Investing in Tomorrow.
Providing Value Today.

10 Years of Leading
Performance

ANNUAL REPORT 2010

HydroOttawa
Holding Inc.

OUR MISSION

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

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

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COMPANY PROFILE

Hydro Ottawa Holding Inc. (Hydro Ottawa) is 100 percent owned by the City of Ottawa. It is a private company, registered under the *Ontario Business Corporations Act,* and overseen by an independent Board of Directors consisting of eleven members appointed by City Council. The core businesses of the Corporation are electricity distribution, renewable energy generation and related services. In 2010, Hydro Ottawa owned and operated two subsidiary companies.

HYDRO OTTAWA LIMITED

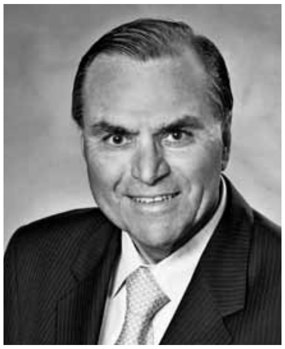
Hydro Ottawa Limited is a regulated electricity distribution company operating in the City of Ottawa and the Village of Casselman. As the third largest municipally owned electrical utility in Ontario, Hydro Ottawa Limited maintains one of the safest, most reliable and cost-effective electricity distribution systems in the province, and serves over 300,000 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 4,700 new customers to its distribution system in 2010, an increase of 1.6 percent, while the volume of electricity delivered through its distribution network increased by approximately 0.5 percent over the prior year. The company's capital assets grew by $20.2 million, or 3.9 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 produce approximately 140,000 MWh of renewable energy per year – enough to meet the annual needs of more than 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, we are very pleased to provide this Annual Report on Hydro Ottawa's performance in 2010.



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

Rosemarie T. Leclair
President and
Chief Executive Officer
Hydro Ottawa Holding Inc.

This report marks Hydro Ottawa's 10th Anniversary – a perfect occasion to look back on what we have achieved, and ahead to a future of significant opportunity. As outlined in pages that follow, we believe our company has delivered 10 Years of Leading Performance, and that its future looks equally bright.

Over ten years, Hydro Ottawa has generated $240 million in shareholder value, including dividends and growth in shareholder equity; customer satisfaction has increased steadily to its current level of 92 percent; and we have more than doubled Ottawa's renewable energy supply, while helping our customers to conserve nearly 400 million kilowatt hours of electricity.

Value to our shareholder, value to our customers, and commitment to a sustainable future for our community: this formula has served Hydro Ottawa well to date, and should continue to serve it well in the future.

Indeed, the ability to maintain these core values while adapting to rapid technological innovation, a changing business environment, and evolving customer expectations has been critical to Hydro Ottawa's success. It has been said that our industry has changed as much in the past ten years as in the previous one hundred - a scope of change no one could have fully anticipated in November 2000. In the midst of it all, Hydro Ottawa has proven to be an efficient and reliable service provider, and a growing, innovative energy services company.

While innovating to meet the changing needs of our customers, we continue to focus on the fundamentals that have made our company an industry leader: service and efficiency. Nothing is more important than providing reliable, responsive service at competitive rates.

Our results in 2010 suggest we're doing just that, with electricity service reliability that continues to be among the best in the industry, distribution rates that have remained stable over the past two years, and a productivity rating in the top 15 percent of Ontario utilities based on operating costs per customer.

Based on this trend of positive performance, we believe Hydro Ottawa is well positioned to continue to lead in the future.

To ensure we do, we are pursuing the five-year business strategy set out in our 2008-2012 Strategic Direction and Financial Outlook. The company continues to show excellent progress in the achievement of that strategy. In 2010, Hydro Ottawa achieved a normalized net income of $29.1 million, resulting in dividends of $17.5 million to the City of Ottawa. Revenues continued to grow, led by our competitive renewable generation and energy management business lines at 19.8 percent and 12.1 percent growth respectively. Over the first three years of our five-year strategy, dividends have exceeded projections by more than 20 percent.

Reflecting this positive performance and the company's prudent financial management, both Standard & Poor's and the Dominion Bond Rating Service affirmed their A (stable) ratings for Hydro Ottawa in 2010.

We continue to assess and pursue growth opportunities in each of our business lines. Among other initiatives, construction is planned for a new 4.5 megawatt landfill-gas-to-energy facility at the Laflèche landfill site, and a 12 megawatt solar park is planned for the City's Trail Road landfill site. We are also partnering with the City to make Ottawa a green energy leader, by installing 20 rooftop solar systems on municipal facilities in the next few years, while continuing to help the City achieve savings through energy efficiency retrofits.

Investment in our electricity distribution system continues to be robust, to make sure this critical infrastructure remains reliable and efficient in the future. At the same time, our successful conservation programs for residential and commercial customers are expanding, to make it easier and more cost effective for Ottawa homes and businesses to use less energy.

As these examples illustrate, we continue to invest in the future, to help our community achieve its economic, financial and environmental objectives. Ottawa residents can be confident in a future that includes reliable electricity infrastructure, a growing supply of renewable power, and leadership in energy efficiency and conservation, all of which can help our City to maximize its competitive advantage.

In sum, Hydro Ottawa is Investing in Tomorrow, and Providing Value Today, responding both to the objectives set out in our Strategic Direction, and to the company's core mission and mandate, which has remained the same since its inception 10 years ago: to deliver value to our shareholder, while benefitting our customers and the community we serve.

We are proud of the strides we have made to fulfill that mission in 2010, and grateful to our 600 employees, whose commitment to excellence and continuous improvement has made these achievements possible.

We look forward to continued success in the coming years, as we pursue our vision to be a leading, trusted integrated utility services company.

Sincerely,

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

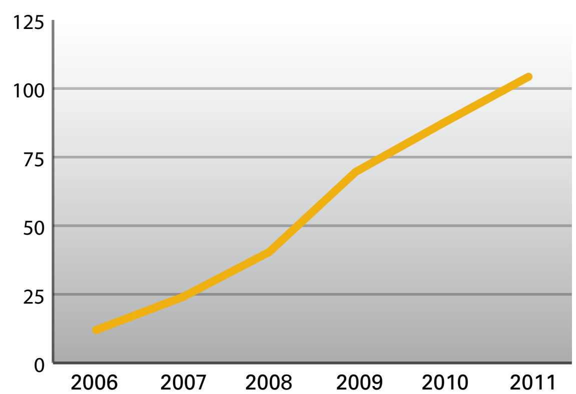
Rosemarie T. Leclair
President and Chief Executive Officer
Hydro Ottawa Holding Inc.

10 Years of Leading Performance

In November 2000, five local electrical utilities came together to form Hydro Ottawa. One utility, with a single shareholder, and a single mission: to deliver value, both as a community asset delivering essential services to Ottawa residents, and as the largest financial asset of the newly amalgamated City of Ottawa.

Over the 10 years that followed, Hydro Ottawa has shown itself to be an industry leader in providing value to its shareholder, its customers, and its community.

Cumulative Dividends Paid ($ million)

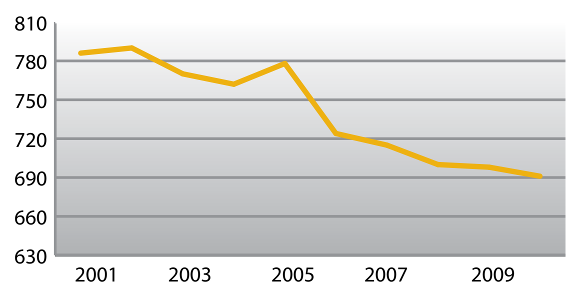


Hydro Ottawa paid its first dividend in 2006. Since then, through steady and growing annual dividends, Hydro Ottawa has delivered $104.7 million to its shareholder, including this year's dividend of $17.5 million.

100 Kilowatt Hours

The average use of electricity by Ottawa households has declined by almost 100 kilowatt hours per month, or about 12 percent over the past decade. This is due to such factors as conservation programs, more efficient appliances and higher awareness of the need to conserve.

Average Electricity Consumption: Residential Customer (kWh)



Energy-Conscious Services

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. Today, Hydro Ottawa offers a greater suite of programs and services to meet the needs of an increasingly energy-conscious public.

HydroOttawa Holding Inc.

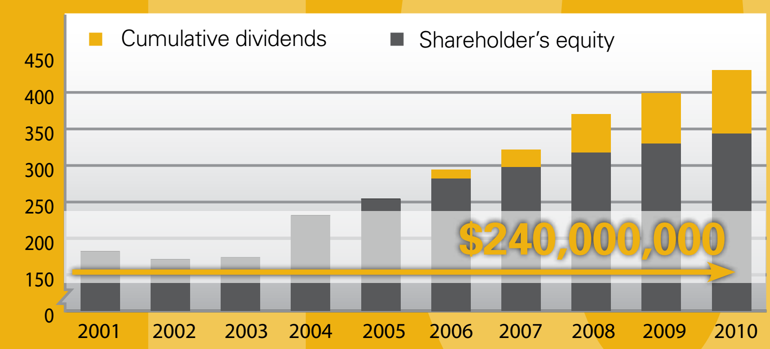
Customer Satisfaction

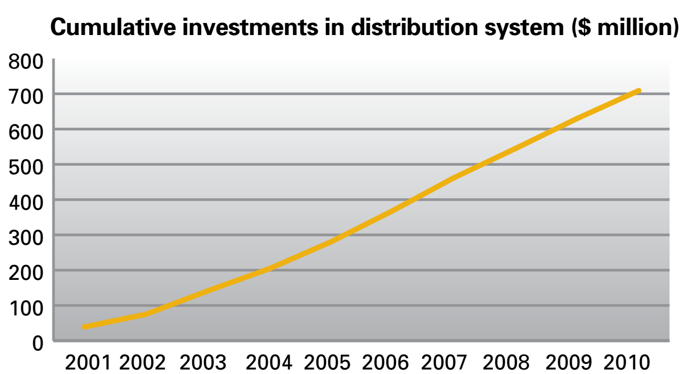
Hydro Ottawa began measuring customer satisfaction through an independent, third-party survey in 2004. Through a concerted focus on customer service, our scores have continued to improve.

92% of customers expressed satisfaction with the service they received in 2010

Delivering Value

Through prudent financial management and continued investment in our assets, Hydro Ottawa has increased its value by $240 million since the company's inception.



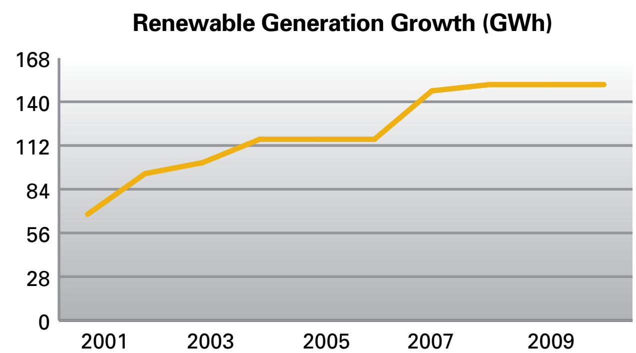


To maintain its industry-leading service reliability record, Hydro Ottawa continues to re-invest in its electricity distribution system.

$715 Million

Amount invested in Hydro Ottawa Limited's infrastructure.

Energy Ottawa has increased its green energy output by more than 120 percent in the past 10 years, and has projects under way to further increase that capacity.



1.1 Billion

Number of kilowatt hours of renewable energy generated.

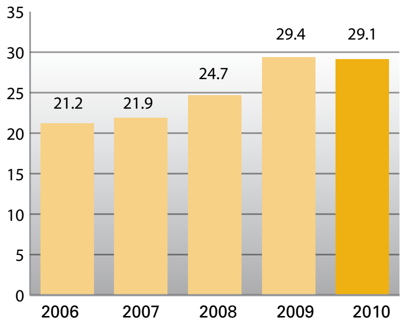
Supplier of Choice

Energy Ottawa has become the supplier of choice in Ottawa for the installation and management of renewable energy systems.

