customer Service	2011	$211,346	$89,629	$9,058
	2010	$198,765	$92,479	$13,537
	2009	$195,000	$85,654	$11,390
Gregory Clarke Chief Operating Officer – Generation	2011	$171,256	$75,064	$8,545
	2010	$160,541	$72,765	$13,315
	2009	$163,132	$68,434	$11,276

1 Executives whose earnings are reported are those who occupied the position at December 31, 2011

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

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

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

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

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

7 Mr. Hoverd's at risk performance incentive paid in 2009 was based on employment from September 2 to December 31, 2008

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

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 required to use the services of a recognized recruitment firm to search for candidates for appointment to the Board.

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 competencies among one or more directors: strong business background; a strong financial background including financial accreditation; industry sector experience in the areas of business of the subsidiary companies; strategic planning and corporate stewardship experience; competitive business experience; an awareness of the needs of the Corporation's customers; public or private market financing experience; and board 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 also 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 also 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.

President and Chief Executive Officer Selection: The President and Chief Executive Officer Selection Committee, with the assistance of the Chief Human Resources Officer and external consultants, identifies, evaluates and recommends candidates for the position of President and Chief Executive Officer to the Hydro Ottawa Holding Inc. Board of Directors.

Board and Committee Meeting Attendance

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

HYDRO OTTAWA HOLDING INC.

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard (Chair)	8/8	18/18
Bryce Conrad (incoming President and CEO)	3/3	N/A
Patrick Dion	8/8	3/4
Shawn Gibbons	7/8	6/6
Manon Harvey	8/8	10/11
Alan Hoverd (Acting President and CEO)	2/2	N/A
Peter Hume	4/8	1/2
John Kelly	6/8	4/4
Rosemarie Leclair (outgoing President and CEO)	3/3	N/A
Maria McRae	5/8	N/A
Ford Ralph	7/8	14/14
Jim Watson	3/8	3/4
Ken Wigglesworth	8/8	9/9

HYDRO OTTAWA LIMITED

DIRECTOR	BOARD MEETINGS	COMMITTEE MEETINGS
Pierre Richard (Chair)	8/8	N/A
George Anderson	7/8	4/4
Bryce Conrad (incoming President and CEO)	3/3	N/A
Manon Harvey	8/8	N/A
Alan Hoverd (Acting President and CEO)	2/2	N/A
O. Allan Kupcis	7/8	5/5
Rosemarie Leclair (Outgoing President and CEO)	3/3	N/A
Bob Monette	5/8	N/A
Duncan Watt	6/8	5/5

Members of The Board of Directors

Hydro Ottawa Holding Inc.*

Pierre Richard (Chair), Q.C.

Bryce Conrad

Patrick Dion

Shawn Gibbons

Manon Harvey, C.A.

Councillor Peter Hume

John Kelly

Councillor Maria McRae

Ford Ralph

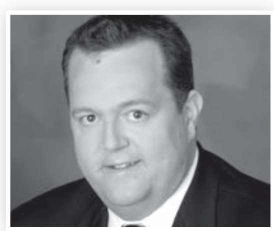
Mayor Jim Watson

Ken Wigglesworth, C.A.

Hydro Ottawa Limited*

Pierre Richard (Chair), Q.C.

George Anderson



Bryce Conrad

Manon Harvey, C.A.

O. Allan Kupcis

Councillor Bob Monette

Duncan Watt

* As at December 31, 2011.

Note: Rosemarie Leclair, LL.B., (President and CEO until April 5, 2011) and Alan Hoverd, CMA (Acting President and CEO from April 6, 2011 to August 14, 2011) both served on the Board of Directors of Hydro Ottawa Holding Inc. and Hydro Ottawa Limited during 2011. The Corporation and the members of the Board of Directors wish to convey their sincere appreciation for their dedicated service.

HydroOttawa
Holding Inc.

Glossary of Terms

Electricity Industry

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

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

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

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

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

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

Internal Systems and Processes

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

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

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

Financial Reporting

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

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

GAAP Generally accepted accounting principles are a common set of accounting principles, standards and procedures companies use to prepare their financial statements.

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 GAAP (see above) for years beginning on or after January 1, 2012.

Hydro Ottawa Holding Inc.

Earnings

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

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

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

Net Income This is what is left over after the company has met all its expenses and obligations.

Cash Sources and Uses

Generated from Operations Similar to EBITDA, this is the amount of money that Hydro Ottawa produced during 2011, after all the expenses paid during the year and adding back non-cash "accounting" items such as amortization and depreciation. Essentially, it is net income adjusted for all expenses and revenues that do not include a cash outlay or receipt.

Capital Assets Capital assets include property, plant and equipment and intangible assets. Increases in capital assets relate primarily to Hydro Ottawa Limited's investments in its distribution system.

Financing The process that makes money available for projects and activities. Financing can come from many sources—from existing resources or corporate cash flow or from money raised in financial markets through bank loans or the issuance of bonds, debentures or shares, for instance.

Ratios

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

Working Capital This measure compares the company´s easy access to funds (through its cash, accounts receivables, inventories and other assets that can be readily turned into cash) versus its immediate liabilities (such as bank debt, accounts payable, etc.). Healthy companies have more current assets than liabilities, represented by a ratio greater than 1.0.

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

Miscellaneous

OMERS Ontario Municipal Employees Retirement System is one of Canada´s largest pension plans, providing pension services to more than 420,000 active and retired members and survivors, and 931 employers.

Hydro Ottawa Holding Inc.

3025 Albion Road North
PO Box 8700
Ottawa, Ontario K1G 3S4
Tel (613) 738-5499
Fax (613) 738-6402
www.hydroottawaholding.com