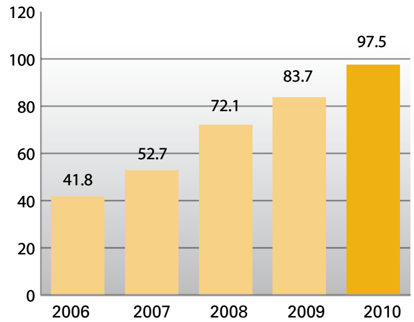
FINANCIAL HIGHLIGHTS

($ 000)	2010	2009
Revenues		
Power recovery	**621,842**	587,958
Distribution sales	**143,434**	141,213
Other revenue	**31,767**	25,561
	797,043	754,732
Earnings from continuing operations		
EBITDA	**103,087**	98,678
EBIT	**58,721**	56,723
Net income	**31,231**	29,353
Sources (uses) of cash		
Generated from operations	**70,993**	55,315
Capital assets	**(79,882)**	(84,381)
Financing	**3,512**	11,283
Ratios		
Working capital	**1.45**	1.35
Debt capitalization ratio	**42:58**	43:57
GWh consumption		
GWh consumption[1]	**7,840**	7,785

Normalized Net Income ($ millions)

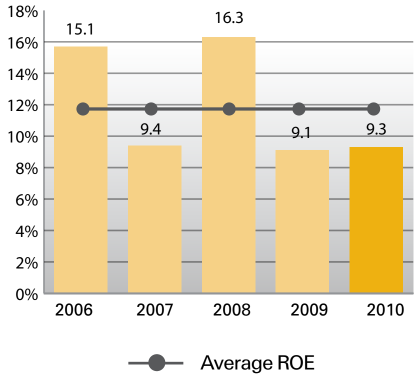


Growth in Shareholder Equity ($ millions)



Adjusted for dividends paid the following year

Return on Equity



[1] Purchased power

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INTRODUCTION TO THE ANNUAL REPORT

Hydro Ottawa's 2010 Annual Report is the third 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.

Hydro Ottawa's 2010 performance continues a trend of strong financial results, excellence in customer service, engaging workplace practices and efficient and effective operations that have earned the company a reputation as an industry leader.

Our goal is to maintain that reputation by making smart investments for tomorrow, while providing value today. We are working to create a smarter and even more reliable electricity grid, to deploy more renewable energy, and to meet the changing needs and expectations of our customers, including the growing demand for energy conservation programs and services.

As you will read in the pages ahead, these efforts continue to drive value creation for our shareholder, and are making an essential contribution to our community's well-being and competitiveness.

FOUR KEY AREAS OF FOCUS

Financial Strength	Customer Value
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	***Strategic Objective*** **We will deliver value across the entire customer experience** By providing reliable, responsive and innovative services at competitive rates
Organizational Effectiveness	**Corporate Citizenship**
Strategic Objective **We will achieve performance excellence** By cultivating a culture of innovation and continuous improvement	***Strategic Objective*** **We will contribute to the well-being of the community** By acting at all times as a responsible and engaged corporate citizen

FINANCIAL STRENGTH

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

Reliable dividends and steady growth in the company's value are at the heart of Hydro Ottawa's commitment to our shareholder. In 2010, we continued to deliver on that commitment, while providing effective and reliable service to our customers, containing costs and improving productivity.

Since 2005, when our shareholder first instituted a dividend policy, Hydro Ottawa has delivered dividends of $104.7 million, including the dividend based on 2010 performance, while growing shareholder equity in the company by $94.7 million.[1]

This achievement reflects a strong focus on enhancing the company's financial performance and operational efficiency, while preparing for and pursuing growth.

The main indicators of financial strength on an annual basis are net income and revenue. Hydro Ottawa continued to perform above its financial projections in 2010, with a consolidated net income of $31.2 million. When normalized to exclude one-time impacts, net income was $29.1 million compared to $29.4 million in the previous year. [2]

Hydro Ottawa continued to perform above its financial projections in 2010, with a consolidated net income of $31.2 million

This enabled the Corporation to pay dividends of $17.5 million to its shareholder, exceeding forecasts in the shareholder-endorsed *Strategic Direction and Financial Outlook* by $3.1 million. Over the first three years of that plan, dividends from current operations have exceeded projections by a combined $9.0 million.

Consolidated revenues, excluding flow-through items such as the cost of purchasing power from the provincial grid, increased by 5.1 percent on a year over year basis, continuing a trend of steady revenue growth.

Overall, the Hydro Ottawa Group of Companies achieved a Return on Equity of 9.3 percent in 2010, compared to 9.1 percent in the prior year.

Hydro Ottawa's electricity distribution rates have remained stable over the past two years. The company's strong financial performance can be attributed to effective cost management and productivity improvements, as well as growth in its competitive energy management and renewable generation business lines.

Access to affordable capital is important to both current operations and plans for future growth, and is primarily influenced by the company's credit rating. In 2010, both Standard and Poor's and the Dominion Bond Rating Service (DBRS) confirmed their ratings for Hydro Ottawa at A (stable). This very favourable rating was achieved through a series of upgrades over the course of 2007-2009, resulting from the company's strong financial profile, conservative financial policies, strong operational performance and low business risk, as well as greater stability and confidence in the regulatory environment of the electricity sector as a whole.

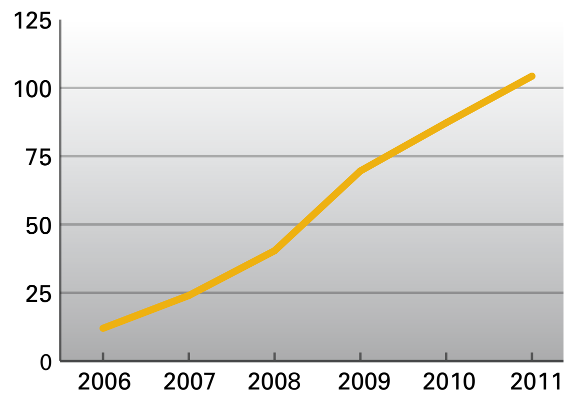
Revenues from energy management services grew by 12.1 percent in 2010, following a record year in 2009. This reflects strong demand for energy management expertise in the commercial sector, which Energy Ottawa is well-placed to meet. Revenues from energy generation increased 19.8 percent, reflecting good production from the Chaudière and Trail Road facilities and effective pricing strategies.

[1] Adjusted for dividends paid the following year.
[2] See MD&A (p.22) for an explanation of how normalized net income is calculated.

The company continues to employ fixed price contracts in its energy generation business to reduce exposure to spot market prices, which have been below historical averages in the past few years. In April 2010, Energy Ottawa secured new contracts for production from its Chaudière Falls generating stations under the Ontario Power Authority's Hydroelectric Contracting Initiative. This will provide stable pricing over the next 20 years. Future expansion of the company's generation capacity will also be linked to long-term fixed-price contracts, continuing this strategy of near zero exposure to spot market pricing.

Hydro Ottawa continues to assess and pursue growth opportunities in each of its business lines. In 2008, our shareholder endorsed a targeted growth strategy involving three basic components: expanding our distribution business beyond our current service territory; expanding our hydroelectric and other renewable generation capacity; and building on our existing core strengths to diversify our business lines, focusing on opportunities that are compatible, low risk, and offer stable long-term returns.

Cumulative Dividends Paid ($ million)



Hydro Ottawa paid its first dividend in 2006. Since then, through steady and growing annual dividends, Hydro Ottawa has delivered $104.7 million to its shareholder, including this year's dividend of $17.5 million.

In 2011, we anticipate starting construction of a new 4.5 megawatt landfill gas-to-energy facility at the Laflèche Landfill site. Similar to our Trail Road plant, this new green energy facility will convert millions of tonnes of methane gas – a byproduct of decomposing garbage – into clean, renewable energy. The project is a partnership with Integrated Gas Recovery Services, and is expected to generate revenues of approximately $70 million over 20 years.

Energy Ottawa is also partnering with the City of Ottawa to develop a new solar energy park at the Trail Road Landfill site. This project, which would involve two solar fields with a combined 12 megawatts of capacity – enough to power 1,500 homes – is awaiting the necessary approvals under the Ontario Power Authority's Feed-in-Tariff (FIT) program.

In response to the FIT program, Energy Ottawa has quickly become Ottawa's leader in rooftop solar power systems as well. In 2010, the company installed 13 rooftop solar systems on Ottawa schools through a competitive contract awarded by the Ottawa District School Board and two pilot installations on City of Ottawa facilities. Based on the success of this pilot project, the City and Energy Ottawa will partner to deploy 20 larger systems on municipal buildings over the next three years, providing $200,000 to $250,000 annually to the City in lease payments and contributing to Hydro Ottawa's profitability.

Hydro Ottawa also continues to assess opportunities to grow its electricity distribution business beyond its current service territory, in light of provincial policy changes that have eliminated the previous 33 percent electricity transfer tax when public utilities purchase assets from other public utilities.

CUSTOMER VALUE

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

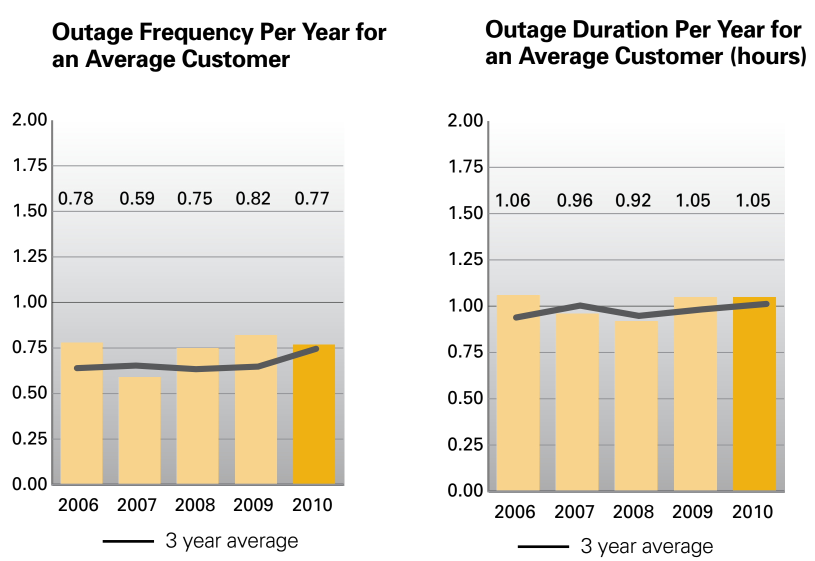
For a company that provides an essential service to the public, nothing is more important than customer value. Our aim is to provide reliable and efficient service to the more than 300,000 homes and businesses who rely on our electricity distribution system every day, and to the growing number of commercial clients who rely on our energy management and renewable energy expertise.

The fundamentals of customer value in the electricity business are quality and cost – delivering excellent service while keeping our operations efficient, and our rates competitive.

In recent years, a third imperative has emerged for those who aim to provide leading customer value. The ability to innovate – to harness the tools and technologies that can provide customers with better service and added value – has become a defining feature of leadership. Hydro Ottawa has earned industry recognition for its response to this new reality.

SERVICE RELIABILITY

Hydro Ottawa Limited is consistently among the top performers in the industry in providing uninterrupted electricity service, and restoring power quickly when outages do occur.



A typical Hydro Ottawa customer has uninterrupted power 99.988 percent of the time, and experiences one outage every 15 months.

We use two key indicators to measure the reliability of our electricity service: the number of outages per year (Outage Frequency) and the total time without power per year (Outage Duration) for an average customer. In 2010, we continued to provide uninterrupted power 99.988 percent of the time, with less than one outage per year (0.77) and about one hour of total interruption time per year (1.05) for an average customer. This is in line with our three-year average, and demonstrates the value of our continuing investments to maintain our electrical infrastructure.

In 2010, Hydro Ottawa was also recognized as a North American leader in keeping customers and stakeholders informed of outages that do occur, winning Chartwell's Best Practices Award for Outage Communications. Through innovation and automation, we are now able to provide information to customers, media and stakeholders almost as soon as we have it, through our dedicated outage line and online channels. We continue to develop new solutions that will make this information even more accessible, including plans for enhanced web and mobile access.

Given that system-wide performance remains very strong, Hydro Ottawa continues to concentrate investments in areas that have experienced lower reliability, which tend to be areas that have experienced rapid growth in recent years.

To meet growing demand in Barrhaven and South Nepean, we are doubling the capacity of the Fallowfield substation, and installing a new supply route across the Rideau River at the Strandherd-Armstrong Bridge. Both projects are scheduled for completion in 2011. The growing demand in Kanata and Stittsville will be met through an expansion of the Janet King substation in 2011, and a new station to be built at Terry Fox Drive by 2013. Significant investments in Ottawa East include a new station at Cyrville Road and upgrades to the Blackburn station completed in 2009, and a line extension built in 2010 to provide emergency supply to residents north of Highway 174. The new Ellwood substation represents a $20 million investment to meet growing demand in Ottawa South, while major upgrades completed at the Bronson substation will help to maintain reliable service in central Ottawa.

In total, $83.2 million was invested in capital assets in 2010, of which $82.5 million, or 99.2 percent, was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. We invested $40.9 million to maintain the reliability of existing infrastructure, and $32.6 million to deploy new infrastructure to meet the City's growing needs.

SERVICE QUALITY AND CUSTOMER SATISFACTION

In addition to service reliability, Hydro Ottawa tracks several key measures of service quality and customer satisfaction. One of these is our success rate in resolving customer requests on the first call, which reached 81 percent in 2010 – a three percentage point increase from 2009.

Customer satisfaction remained very high, with 92 percent of customers expressing satisfaction with the service they receive from Hydro Ottawa in a third-party administered survey.

Satisfaction is also strong among commercial energy management clients, as evidenced by customer growth and retention. Energy Ottawa increased its client base by 43 percent over the prior year, and helped its clients to identify a potential 30 million kilowatt hours, or $2.9 million, in annual energy savings – the equivalent of removing 3,125 homes from the grid for a year.

Customers are also showing increased engagement with Hydro Ottawa online. Use of our online customer service portal, *MyHydroLink*, grew by nearly 60 percent to over 46,000 customers in 2010, while e-billing subscribers nearly doubled to 17,830. Among the many online service features we now offer, Hydro Ottawa customers have access to state of the art online tools to help them make informed decisions about their electricity usage. Hourly consumption breakdowns are available the next day, with extensive display options and functionality. We are also addressing customer inquiries through *Twitter* @hydroottcares.

[Hydro Ottawa customers have access to state of the art online tools to help them make informed decisions about their electricity usage]

KEEPING RATES COMPETITIVE

While providing reliable service and investing for the future, Hydro Ottawa has also maintained its record as an efficient utility, which translates into competitive rates for our customers.

Of the money collected from Hydro Ottawa customers, only about 23 percent stays with Hydro Ottawa. This 23 percent is the distribution charge, which covers the costs of constructing, maintaining and operating the local electricity distribution system.

Hydro Ottawa's distribution rates have been stable over the past two years. On May 1, 2009, our distribution rate adjustment resulted in a 0.3 percent increase on the total bill related to Hydro Ottawa's operations, or approximately 34 cents per month. On May 1, 2010, our distribution rate adjustment resulted in a decrease of 0.5 percent on the total bill, or 46 cents per month for a typical residential customer. In 2011, we anticipate that distribution rates will be adjusted by inflation minus a productivity improvement factor, in accordance with the Ontario Energy Board's Incentive Regulation Mechanism. Electricity commodity rates are set separately by the Ontario Energy Board, and are not related to Hydro Ottawa's operations.

We continue to work with the province to make the transition to Time-of-Use billing for all residential and small business customers. Approximately 10 percent of our customers have made the transition to date, and the remainder will do so in 2011. Time-of-Use Rates affect only the electricity commodity portion of the bill, and do not change Hydro Ottawa's distribution rates.

ORGANIZATIONAL EFFECTIVENESS

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

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

There are many dimensions to building an effective organization, but we believe there are certain key ingredients that stand out. They include continuing Hydro Ottawa's health and safety record, developing a skilled and engaged workforce for the future, continuing to focus on productivity, and leveraging innovation to improve our efficiency and enhance service.

A STRONG FOCUS ON PRODUCTIVITY

The Ontario Energy Board regularly compares the operating costs of Ontario utilities, and Hydro Ottawa's costs per customer have consistently been lower than the provincial average. A recent Ontario Energy Board report comparing the operating, maintenance and administration (OM&A) costs of Ontario electrical utilities ranked Hydro Ottawa in the top 15 percent of utilities in the province.

Since 2007, Hydro Ottawa has set and achieved annual productivity improvement targets. In 2010, we continued to focus on maximizing the efficiency and effectiveness of our operations by reducing waste and optimizing productivity at every opportunity.

Hydro Ottawa has achieved cost savings through productivity improvement of more than $8.5 million over the past four years, by restructuring its operations into four zones to reduce travel time, leveraging new technologies for improved scheduling and dispatching of field work, a move to paperless processing for new connections to the distribution system, and other measures.

Hydro Ottawa also continues to leverage new technologies to enhance service and realize efficiencies

A HEALTHY AND PREPARED WORKFORCE

Recruiting, developing and retaining highly skilled employees is crucial to all of our objectives as a company, and to that end, we make it a priority to maintain an engaged workforce. In 2010, Hydro Ottawa was named one of the National Capital Region's Top 25 Employers for a third consecutive year. This prestigious award, sponsored by MediaCorp and adjudicated by an independent panel of judges, recognizes Hydro Ottawa and other employers in the region that offer exceptional places to work.

Maintaining a healthy and safe work environment is a fundamental part of Hydro Ottawa's commitment to our employees. In 2010, the company achieved re-certification to two internationally recognized standards for health and safety management – the ISO[3] 14001 Environmental Management System standard (certified since 2004), and the Occupational Health and Safety Assessment Series (OHSAS) 18001 standard (certified since 2007). Lost work days from injuries declined by 41 percent compared to 2009, and the use of sick leave decreased by over 2,700 hours through wellness programs and attendance management.

We also continued to emphasize skills development by providing training opportunities throughout the organization, and in particular through our innovative Trades Apprenticeship Programs. In 2010, six apprentices graduated to journey-person status, marking the completion of a four to five year process for each of these employees.

The company currently has 47 apprentices active in various stages of its Apprenticeship Programs. In addition, eight Engineering Interns are enrolled in our post-degree training and development program, which will enable them to qualify for the Professional Engineer designation. The Engineer Retention Strategy, of which this program is a part, earned Hydro Ottawa recognition as a Vision Award finalist for Human Resources Innovation in 2010.

[3] International Organization for Standardization

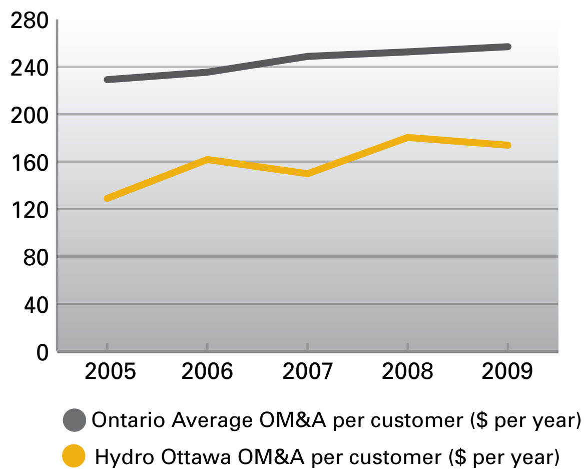
These programs position Hydro Ottawa to deal effectively with the industry-wide challenge of an aging workforce, by ensuring effective skills development and the transfer of critical knowledge from one generation to the next.

A FOCUS ON INNOVATION

Hydro Ottawa also continues to leverage new technologies to enhance service and realize efficiencies. Increasingly, technology is enabling utilities to identify and respond to problems in their distribution systems more quickly, and to provide more information, more control, and added value to customers – innovations collectively referred to as the development of a Smart Grid.

The transition to Advanced Metering Infrastructure (AMI) has been an important step toward that future. With nearly all electricity meters in Ottawa now converted to Smart Meters, field readings and estimated readings are effectively a thing of the past, customer moves are more efficient and seamless, hourly consumption breakdowns are accessible through *MyHydroLink*, and many customers, such as those in Hydro Ottawa's *peaksaver*® program, now have remote real-time control of their thermostats online.

Operating, Maintenance and Administration Cost Per Customer



Part of our commitment to customers is to operate as efficiently as possible, while investing in our city's electricity system to keep it reliable. Since 2005, the Ontario Energy Board has compared the operating costs of utilities on a per customer basis. Hydro Ottawa's costs have been consistently well below the provincial average.

Hydro Ottawa has also implemented interactive voice response (IVR) on its customer service and outage reporting lines, reducing call handling times and linking customers to specialized call centre agents based on the type of inquiry. On our outage reporting line, average call duration has been reduced by 83 percent from 3 minutes to 30 seconds, and blocked calls due to busy signals have been all but eliminated.

Similar advances have been achieved on the operational side of the business through the introduction of Smart Grid technologies. These 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. These investments improve service to customers through faster outage response times, ultimately enhancing our system reliability.

Our industry is seeing a rapid convergence of operational technology and information technology, 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. Managing IT assets effectively, making good decisions about new investments, optimizing the systems we have and ensuring comprehensive IT security requires strategic functional leadership across the organization. To that end, Hydro Ottawa added the role of Chief Information Officer in 2010, and initiated strategic IT planning to align the company's technology strategy with its broader strategic objectives. Our goal is to make prudent technology investments, and leverage them fully to achieve maximum benefit for our customers and our shareholder.

CORPORATE CITIZENSHIP

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

As a community company that delivers essential services to Ottawa residents, contributing to the well-being of our community has always been a part of Hydro Ottawa's core mandate.

In keeping with that tradition, Hydro Ottawa is very active in our community, promoting conservation and demand management, educating children and youth about electricity safety, helping to mitigate the impact of energy costs for those in need, and making other contributions to our City's quality of life.

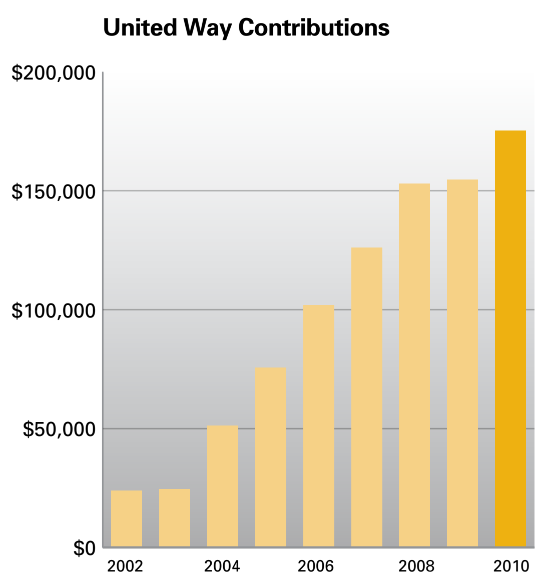
In 2010, Hydro Ottawa once again partnered with Enbridge Gas Distribution, United Way/ Centraide Ottawa and the Salvation Army Booth Centre to deliver the Winter Warmth program, helping low-income families with their energy bills during the coldest months of the year. Hydro Ottawa's 2010 contribution assisted 171 households in need, and over 500 individuals. In January 2011, Hydro Ottawa joined other utilities across the province in supporting the Low-Income Energy Assistance Program (LEAP), which will replace Winter Warmth and operate year-round to help those in need with their energy bills.

Also in 2010, Hydro Ottawa completed the design of a new flagship community investment program called the *Brighter Tomorrows Fund*, launched in early 2011 in partnership with United Way. This Fund will help frontline agencies serving people who are homeless or at risk of being homeless to improve their energy efficiency, using corporate matching dollars from Hydro Ottawa's annual workplace campaign. Through the replacement of old windows, installation of high-efficiency heating and cooling systems, or procurement of new and more energy efficient appliances, these agencies will be able to reduce their energy costs, improve their facilities and provide more comfortable living spaces. In its first year, the *Brighter Tomorrows Fund* will invest up to $100,000 to help create comfortable living conditions for some of the city's most vulnerable people.

Hydro Ottawa continues to champion conservation and responsible energy use in our community

Since 2001, Hydro Ottawa's workplace campaigns have raised more than $900,000 in support of United Way/ Centraide Ottawa. Fundraising events, employee pledges, and corporate matching raised in excess of $175,000 in 2010, once again surpassing our previous record. Our employees also volunteered their services to once again host Special Needs Day at the Gloucester Fair – an opportunity for 800 disabled children to enjoy a day at the fair.

Hydro Ottawa also continues to champion conservation and responsible energy use in our community. The company began actively promoting energy conservation in 2005, pioneering programs for residential and commercial customers that are now offered province-wide. More than 20,000 Ottawa households and small businesses have now enrolled in the *peaksaver*® program, and another 20,000 have taken part in the Great Refrigerator Roundup program. The latter, originally designed and launched by Hydro Ottawa, has now recycled 270,000 inefficient appliances province-wide.



Hydro Ottawa's employees show their commitment to community every year through the United Way campaign and many other efforts. In 2010, our employee-driven campaign raised $175,000 to meet basic needs in our community.

Large commercial customers are also benefiting from Hydro Ottawa's incentive programs, with over $2 million in incentives awarded in response to 230 conservation retrofit and upgrade applications in 2010. An additional 2,500 small business customers took advantage of the *Power Saving Blitz* program, which provides $1,000 in free lighting upgrades. Over the last two years, 4,600 small business customers have participated in this program.

Hydro Ottawa's Electricity Safety and Conservation program has trained more than 100,000 elementary students

In total, Hydro Ottawa's conservation efforts over the past five years saved more than 396 million kilowatt hours – the equivalent of taking 41,269 houses off the grid for a year.

	Megawatts of Peak Demand Reduced	Megawatt Hours Saved	Equivalent Number of Houses Taken Off The Grid for a Year
2006	19.7	23,301	2,427
2007	46.5	73,578	7,665
2008	55.4	72,657	7,568
2009	59.5	106,067	11,048
2010	70.2	120,586	12,561
Total	251.3	396,189	41,269

In addition, through an energy services partnership established in 2007, we are helping the City of Ottawa to green its operations. To date, Energy Ottawa has helped the City to achieve $4.1 million in energy savings. Work completed in 2010 will reduce the City's greenhouse gas emissions by approximately 1,200 tonnes.

Our conservation efforts will only increase in the future. The province has established mandatory conservation targets as a condition of each utility's distribution license, beginning in 2011. These targets will see the equivalent electricity demand of a city the size of Ottawa removed from the provincial grid over the next four years. Hydro Ottawa will do its part to ensure these targets are met. In addition, we are taking a leading role in coordinating efforts with our counterparts across the province.

In keeping with this commitment to conservation, Hydro Ottawa once again partnered with the City of Ottawa to promote Earth Hour. Residents and businesses turned off their lights for one hour on March 27th to raise awareness about climate change and the importance of simple actions to create a more sustainable future. Hydro Ottawa was also a presenting sponsor of the Rideau Canal Festival, a celebration of Ottawa's UNESCO World Heritage Site that has a goal of zero carbon emissions and zero waste.

Hydro Ottawa's Energy Conservation Events Van increased awareness by visiting 117 community and corporate events, and making presentations to more than 1,000 grade five students in 20 schools. In addition, Hydro Ottawa's Electricity Safety and Conservation program reached the milestone of training more than 100,000 elementary students about safe and smart use of electricity. In 2010, the Children's Hospital of Eastern Ontario recognized this program with the Let's Keep Kids Out of Hospital award for its valuable injury prevention training.

Hydro Ottawa has also developed a Sustainability Strategy to reduce the environmental impact of our operations. The strategy focuses on energy efficiency, reducing waste, reducing our carbon footprint, greening the company's procurement, and building a culture of greener living. In 2010, we added more hybrid and flex fuel vehicles to our fleet, installed equipment to monitor idling, made improvements to building envelopes, installed low-flow water fixtures, and completed lighting retrofits. Our goal is to ensure that our employees' commitment to a greener work place becomes an integral aspect of our corporate culture.

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, 2010.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (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 November 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 2010, 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 300,000 residential and commercial customers across a service area of 1,104 square kilometres. As a condition of its distribution license, Hydro Ottawa Limited is required to meet conservation and demand management targets established by the Ontario Energy Board. Hydro Ottawa Limited receives power from the provincial electricity grid and transports it across a distribution network comprising 84 distribution stations, 2,700 kilometres of underground cable, 2,700 kilometres of overhead lines, 42,500 transformers and 48,600 hydro poles. Hydro Ottawa Limited added approximately 4,700 net new customers to its distribution system in 2010, an increase of 1.6 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 produces 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, a joint venture 60 percent owned by Energy Ottawa, converts millions of tonnes of previously flared-off methane gas into renewable energy. In 2011, Energy Ottawa plans to develop a second landfill gas-to-energy plant south of Ottawa. In combination, Energy Ottawa's generation plants produced over 140,000 MWh of renewable green energy in 2010. 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 strategic direction structured around four key areas of performance:

- Financial Strength
- Customer Value
- 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.

Consistent with Hydro Ottawa's strategic direction, in 2011 Hydro Ottawa plans to enter into an 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 operations expected to commence in 2012, this project reflects Hydro Ottawa's commitment to actively pursue co-generation opportunities using proven environmental technologies. The Corporation has also reached partnership agreements with the City of Ottawa to develop several solar projects, including a 12 megawatt solar farm on the site of the Trail Road Landfill, and up to 20 rooftop solar systems on City buildings.

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, but the prices it charges for the electricity commodity are not subject to regulation.

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 conservation and demand management, facilitating the implementation of a smart grid and promoting the use and generation of electricity from renewable energy sources. The Corporation intends to file a Green Energy Act plan with its next cost-of-service application.

Permitted activities for Hydro Ottawa and Energy Ottawa include the same activities as Hydro Ottawa Limited, plus distributing or retailing energy products through pipes or wires, activities that enhance the work of a distributor or more effectively use corporate assets, managing or operating public utilities for a municipal corporation and renting or selling hot water heaters.

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 established 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 from 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 OPA in a variance account until the balance is cleared through future regulated commodity rates. Larger 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 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 as of July 2010, harmonized sales tax (HST). 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 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. This application determines the appropriate revenue requirement to cover forecasted costs, plus a regulated return. For subsequent 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.

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 will start from 9.75 percent at September 2009, applicable upon approval within a cost-of-service application, and will be adjusted based on interest rates going forward. Hydro Ottawa Limited filed an IRM application on November 30, 2010 for an effective date of May 1, 2011, and intends to submit a cost-of-service application for 2012 rates, effective January 1, 2012. Hydro Ottawa Limited's current deemed ROE under the OEB's old formula is 8.57 percent. An adjustment in accordance with the new formula is expected through the cost-of-service application for 2012 rates.

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)	**2010**	2009
Debt:		
Bank indebtedness	**239**	-
Notes payable	**251,930**	251,705
Letters of credit	**14,293**	11,931
Liquidity:		
Unused bank facilities	**128,457**	128,319

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 9, 2010, the Corporation renewed their pre-existing credit facility for a revised amount of $142.7 million, a $2.5 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 new facility for general operating requirements and annual capital expenditures. In addition, a $50 million five-year revolving credit line has been secured for larger capital expenditures and acquisitions. Capital expenditure requirements in excess of this, if any, will be funded through future bond issuances.

As at December 31, 2010, the Corporation had drawn $14.2 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.

The Corporation's joint venture, PowerTrail Inc., maintains a separate credit facility with a Canadian Chartered bank. The facility consists of $0.1 million in standby letters of credit. As at December 31, 2010, the joint venture had drawn $0.1 million in standby letters of credit against this credit facility.

Summary of Sources and Uses of Cash

($000)	**2010**	2009
Cash, beginning of year	**3,489**	21,332
Net cash provided by operations	**70,993**	55,315
Net acquisition of capital assets	**(60,636)**	(58,900)
Dividends paid to the City of Ottawa	**(17,600)**	(17,200)
Streetlight Intelligence Investments	**(1,000)**	(500)
Other	**4,515**	3,130
Net cash inflow from discontinued operations	-	312
(Bank indebtedness) cash, end of year	**(239)**	3,489

Cash Provided by Operating Activities

Cash generated by operating activities provided $15.7 million more cash flow than in 2009. The majority of the increase arises from more cash flow being generated from working capital as a result of a $14.8 million decrease in regulatory assets (net of liabilities) due to reductions in the global adjustment rate and the continuing recovery of deferred smart meter costs.

Cash Used in Investing Activities

Total investment in property, plant and equipment and intangible assets in 2010 was $79.9 million, offset by contributions in aid of construction and proceeds from the disposition of assets, for net cash impact of $60.6 million. Most of this was invested in Hydro Ottawa Limited's electricity distribution and general plant initiatives. Capital investments in 2010 included approximately $40.9 million on sustainment capital to replace aging infrastructure and modify the existing distribution system; $32.6 million on demand projects (including smart meters) less contributed capital of $18.9 million, which includes third-party driven growth projects such as new residential or commercial installations, and municipal improvement projects; and $9.1 million on general plant and Conservation and Demand Management (CDM).

Investment in the Hydro Ottawa Limited electricity distribution system continues to be robust. In 2010, 688 new poles, 576 transformers, 88 km of overhead lines and 108 km of underground cable were installed. Over 160 demand capital projects were initiated including the addition of 4,360 new residential and 350 new commercial connections.

Additional capital investments of $0.7 million were made to maintain or enhance the generation capability of Energy Ottawa facilities.

Cash Used in Financing Activities

Dividends were paid to the Shareholder in 2010 in accordance with the approved dividend policy. The 2010 payment totalled $17.6 million resulting from 2009 continuing operations. The 2009 payment totalled $17.2 million, with $15.2 million arising from 2008 continuing operations, $1.1 million from discontinued operations (Telecom Ottawa), and $0.9 million from the gain on the sale of Telecom Ottawa. This was in addition to $12 million in dividends from the gain on the sale of Telecom Ottawa paid in 2008.

Credit Ratings

As at December 31, 2010, 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 2010 fiscal 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 the Corporation's strong competitive position, supportive regulator, and a recession proof customer base which promotes an excellent business risk profile. Hydro Ottawa's improved credit rating over the past five 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 16 of the consolidated financial statements for further details). The Corporation is in compliance with these covenants as at December 31, 2010.

Critical Non-Capital Resources

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

Over the next five years, 101 employees in Hydro Ottawa Limited will be eligible for early retirement with an unreduced pension. Approximately 60 percent are trades and technical employees; the other 40 percent are administrative/clerical and management group employees. This reflects a broader trend of workforce demographics seen by utilities in Ontario, Canada, and globally.

In preparation for these eventual 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 continuation of qualified tradespersons and professional engineers. A succession planning and management program 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.

Internal Processes

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

Hydro Ottawa Limited continues to be actively involved in implementing the province's Smart Meter Program. As of December 31, 2010, over 297,000 smart meters have been installed, representing over 99 percent deployment. Hydro Ottawa Limited transitioned 10 percent of its residential and small commercial customer base to Time-of-Use rates in 2010 using the provincial Meter Data Management & Repository (MDM/R) system, and plans to transition the remaining customers to TOU billing in 2011.

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 financial system began in 2009 and will continue into 2011 to assist the organization in preparing for its transition to International Financial Reporting Standards (IFRS). A key upgrade to the Customer Information System (CIS) is also underway in 2011.

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 their recently developed "Lean" process improvement program, aimed at fostering an internal culture of continuous improvement using an established methodology focused on improving the efficiency and effectiveness of core processes.

RESULTS

The Corporation continued a positive trend of sustained profitability from continuing operations in 2010.

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)	**2010**	2009	Change $	Change %
Revenues				
Power recovery	**621,842**	587,958	33,884	
Distribution and other	**175,201**	166,774	8,427	
	797,043	754,732	42,311	
Expenses				
Purchased power	**617,944**	584,282	33,662	
Operating costs	**78,758**	71,765	6,993	
	696,702	656,047	40,655	
EBITDA	**100,341**	98,685	1,656	1.7%
Depreciation and amortization	**44,366**	41,955	2,411	
Gain on insurance settlement	**(2,683)**	-	(2,683)	
Interest	**12,020**	12,315	(295)	
Taxes	**14,980**	13,416	1,564	
Other	**427**	1,646	(1,219)	
Income from continuing operations	**31,231**	29,353	1,878	6.4%
Gain on disposal of discontinued operations	**-**	20	(20)	
Net income and comprehensive income	**31,231**	29,373	1,858	6.3%

Normalized Net Income

Adjusting for unusual items, normalized net income decreased $0.2 million from 2009.

($000)	2010	2009
Net income and comprehensive income	**31,231**	29,373
Adjusted for non-recurring items, net of tax		
Gain on insurance settlement	**(2,083)**	-
Gain on disposal of discontinued operations	**-**	(20)
Normalized net income	**29,148**	29,353

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 $33.9 million, mainly due to increases in volume, commodity rates and transmission rates.

Revenues, excluding power recovery, increased $8.4 million (5.1 percent) from 2009. Electricity distribution revenue is reflective of OEB approved distribution rates and the amount of electricity consumed. Revenue from distribution sales increased $2.2 million (1.6 percent) resulting from rate increases under the Third Generation Incentive Regulation Mechanism and overall load growth. Additional revenue of $3.4 million was also earned from an expanded CDM program due to increased customer incentives and equipment installation costs recoverable from the OPA. Energy Ottawa's revenues increased by $2.5 million over the prior year due to an increase in electricity generation revenues primarily due to the implementation of Hydroelectric Contract Initiative (HCI) pricing which became effective April 1, 2010, coupled with increasing demand for its commercial services.

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 $33.7 million, due mainly to increases in purchases, commodity rates and transmission rates as noted above.

2010 operating costs of $78.8 million increased by $7 million over 2009. The most significant increases in operating costs related to Hydro Ottawa Limited's expanding CDM program ($3.1 million), and Energy Ottawa's increased commercial services ($0.5 million). As noted above, these two revenue generating activities experienced increased revenues once again in 2010. Other operating costs increased due to negotiated compensation and other inflationary increases.

Depreciation and amortization

Depreciation and amortization expenses rose by $2.4 million, primarily due to recent acquisitions of computer software and a global increase of investments in the electricity distribution infrastructure of the corporation. In the past two years, Hydro Ottawa significantly increased its investment in computer software through various enterprise system upgrades and enhancements. Considering that computer software has 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 electricity distribution assets also contributes to higher year-over-year depreciation and amortization expenses.

Gain on Insurance Settlement

In 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 $116,000 was written off, with no gain or loss recorded in the 2009 financial statements. The Corporation had adequate property insurance coverage and, in 2009, it recorded an insurance proceeds receivable of $116,000 in respect of the damaged equipment, and $1,095,000 for the recovery of expenses incurred to clean up and restore services at the site, both of which were collected in 2010.

In 2010, the Corporation negotiated a settlement with the insurance company and recognized a gain from insurance settlement for accounting purposes of $2,683,000 and an income tax provision of $600,000 in the financial statements. Reconstruction of the transformer station will be completed in 2011 at a cost of $6.2 million.

Payments-in-Lieu of Corporate Taxes (PILs)

The Corporation's effective income tax rate was 32.42 percent in 2010 compared to 31.37 percent the previous year. The year-over-year increase results from unfavourable impacts of permanent and temporary differences between the accounting and tax basis of assets and liabilities, offset by a 2 percent decrease in expected future tax rates.

Other Expenses

Other expenses decreased in 2010, primarily due to a $1.1 million decrease in provincial capital taxes as a result of the Ontario Government's decision to eliminate the Capital Tax effective July 1, 2010.

Balance Sheet Summary

($000)	**2010**	2009	Change $	Change %
Assets	**773,042**	753,177	19,865	2.6%
Current liabilities	**117,955**	121,153		
Non-current liabilities	**311,663**	302,231		
Total liabilities	**429,618**	423,384	6,234	1.5%
Shareholder's equity	**343,424**	329,793	13,631	4.1%
Liabilities and shareholder's equity	**773,042**	753,177	19,865	2.6%

Assets

Total assets increased by $19.9 million during the year. This increase is largely attributable to property, plant and equipment and intangible assets, which are up $19.9 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 are up $10.7 million primarily as a result of a 1 percent increase in year-over-year fourth quarter electricity revenues, an 8 percent rise in commodity taxes (i.e. HST), and a CDM receivable collection delay caused by a new OPA settlement process. Offsetting these increases is a $6.0 million decrease in net regulatory assets as a result of the reversal of settlement variances and the continuing recovery of the deferred smart meter costs of recent years.

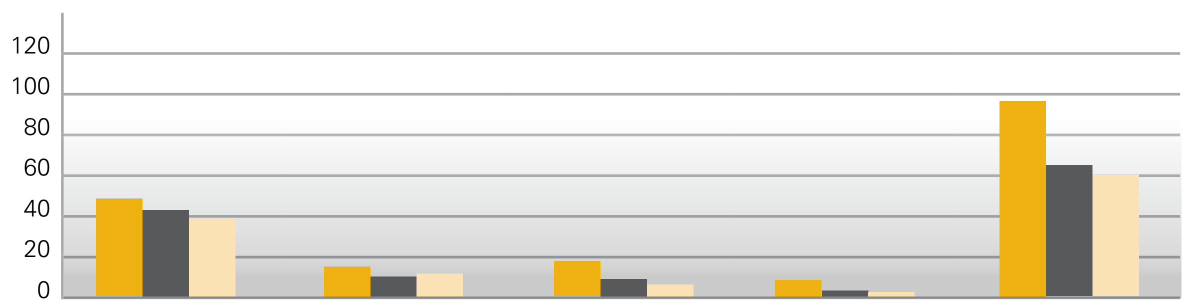
Investments in Streetlight Intelligence Inc.

In 2010, Hydro Ottawa continued to make strategic investments in Streetlight Intelligence Inc., (SLI) a publicly-listed company based in British Columbia that develops advanced street light optimization systems. These investments support the Corporation's ongoing strategy to invest in areas with direct application and synergy with its existing core business lines, in this case energy conservation. In addition to the original $500,000 investment made in 2009 to secure an option with a put right to purchase shares in SLI, a second strategic investment of the same nature was completed in January 2010, also for $500,000. Finally, a third strategic investment of $500,000 was completed in March 2010, involving the purchase of 4,166,667 common shares in SLI by Hydro Ottawa as well as purchase warrants for additional shares. Hydro Ottawa continues to hold the acquired purchase options with put rights and common shares. As at December 31, 2010, if the Corporation had exercised the two purchase options and the purchase warrants it would have held an aggregate of 16,250,000 common shares of SLI and approximately 15.2% of SLI's issued and outstanding common shares calculated on a partially diluted basis.

Liabilities

Total liabilities increased by $6.2 million in 2010. This change is largely attributable to an increase in the (non-current) net regulatory liability balance of $8.6 million primarily due to a reversal in settlement variances. Offsetting this is a $3.6 million decrease in accounts payable and accrued liabilities mainly due to a decline in the cost of power payable and regulatory rebate settlement balances over the previous year.

Net Capital Expenditures



($ Millions)	Sustainment	Demand/ Smart Meters	General & CDM	Generating Plants	Total
2011 Budget	52.2	15.9	19.3	8.2	95.6
2010 Actual	40.9	13.7	9.1	0.7	64.3
2009 Actual	38.5	14.9	7.4	0.5	61.2

Net capital expenditures increased by $3.1 million in 2010 compared to 2009, primarily due to the reconstruction of the previously damaged Beaconhill station, enterprise system upgrades and environmental initiatives. In 2011, total net capital expenditures are budgeted to increase by $31.3 million from the 2010 actual program. The budgeted increase in Sustainment capital spending is to address an aging infrastructure, specifically pole replacements for $8.5 million, and to further improve stations capacity through several ongoing construction and expansion projects. The budgeted increase in General Plant is primarily for significant customer information and billing system upgrades and enhancements of $7 million, and advancement of an Information Technology strategy for $1.7 million. The budgeted increase in Generating Plants relates to the planned development of a new landfill gas collection and utilization partnership. Sustainment capital spending on Hydro Ottawa's distribution and generation systems, in accordance with asset management plans, is expected to be maintained at or above 2011 budget levels in 2012.

Significant Accounting Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and 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 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, 2010:

- *Estimated useful life of major asset categories, Note 2*
- *Customer deposits, Note 2*
- *Regulatory asset recovery, Note 8*
- *Asset retirement obligations, Note 13*
- *Employee future benefits, Note 14*

Allowance for doubtful accounts

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

Unbilled revenue

Management establishes unbilled revenue balances based upon an estimate of customer electricity consumption to the end of the 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.

Emerging Accounting Pronouncements

International Financial Reporting Standards

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

Prior to the developments noted below regarding rate regulated activities, the Corporation's IFRS conversion project was proceeding as planned. The project governance involves a steering committee consisting of senior level management and external advisors. Status updates are provided to the Corporation's executive team and the Audit Committee of the Board of Directors on a regular basis.

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 (ED) on RRA which had many similarities to 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 ED 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, therefore the IASB decided that the best approach would be to include this matter as part of the three year agenda consultation process which is expected to occur during the second half of 2011.

In the interim due to the uncertainty at the international level, the AcSB issued an ED on July 28, 2010, proposing that qualifying entities with rate-regulated activities be permitted to continue applying Canadian GAAP for an additional two years, the comment period for this ED ended on August 31, 2010. 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 due to the continued uncertainty around accounting for rate-regulated activities under IFRS, the Corporation has elected to take the one year deferral. The new adoption date of IFRS is January 1, 2012, however it will require the 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.

The Corporation's non-regulated subsidiaries do not qualify for the one year deferral, therefore effective January 1, 2011, these subsidiaries are required to adopt either Accounting Standards for Private Enterprises (ASPE) or IFRS as its primary basis of accounting. The Corporation has decided to adopt ASPE for all non-regulated subsidiaries for the year ended December 31, 2011 and IFRS for the year ended December 31, 2012 to align with the Corporation's conversion to IFRS.

The Corporation has not yet determined the impact of the adoption of ASPE on its non-regulated subsidiaries financial statements, however it does not believe the impact to be material. The financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time but the Corporation believes that the impact on its financial statements could be material. The Corporation does expect a significant increase in disclosure resulting from the adoption of IFRS and is continuing to assess the level of disclosure required, as well as information system changes that may be necessary to gather and process the information.

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 and procurement 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 proposes to seek OEB approval in 2011 to a rebasing of its distribution rates, which would go into effect from 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

Commencing with the first full pay in 2011, the Ontario Municipal Employees Retirement System (OMERS), to which the Corporation and its employees contribute, has implemented the first of a planned three-year annual temporary contribution increase for both members and employers. These temporary increases have been put in place to close 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).

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, such as the provincial MDM/R, could adversely impact the Corporation's business operations.

Cyber Security

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

Time-of-Use Technology

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

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. Apprentice training for skilled trades and succession training and development for management and executive positions are ongoing.

Weather

Severe weather can significantly impact financial results. Storms increase 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), wind, and sun (solar).

OUTLOOK

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

The Corporation will pursue positive long-term financial performance through strategies such as stabilizing and protecting revenues, managing net controllable costs, and maximizing operating cash flow and rate-of-return. The Corporation will continue to make prudent investments in maintaining and building its infrastructure, subject to rate-of-return and other financial considerations.

Hydro Ottawa's *2008 - 2012 Strategic Direction and Financial Outlook* endorsed a targeted growth strategy for the Corporation involving three basic components: expanding the electricity distribution business beyond its current service territory, expanding hydroelectric and other renewable generation capacity, and diversification of business lines with a focus on compatible, low-risk opportunities that offer stable long-term returns. The Corporation continues to actively pursue opportunities for expansion in accordance with the endorsed strategy, including through the planned development of a second landfill gas-to-energy facility, which is expected to be operational in 2012.

Hydro Ottawa is projected to continue the trend of solid financial performance.

Hydro Ottawa Holding Inc.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010

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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,

Rosemarie T. Leclair
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, 2010 and the consolidated statements of income, comprehensive income and retained earnings and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Hydro Ottawa Holding Inc.** as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Ottawa, Canada
March 31, 2011

Chartered Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF INCOME, COMPREHENSIVE INCOME AND RETAINED EARNINGS

Year ended December 31 (amounts are in thousands of dollars)	2010	2009
Revenues (Note 25)		
Power recovery	**621,842**	587,958
Distribution sales	**143,434**	141,213
Other revenue	**31,767**	25,561
	797,043	754,732
Expenses (Note 25)		
Purchased power	**617,944**	584,282
Operating costs	**78,758**	71,765
Depreciation	**36,553**	34,814
Amortization	**7,813**	7,141
	741,068	698,002
Income from continuing operations before other expenses (recoveries), non-controlling interest and payments in lieu of corporate income taxes	**55,975**	56,730
Financing costs (Note 17)	**12,020**	12,315
Gain from insurance settlement (Note 9)	**(2,683)**	-
Payments in lieu of provincial capital tax	**490**	1,639
	9,827	13,954
Non-controlling interest in PowerTrail Inc. (Note 15)	**63**	(7)
Income from continuing operations before payments in lieu of corporate income taxes	**46,211**	42,769
Payments in lieu of corporate income taxes (Note 22)	**14,980**	13,416
Income from continuing operations	**31,231**	29,353
Gain on disposal of discontinued operations (Note 18)	-	20
Net income and comprehensive income	**31,231**	29,373
Retained earnings, beginning of year	**101,340**	89,252
Refundable dividend tax paid	-	(85)
Dividends paid (Note 20)	**(17,600)**	(17,200)
Retained earnings, end of year	**114,971**	101,340

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

HydroOttawa Holding Inc.

CONSOLIDATED BALANCE SHEET

As at December 31 (amounts are in thousands of dollars)	**2010**	2009
Current assets		
Cash	**-**	3,489
Accounts receivable (Note 4)	**72,025**	61,300
Payments in lieu of corporate income taxes receivable	**1,133**	81
Unbilled revenue (Note 5)	**82,221**	86,426
Inventory (Note 6)	**8,532**	7,088
Other assets (Note 7)	**2,168**	1,334
Regulatory assets (Note 8)	**4,738**	3,039
Future income tax assets (Note 22)	**713**	867
	171,530	163,624
Non-current assets		
Net regulatory assets (Note 8)	**4,172**	11,859
Property, plant and equipment (Note 9)	**543,275**	521,727
Intangible assets (Note 10)	**24,086**	25,773
Other assets (Note 7)	**2,203**	1,830
Future income tax assets (Note 22)	**27,776**	28,364
Total assets	**773,042**	753,177
Current liabilities		
Bank indebtedness (Note 11)	**239**	-
Accounts payable and accrued liabilities (Note 12)	**116,436**	120,063
Payments in lieu of corporate income taxes payable	**723**	223
Regulatory liability for future income tax assets (Note 22)	**557**	867
	117,955	121,153
Non-current liabilities		
Net regulatory liabilities (Note 8)	**10,075**	1,434
Regulatory liability for future income tax assets (Note 22)	**27,776**	28,364
Employee future benefits (Note 14)	**5,333**	5,144
Asset retirement obligations (Note 13)	**771**	1,167
Customer deposits	**11,310**	10,618
Future income tax liabilities (Note 22)	**3,853**	3,106
Repayable grant (Note 9)	**70**	85
Non-controlling interest (Note 15)	**545**	608
Notes payable (Note 16)	**251,930**	251,705
	429,618	423,384
Contingent liabilities (Note 23)		
Commitments (Note 24)		
Shareholder's equity		
Share capital (Note 20)	**228,453**	228,453
Retained earnings	**114,971**	101,340
	343,424	329,793
Total liabilities and shareholder's equity	**773,042**	753,177

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

ON BEHALF OF THE BOARD:

Director

Director

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (amounts are in thousands of dollars)	**2010**	2009
Net inflow (outflow) of cash related to the following activities:		
Operating		
Income from continuing operations	**31,231**	29,353
Adjustments for non-cash items		
Depreciation	**36,553**	34,814
Amortization	**7,813**	7,141
Gain on disposal of property, plant and equipment (Note 9)	**(3)**	(12)
Gain on insurance proceeds (Note 9)	**(2,587)**	-
Allowance for funds used during construction (Note 9)	**(893)**	(895)
Amortization of debt issue costs	**225**	224
Employee future benefits (Note 14)	**189**	103
Future payments in lieu of corporate income taxes	**591**	768
Non-controlling interest in PowerTrail Inc.	**(63)**	7
Changes in non-cash operating working capital items		
Increase in accounts receivable	**(10,725)**	(12,254)
Increase in payments in lieu of corporate income taxes	**(552)**	(2,047)
Decrease (increase) in unbilled revenue	**4,205**	(9,766)
Increase in inventory	**(1,444)**	(576)
Decrease in regulatory assets, net of liabilities	**14,768**	186
(Increase) decrease in other assets	**(334)**	901
(Decrease) increase in accounts payable and accrued liabilities	**(7,981)**	7,368
	70,993	55,315
Financing		
Contributions in aid of construction	**19,206**	25,353
Dividends paid	**(17,600)**	(17,200)
Refundable dividend tax paid	**-**	(85)
Repayable grant	**(23)**	(16)
Customer deposits received	**1,929**	3,231
	3,512	11,283
Investing		
Acquisition of property, plant and equipment	**(74,355)**	(80,872)
Acquisition of intangible assets	**(5,527)**	(3,509)
Proceeds from disposal of property, plant and equipment	**40**	128
Proceeds from insurance on disposal of property, plant and equipment	**2,587**	-
Available-for-sale investments	**(1,000)**	(500)
Deferred costs	**22**	-
	(78,233)	(84,753)
Net cash outflow from continuing operations	**(3,728)**	(18,155)
Net cash inflow from discontinued operations	**-**	312
Cash, beginning of year	**3,489**	21,332
(Bank indebtedness) cash, end of year	**(239)**	3,489
Supplementary cash flow information		
Interest paid	**12,448**	12,402
Payments in lieu of corporate income taxes paid	**15,006**	14,223

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 (tabular 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"). Hydro Ottawa owns 100% of each of Hydro Ottawa Limited, Energy Ottawa Inc. ("Energy Ottawa") and Telecom Ottawa Holding Inc. ("Telecom Ottawa").

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 corporations. Energy Ottawa holds a 60% interest in PowerTrail Inc. ("PowerTrail"), which was 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. PowerTrail commenced commercial operations on January 31, 2007.

Telecom Ottawa – In 2008, Telecom Ottawa Holding sold the shares of all of its wholly-owned subsidiaries (Note 18). Telecom Ottawa was a broadband data carrier and Internet service provider based in Ottawa. Telecom Ottawa owned and operated a metropolitan-wide network and provided fibre optic services to both public and private sector organizations. Telecom Ottawa currently does not maintain active operations.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("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.

Basis of consolidation

The consolidated financial statements include the accounts of Hydro Ottawa and its subsidiaries: Hydro Ottawa Limited, Energy Ottawa, which includes the accounts of PowerTrail, and Telecom Ottawa Holding. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Consolidation of variable interest entities

The consolidation of a variable interest entity ("VIE") is required by a corporation if that corporation is subject to a majority of the risk of loss from the VIE's residual returns. The initial equity investment at risk was not sufficient to permit PowerTrail to finance its activities without additional subordinated financial support from its shareholders and as such PowerTrail is consolidated in the consolidated financial statements of Hydro Ottawa and Energy Ottawa.

Long-term investments

Investments in which the Corporation has significant influence are accounted for using the equity method.

The Corporation holds a 28.33% interest in Chaudière Water Power Inc. ("CWPI"), a company incorporated to act as an agent for the three principals of CWPI, with the mandate to control, operate and maintain the Chaudière dam. This investment is recorded at cost plus the Corporation's share of income or loss which to date has been $nil in the consolidated financial statements of Hydro Ottawa and Energy Ottawa.

Measurement uncertainty

The preparation of consolidated financial statements in conformity with 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 consolidated financial statement date. 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.

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 responsibility of approving or setting rates for the transmission and distribution of electricity and the responsibility for ensuring that distribution companies fulfill obligations to connect and service customers.

Hydro Ottawa Limited operates under cost-of-service regulation as prescribed by the OEB. Rate orders issued by the OEB establish Hydro Ottawa Limited's revenue requirements, being 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 that which was 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.

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

a) 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 as follows:

Regulatory assets recovery account – On March 17, 2008, Hydro Ottawa Limited received a decision from the OEB for new rates for the rate period beginning May 1, 2008, resulting from an application filed in September 2007. The new rates include the refund of regulatory liabilities and the recovery of certain regulatory assets accumulated up to October 31, 2007.

Settlement variances – The settlement variances relate to the charges Hydro Ottawa Limited incurred for transmission services, generation (the commodity) and wholesale market operations from the Independent Electricity System Operator ("IESO") and Hydro One Networks Inc. 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 at the time of installation of smart meters.

Deferred payments in lieu of 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 Hydro One Networks Inc. and those charged to customers.

(ii) The OEB allows electricity distributors to recognize the net cost of providing retailer billing services and service 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 began recovering the charge through rates over a one-year period, starting May 1, 2010. Hydro Ottawa Limited will apply to clear the residual balance in the variance account after the one year period.

(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 the payment of $18,382,000 by all utilities imposing late payment charges. The amount of Hydro Ottawa Limited's participation is $1,026,000, and is due June 30, 2011. 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.

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

b) 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 2010 was 4.3% (2009 – 5.9%).

c) Payments in lieu of corporate income taxes

Hydro Ottawa Limited is considered to be a Municipal Electric Utility ("MEU") for purposes of the Payments in Lieu of Taxes ("PILs") regime contained in the *Electricity Act, 1998* as all of its share capital is 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 the Canadian Institute of Chartered Accountants ("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.

Hydro Ottawa, Energy Ottawa and Telecom Ottawa Holding are 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.

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 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.

(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.

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 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.

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 in 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.

Intangible assets

Intangible assets include land and water rights and computer software.

Amortization is recorded 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.

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.

Deferred costs

Deferred debt issue costs

The Corporation incurred debt issue costs that were external, direct and incremental in nature arising from the Corporation's 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

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.

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 benefit expense is recognized in the period in 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 pro-rated 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, 2010 is 13 years.

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 a current liability.

Revenue recognition

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

Power recovery

Power recovery revenue represents the pass-through of the cost of power to the consumer as purchased by Hydro Ottawa Limited from the IESO and Energy Ottawa. Hydro Ottawa Limited's cost of purchased power from Energy Ottawa is eliminated on consolidation. The cost of the electricity generated by Energy Ottawa is included in operating costs.

Distribution sales

Electricity distribution sales represents 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.

Other revenue

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

Contract revenue and commercial services revenue are accounted for using the percentage of completion method, whereby revenue is 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.

Unbilled revenue

Unbilled revenue represents distribution sales, along with accrued revenue from electricity consumed by customers since the date of each customer's last meter reading that has not yet been billed.

3. CHANGES IN ACCOUNTING POLICIES

Emerging Changes

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 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 ("International Financial Reporting Standards") 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 financial statements. In the interim the Corporation will continue to prepare its financial statements in accordance with Part V ("Pre-changeover accounting standards") of the CICA Handbook for reporting periods ending on or before December 31, 2011. 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.

Due to the developments related to RRA under IFRS and the uncertainty regarding the impact of IFRS on the OEB electricity rates application process, the Corporation cannot reasonably quantify the impact of adopting IFRS on the consolidated financial statements of the Corporation.

4. ACCOUNTS RECEIVABLE

	2010	2009
Trade receivables, net of allowance for doubtful accounts of $561,000 (2009 – $641,000)	**60,581**	51,859
Other receivables, net of allowance for doubtful accounts of $77,000 (2009 – $140,000)	**11,444**	9,441
	72,025	61,300

5. UNBILLED REVENUE

	2010	2009
Unbilled revenue	**82,832**	87,542
Less: allowance for doubtful accounts	**(611)**	(1,116)
	82,221	86,426

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 $1,299,000 (2009 – $1,066,000).

7. OTHER ASSETS

	2010	2009
Available-for-sale investment - Purchase Option with Put Right	**500**	500
Available-for-sale investment - Second Purchase Option with Second Put Right	**500**	-
Available-for-sale investment - Common Shares	**500**	-
Deferred costs	**1,703**	1,830
Prepaids	**1,168**	834
	4,371	3,164
Less: current portion	**(2,168)**	(1,334)
	2,203	1,830

In 2009, the Corporation paid $500,000 to acquire a non-transferable option to purchase 5,000,000 Streetlight Intelligence Inc. ("SLI") common shares ("Purchase Option") at an exercise price of $0.11 per share, exercisable on or before August 19, 2010. On August 16, 2010, this agreement was amended to extend the expiry date by one year to August 19, 2011. The Purchase Option includes a put right ("Put Right"), whereby the Corporation may require SLI to repurchase and cancel the Purchase Option for $500,000 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.

On January 13, 2010, the Corporation paid $500,000 to acquire a second non-transferable option to purchase 5,000,000 SLI common shares ("Second Purchase Option") at an exercise price of $0.12 per share, exercisable on or before January 13, 2011. The Second Purchase Option includes a put right ("Second Put Right"), whereby the Corporation may require SLI to repurchase and cancel the Second Purchase Option for $500,000 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. Subsequent to year end, on January 11, 2011, this agreement was amended to extend the expiry date by one year to January 13, 2012.

On March 5, 2010, the Corporation paid $500,000 to acquire 4,166,667 units of SLI at a price of $0.12 per unit, as part of a private placement. Each unit consists of one SLI common share and one half of one SLI common share purchase warrant ("Unit"). Each whole SLI common share purchase warrant ("Warrant") entitles the holder thereof to purchase one common share ("Warrant Share") at an exercise price of $0.24 per Warrant Share for a period of 12 months from the closing date.

The SLI Purchase Options with Put Rights and Common Share investments are equity instruments that have been accounted for as available-for-sale investments. These investments do not have a quoted market price in an active market and are recorded at cost. SLI is a Canadian public company that develops advanced street light optimization systems.

During the year, the Corporation amortized deferred costs by $104,000 (2009 – $111,000).

8. NET REGULATORY ASSETS AND LIABILITIES

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

	2010	2009
Regulatory assets		
Regulatory assets recovery account	**26**	569
Deferred smart meter costs	**7,753**	9,867
Settlement variances	**-**	4,408
Other variances and deferred costs	**2,183**	228
	9,962	15,072
Provision for doubtful recovery	**(1,052)**	(174)
Total net regulatory assets	**8,910**	14,898
Less: current portion	**(4,738)**	(3,039)
	4,172	11,859
Regulatory liabilities		
Settlement variances	**8,664**	-
Deferred payments in lieu of taxes	**211**	209
	8,875	209
Provision for doubtful recovery	**1,200**	1,225
	10,075	1,434

The regulatory assets recovery account of $26,000 (2009 – $569,000) is the aggregate of all regulatory assets and liabilities, which have been approved for recovery or disposition plus accrued interest earned of $1,639,000 (2009 – $1,649,000) up to December 31, 2010, less amounts already settled through distribution rates.

Regulatory assets are comprised of deferred smart meter costs of $7,753,000, which include accrued interest costs of $115,000 (2009 – $9,867,000 which includes accrued interest costs of $103,000) and other variances and deferred costs of $2,183,000, which includes accrued interest earned of $17,000 (2009 – $228,000 which includes accrued interest earned of $7,000).

Regulatory liabilities are comprised of retail services and settlement variances of $8,664,000, which includes accrued interest costs of $27,000 (2009 – regulatory asset of $4,408,000 which includes accrued interest earned of $31,000) and deferred payments in lieu of taxes of $211,000, which include accrued interest costs of $10,000 (2009 – $209,000 which includes accrued interest costs of $8,000).

In the absence of rate regulation, the income before PILs for the year ended December 31, 2010 would be $14,629,000 higher (2009 – $1,668,000 lower).

The regulatory process has provided for the clearing of 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.

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 $2,252,000 (2009 – $1,399,000) against regulatory assets. If future recovery becomes assured, the Corporation will recognize the recovery in the income for the period such a decision is made.

9. PROPERTY, PLANT AND EQUIPMENT

	2010		
	Cost	**Accumulated amortization**	**Net book value**
Land	**5,309**	**-**	**5,309**
Buildings and fixtures	**68,941**	**16,201**	**52,740**
Furniture and equipment	**17,063**	**11,052**	**6,011**
Rolling stock	**20,867**	**14,485**	**6,382**
Electricity distribution infrastructure	**951,127**	**393,540**	**557,587**
Generating plant and equipment	**46,452**	**10,859**	**35,593**
Assets under construction	**19,549**	**-**	**19,549**
	1,129,308	**446,137**	**683,171**
Contributions in aid of construction	**(171,811)**	**(31,915)**	**(139,896)**
	957,497	**414,222**	**543,275**

	2009		
	Cost	Accumulated amortization	Net book value
Land	3,793	-	3,793
Buildings and fixtures	65,495	15,908	49,587
Furniture and equipment	16,114	9,757	6,357
Rolling stock	21,438	13,424	8,014
Electricity distribution infrastructure	902,083	381,045	521,038
Generating plant and equipment	44,973	9,118	35,855
Assets under construction	24,337	-	24,337
	1,078,233	429,252	648,981
Contributions in aid of construction	(152,605)	(25,351)	(127,254)
	925,628	403,901	521,727

Included in the cost of generating plant and equipment is $1,298,000 (2009 – $1,287,000) related to Energy Ottawa's undivided interest in the Chaudière dam (Note 2).

During the year, the Corporation capitalized an AFUDC of $893,000 (2009 – $895,000).

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 from continuing operations before payments in lieu of corporate income taxes for the year ended December 31, 2010 would be $212,000 higher (2009 – $76,000 lower).

During the year, the Corporation incurred a gain on disposal of property, plant and equipment of $3,000 (2009 – $12,000). This gain does not include the effects of the Ontario government's smart meter initiative which resulted in $380,000 (2009 – $4,549,000) in conventional meters being removed from service, and would have resulted in a loss on disposal of $138,000 (2009 – $1,854,000) under GAAP. 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 statement of cash flows. These transactions were related to property, plant and equipment additions of $8,873,000 (2009 – $6,243,000), which represent amounts included in accounts payable and accrued liabilities at December 31, 2010.

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 $116,000 was written off in 2009. The Corporation had adequate property insurance coverage and recorded insurance proceeds receivable of $116,000 in respect of the damaged equipment, and $1,095,000 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 $2,683,000. The insurance settlement comprised of $2,703,000 (net of deductible) in proceeds relating to damaged equipment, and $1,191,000 (net of deductible) in proceeds for the recovery of expenses to clean up and restore services at the site.

Energy Ottawa entered into an agreement with the federal government's Department of Natural Resources whereby project funding of up to $220,000 would be provided to Energy Ottawa to field trial a mini-hydro turbine developed by the CANMET Small Hydro Program. Under the terms of the agreement, up to $150,000 of the funding received is repayable at a rate of 2.5% of revenue received from the project, over a maximum period of 10 years. As at December 31, 2010, the funding received has been allocated $50,000 (2009 – $53,000) to contributions in aid of construction, $13,000 (2009 – $14,000) to accounts payable and accrued liabilities and $70,000 (2009 – $85,000) to repayable grant.

10. INTANGIBLE ASSETS

	2009	Acquisitions	Retirements	2010
Cost				
Land and water rights	**3,537**	**9**	**-**	**3,546**
Computer software	**54,025**	**6,013**	**-**	**60,038**
	57,562	**6,022**	**-**	**63,584**

	2009	Amortization	Retirements	2010
Accumulated amortization				
Land and water rights	**1,662**	**47**	**-**	**1,709**
Computer software	**30,127**	**7,662**	**-**	**37,789**
	31,789	**7,709**	**-**	**39,498**

	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	**60,038**	**(37,789)**	**22,249**
	63,584	**(39,498)**	**24,086**

	2008	Acquisitions	Retirements	2009
Cost				
Land and water rights	3,536	1	-	3,537
Computer software	50,677	3,374	(26)	54,025
	54,213	3,375	(26)	57,562

	2008	Amortization	Retirements	2009
Accumulated amortization				
Land and water rights	1,615	47	-	1,662
Computer software	23,170	6,983	(26)	30,127
	24,785	7,030	(26)	31,789

	Cost	Accumulated amortization	Net book value
Net book value as at December 31, 2009			
Land and water rights	3,537	(1,662)	1,875
Computer software	54,025	(30,127)	23,898
	57,562	(31,789)	25,773

Included in intangible assets at December 31, 2010 is $1,136,000 (2009 – $3,112,000) in computer software that has not yet commenced being amortized as software is not ready for use.

There was no impairment of intangible assets for the year ended December 31, 2010 or for the year ended December 31, 2009.

The Corporation entered into significant non-cash transactions that have been excluded from the statement of cash flows. These transactions were related to intangible asset additions of $762,000 (2009 – $267,000), which represent amounts included in accounts payable and accrued liabilities at December 31, 2010.

11. CREDIT FACILITY

On July 9, 2010, the Corporation renewed its pre-existing credit facility for a revised amount of $142,650,000 (2009 – $140,150,000). The facility is structured into four types of credit availability and consists of a $75,000,000 364-day revolving operation line which matures on July 14, 2011, a $50,000,000 line to fund capital expenditures and growth opportunities which matures July 15, 2015, a $17,500,000 (2009 – $15,000,000) line to fund letters of credit and other guarantees, and a $150,000 corporate Visa facility. This credit facility contains customary covenants and events of default, including a covenant to maintain the consolidated tangible net worth in excess of $175,000,000 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, 2010, the Corporation had drawn $14,193,000 (2009 – $11,831,000) against its facilities in standby letters of credit.

PowerTrail maintains a credit facility. The facility consists of $100,000 in standby letters of credit. The facility also contains customary covenants and events of default, including a covenant to maintain a tangible net worth of $1,000,000. As at December 31, 2010, PowerTrail had outstanding standby letters of credit of $100,000 (2009 – $100,000).

CWPI maintains a credit facility. The facility consists of a $500,000 operating credit line, which is secured by the three principals of CWPI. The operating credit line is repayable on demand, bears interest at the bank's prime lending rate per annum with interest payable monthly. The facility also contains customary covenants and events of default. As at December 31, 2010, CWPI had drawn down the operating credit line by $nil (2009 – $16,000).

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2010	2009
Purchased power payable	**58,949**	64,864
Customer credit balances	**8,813**	9,633
Collateral funds held	**18,107**	16,870
Other accounts payable and accrued liabilities	**26,666**	24,795
Accrued interest on notes payable (Note 16)	**3,901**	3,901
	116,436	120,063

13. ASSET RETIREMENT OBLIGATIONS

	2010	2009
Balance, beginning of year	**1,167**	-
Liabilities incurred in the year	**-**	1,167
Liabilities settled in the year	**(178)**	-
Accretion expense	**9**	-
Revisions in estimated cash flows	**(227)**	-
Balance, end of year	**771**	1,167

The Corporation has recorded an asset retirement obligation ("ARO") of $771,000 (2009 – $1,167,000) 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 three years (2009 – four years) totalling $850,000 (2009 – $1,255,000) and a discount rate of 5.3% (2009 – 5.3%). No assets have been legally restricted for settlement of the liability.

14. EMPLOYEE FUTURE BENEFITS

Pension plan

The Corporation's participating employer contributions under OMERS for the year ended December 31, 2010 were approximately $3,425,000 (2009 – $3,205,000).

Employee future benefits other than pension plan

Employee future benefits are calculated using an annual compensation rate increase of 3.1% (2009 – 3.1%) and a discount rate of 5.0% (2009 – 6.0%) to calculate the liabilities.

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

	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)**		

	2009		
	Accumulated liability	Expense (recovery) for the year	Benefits paid
Life insurance	4,939	522	369
Retirement grant provision	793	83	16
Supplemental pensions	5	(6)	1
Sick leave	9	-	3
	5,746	599	389
Projected benefit obligation	7,486		
Actuarial deficit	(1,740)		

An update of the actuarial valuation was performed as of January 1, 2011. The actuary has updated the assumptions and estimates at December 31, 2010. As a result of this exercise, the Corporation increased the projected benefit obligation by $1,192,000 (2009 – $918,000). As at December 31, 2010, there were $2,748,000 (2009 – $1,754,000) of unamortized losses. The excess over the 10% corridor will be charged to income over the average remaining service life of current employees of 13 years, beginning January 1, 2011.

The current liability portion of the accrued employee future benefits included in other accounts payable and accrued liabilities is $605,000 (2009 – $602,000) and the non-current portion of $5,333,000 (2009 – $5,144,000) is included in non-current liabilities.

15. NON-CONTROLLING INTEREST IN POWERTRAIL INC.

The non-controlling interest at December 31, 2010 consists of Integrated Gas Recovery Services Inc.'s ("IGRS") non-controlling interest in the assets of PowerTrail.

16. NOTES PAYABLE

	2010	2009
4.968% Senior Unsecured Debentures, series 2006-1 due December 19, 2036	**49,731**	49,720
4.93% Senior Unsecured Debentures, series 2005-1, due February 9, 2015	**199,119**	198,905
Integrated Gas Recovery Services Inc., non-interest bearing note	**3,080**	3,080
	251,930	251,705

On December 20, 2006, the Corporation issued $50,000,000 4.968% Senior Unsecured Debenture, 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 commencing June 19, 2007. The debentures were purchased at 100% of their principal amount.

On February 9, 2005, the Corporation issued $200,000,000 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 commencing August 9, 2005. The debentures were purchased at 100% of their principal amount.

These debentures contain customary covenants and events of default, including a covenant to ensure 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 four years will be $12,344,000 per year and $7,414,000 in 2015.

The IGRS promissory note for $3,080,000 (2009 – $3,080,000) was issued by PowerTrail to fund the construction of the gas collection and generation plant at the Trail Road landfill site. Pursuant to the Shareholder Agreement dated November 3, 2005, among Energy Ottawa, IGRS and PowerTrail, the note is non-interest bearing, and subject to certain conditions. The management of IGRS has confirmed that it does not intend on calling this note within one year.

17. FINANCING COSTS

	2010	2009
Short-term interest (net of interest income)	**(151)**	(115)
Interest on notes payable	**12,569**	12,558
Other	**495**	767
Less: allowance for funds used during construction	**(893)**	(895)
	12,020	12,315

18. DISCONTINUED OPERATIONS

On May 1, 2008, Telecom Ottawa Holding sold the shares of all its subsidiaries. Accordingly, the December 31, 2009 results of operations and financial position of the telecommunications business have been segregated and presented as discontinued operations in these consolidated financial statements. For the year ended December 31, 2009, an after-tax gain of $20,000 was recognized as a result of the sale of the Telecom Ottawa subsidiaries.

19. 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:

	2010	2009
Bank indebtedness	**239**	-
Notes payable	**251,930**	251,705
Total debt	**252,169**	251,705
Shareholder's equity	**343,424**	329,793
	595,593	581,498
Debt capitalization ratio	**42%**	43%

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, Hydro Ottawa Limited's actual capital structure may differ from the OEB deemed structure.

As at December 31, 2010, Hydro Ottawa Limited's capital structure is aligned with the debt to equity structure recommended by the OEB.

The Corporation is meeting its capital management objectives and the objectives have not changed during the year.

20. SHARE CAPITAL

Authorized
Unlimited voting first preferred shares, redeemable at $1 per share
Unlimited non-voting second preferred shares, redeemable at $10 per share
Unlimited non-voting third preferred shares, redeemable at $100 per share
Unlimited voting (10 votes per share) fourth preferred shares, redeemable at $100 per share
Unlimited voting Class A common shares
Unlimited non-voting Class B common shares
Unlimited 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.

	2010	2009
Issued		
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 Hydro Ottawa to target dividends at the greater of 60% of its annual consolidated net income or $14,000,000, 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 bond or credit facility obligations, and does not negatively impact its credit rating as a result of the dividend payment.

On March 26, 2010, the Board of Directors declared a $17,600,000 dividend to the City of Ottawa, which was paid on May 7, 2010 (2009 – April 2, 2009, the Board of Directors declared a $17,200,000 dividend to the City of Ottawa, which was paid on April 9, 2009).

21. FINANCIAL INSTRUMENTS

The Corporation's financial instruments consist of cash, accounts receivable, unbilled revenue, available-for-sale investments, a held-for-trading investment, bank indebtedness, accounts payable and accrued liabilities 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 available-for-sale investments and notes payable, approximate their fair values because of the short maturity of the instruments.

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

	2010		2009	
	Carrying value	**Fair value**	Carrying value	Fair value
Cash	**-**	**-**	3,489	3,489
Accounts receivable, net of allowance for doubtful accounts	**72,025**	**72,025**	61,300	61,300
Unbilled revenue, net of allowance for doubtful accounts	**82,221**	**82,221**	86,426	86,426
Available-for-sale investment – Common Shares	**500**	**n/a**	-	-
Available-for-sale investments – Purchase Options with Put Rights	**1,000**	**n/a**	500	n/a
Bank indebtedness	**239**	**239**	-	-
Accounts payable and accrued liabilities	**116,436**	**116,436**	120,063	120,063
4.93% Senior Unsecured Debentures, series 2005-1	**199,119**	**203,159**	198,905	203,142
4.968% Senior Unsecured Debentures, series 2006-1	**49,731**	**50,166**	49,720	50,170
Integrated Gas Recovery Services Inc., non-interest bearing note	**3,080**	**n/a**	3,080	n/a

The available-for-sale investments represent the Corporation's investments in SLI (Note 7). The fair value of these investments has not been recognized or disclosed because they are not actively traded in an open market.

The Corporation has determined the fair value of the notes payable based on discounting all future payments of interest and the principal repayment on February 9, 2015 and December 19, 2036 for the Senior Unsecured Debentures, at the estimated interest rate of 5.0% (2009 – 5.0%) that would be available to the Corporation on December 31, 2010.

The Corporation cannot determine the fair value of the IGRS note payable as the amount is non-interest bearing and has no specific repayment terms. It is unlikely that the Corporation would be able to enter into a similar loan agreement with a third party.

Risk Factors

In the normal course of business, the Corporation is exposed to market risk, credit risk and liquidity risk. The Corporation's 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 comprise 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 Hydro Ottawa's credit facility, any advances on its operating line would expose the Corporation 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, 2010, 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, 2010, the Corporation has limited exposure to fluctuations in foreign currency exchange rates. The Corporation does purchase 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, 2010, the Corporation has not entered into any hedging transactions or material 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 on its customers and requires collateral to support customer accounts receivable on specific accounts to mitigate significant losses in accordance with OEB legislation. As at December 31, 2010, Hydro Ottawa Limited held security deposits in the amount of $29,417,000 (2009 – $27,488,000). 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, the Company ceased collecting residential security deposits, and began refunding all residential deposits on hand.

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 such a decision is made. When the receivable amount is deemed to be uncollectible it is written off and the allowance for doubtful accounts adjusted accordingly. Subsequent recoveries of receivables previously provisioned or written off are credited to income. As at December 31, 2010, the allowance for doubtful accounts was $1,249,000 (2009 – $1,897,000) 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:

	2010	2009
Total accounts receivable	**72,663**	62,081
Total unbilled revenue	**82,832**	87,542
Less: allowance for doubtful accounts	**(1,249)**	(1,897)
	154,246	147,726
Of which:		
Outstanding for less than 30 days	**63,878**	53,284
Outstanding for more than 31 days but not more than 120 days	**7,590**	7,369
Outstanding for more than 121 days	**1,195**	1,428
Unbilled revenue	**82,832**	87,542
Less: allowance for doubtful accounts	**(1,249)**	(1,897)
	154,246	147,726

As at December 31, 2010, there were no significant concentrations of credit risk with respect to any class of financial assets or counterparties and approximately 12% (2009 – 14%) 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.

Liquidity risks associated with financial commitments are as follows:

	2010		
	Due within 1 year	**Due between 1 year and 5 years**	**Due after 5 years**
Bank indebtedness	**239**	**-**	**-**
Accounts payable and accrued liabilities	**116,436**	**-**	**-**
Notes payable			
4.93% Senior Unsecured Debentures, Series 2005-1	**-**	**199,119**	**-**
4.968% Senior Unsecured Debentures, Series 2006-1	**-**	**-**	**49,731**
Integrated Gas Recovery Services Inc., non-interest bearing note	**-**	**3,080**	**-**
	116,675	**202,199**	**49,731**

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:

	2010	2009
Federal and Ontario statutory income tax rate	**31.00%**	33.00%
Income before provision for PILs	**46,211**	42,769
Provision for PILs at statutory rate	**14,325**	14,114
Increase (decrease) resulting from:		
Permanent differences	**564**	822
Temporary differences	**(668)**	1,099
Change in valuation allowance	**(112)**	(27)
Rate differential on current year temporary differences	**(51)**	(95)
Changes in future tax rates	**769**	1,219
Income taxed at different rate	**-**	50
Income tax reassessments	**322**	(537)
Regulatory offset to temporary differences and changes in future tax rates	**(295)**	(2,579)
Other	**126**	(650)
	14,980	13,416
Effective income tax rate	**32.42%**	31.37%
Reported as:		
Payments in lieu of corporate income taxes	**14,980**	13,416

As at December 31, 2010, Hydro Ottawa had net taxable temporary differences between the tax basis of assets and their carrying amount for accounting purposes of approximately $539,000 (2009 – $365,000 in net deductible temporary differences). These amounts translated into a future income tax asset of approximately $156,000 and a future income tax liability of $296,000 which have been recognized in the financial statements (2009 net future tax asset of $99,000 was not recognized in the financial statements).

As at December 31, 2010, Hydro Ottawa had unused non-capital tax losses of approximately $599,000 (2009 – $1,684,000) expiring in 2028 and 2029.

As at December 31, 2010, Energy Ottawa had $900,000 (2009 – $1,298,000) of corporate minimum tax ("CMT") carryforwards, which have been used to reduce its future income tax liability. These CMT carryforwards begin to expire in 2014.

As at December 31, 2010, PowerTrail had $4,914,000 (2009 – $4,489,000) of non-capital tax loss carryforwards, which have been applied to reduce its future PILs liability. These losses expire between 2015 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.

Provision for PILs consists of the following:

	2010	2009
Current PILs corporate income tax provision	**14,389**	12,648
Future PILs corporate income tax provision		
Future income tax provision (recovery) before regulatory adjustment	**1,489**	(28,463)
Regulatory adjustment for the (recovery) disposition of future income tax provision (recovery) in future customer rates	**(898)**	29,231
Future PILs corporate income tax provision	**591**	768
	14,980	13,416

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

	2010	2009
Future income tax assets, current	**713**	867
Future income tax assets, non-current	**27,776**	28,364
Future income tax liabilities, non-current	**(3,853)**	(3,106)
	24,636	26,125

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

	2010	2009
Property, plant and equipment and intangible assets	**20,188**	21,354
Employee future benefits	**2,051**	2,132
Non-capital loss carryforwards	**1,462**	1,249
Other taxable temporary differences	**935**	1,390
	24,636	26,125

23. CONTINGENT LIABILITIES

(i) On November 18, 1998, a class action claiming $500,000,000 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 is 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 $18,382,000 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, is $1,026,000. The payment of settlement funds is required June 30, 2011.

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.

(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, 2010, the Corporation had drawn standby letters of credit of $14,000,000 (2009 – $11,738,000) against its credit facility to cover its prudential support obligation. In addition, the Corporation provided bank letters of credit of $93,000 (2009 – $93,000) to the City of Ottawa as security for construction projects.

(iii) 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.

(iv) Energy Ottawa was awarded a $70,000,000, twenty-year contract to supply the Government of Ontario with renewable energy. This contract was subsequently assigned to PowerTrail. Under the terms of the contract, PowerTrail constructed a generation plant and gas collection system at the Trail Road landfill site in Ottawa, Ontario. The Corporation has a standby letter of credit in the amount of $100,000 (2009 – $100,000), expiring on January 31, 2012 related to this contract. In addition, the Corporation has issued a standby letter of credit to the Ontario Power Authority ("OPA") in the amount of $100,000 (2009 – $nil), expiring on June 1, 2011 as security for the Feed-In Tariff Program issued by the OPA during the year.

(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 in which they occur.

(vi) In 2008, Telecom Ottawa Holding sold the shares of its subsidiaries. Part of this transaction included the Corporation posting a three-year guarantee for Telecom Ottawa Holding's obligation for claims arising from breaches of representations or warranties. Claims are subject to exceeding a $630,000 threshold to a maximum of $10,000,000. Management assesses that there is minimal risk that a claim of this magnitude will transpire.

24. COMMITMENTS

(i) Hydro Ottawa Limited has $36,056,000 in total open commitments, of which $30,857,000 are for 2011, $3,073,000 for 2012, $1,991,000 for 2013, $36,000 for 2014 and $99,000 for 2015. This includes a customer information system services agreement, an arrangement for call centre services, purchase and installation of smart meters and overhead and underground services.

(ii) The Corporation 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 $2,000,000, represented by the initial repairs to the gas collection system (Note 25). As at December 31, 2010, the Corporation has fulfilled its obligation related to the one-time royalty, and the 2010 obligation related to the gross annual receipts royalty.

(iii) Operating lease obligations:

2011	134
2012	118
2013	67
2014	64
2015	64
Thereafter	500
Total minimum lease payments	947

25. RELATED PARTY TRANSACTIONS

The Corporation and its subsidiaries provide certain services to the City of Ottawa in the normal course of business at commercial rates.

For the year ended December 31, 2010, the Corporation earned revenues related to the sale of electricity, energy management consulting and other services in the amount of $38,785,000 (2009 – $39,022,000) from the City of Ottawa.

For the year ended December 31, 2010, the Corporation purchased fuel, permits and other services from the City of Ottawa in the amount of $614,000 (2009 – $374,000); and paid property taxes in the amount of $1,796,000 (2009 – $1,757,000). By agreement, Energy Ottawa agreed to repair the City of Ottawa's gas collection system at the Trail Road landfill site in Ottawa, Ontario. In 2010, the royalties paid related to this agreement amounted to $134,000 (2009 – $114,000). The Corporation also paid the City of Ottawa $144,000 (2009 – $1,000) in support of its conservation and demand management initiatives.

By agreement, all costs incurred by CWPI are recovered from the three principals based on their pro-rata interest in CWPI. The Corporation's share of these costs included in operating costs, prepaids and property, plant and equipment are as follows:

	2010	2009
Operating costs	**394**	398
Prepaids	**16**	16
Property, plant and equipment	**10**	22

IGRS provided construction and management services to PowerTrail in the amount of $2,357,000 (2009 – $1,756,000).

As at December 31, 2010, the Corporation had $4,694,000 (2009 – $4,304,000) due from the City of Ottawa and $nil (2009 – $11,000) due from IGRS.

As at December 31, 2010, the Corporation had $307,000 (2009 – $212,000) due to the City of Ottawa, $464,000 (2009 – $260,000) due to IGRS and $31,000 (2009 – $37,000) due to CWPI.

26. COMPARATIVE FIGURES

In certain instances, the 2009 information presented for comparative purposes has been reclassified to conform to the consolidated financial statement presentation adopted for the current year.

STATEMENT OF EXECUTIVE COMPENSATION

The Governance and Management Resources Committee of the Board, made up entirely of independent directors, is responsible for developing and approving 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 levels are reviewed on an annual basis and are 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 individual 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 plan contributions based on the participating employees' contributory earnings. All full-time employees of the Corporation are required to participate in OMERS.

Hydro Ottawa Holding Inc.

SUMMARY OF COMPENSATION

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

Name and Principal Position[1]	Year	Base Salary ($)[2]	At Risk Performance Incentive ($)[3]	Other Annual Compensation ($)[4]
Rosemarie T. Leclair	2010	$264,957	$149,350	$11,654
President and Chief Executive Officer	2009	$257,500	$140,700	$14,577
	2008	$251,616	$124,550	$29,335
Alan Hoverd	2010	$219,151	$107,984	$11,405
Chief Financial Officer	2009	$215,000	$34,496[5]	$17,375
	2008	$65,327[6]	N/A	$12,450
Norm Fraser	2010	$198,765	$92,479	$13,537
Chief Operating Officer	2009	$195,000	$85,654	$11,390
Hydro Ottawa Limited	2008	$194,885	$75,873	$11,949
Gregory Clarke	2010	$160,541	$72,765	$13,315
Chief Operating Officer	2009	$163,132	$68,434	$11,276
Energy Ottawa Inc.	2008	$150,000	$51,203	$11,233

1 Executives whose earnings are reported are those who occupied the position at December 31, 2010

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 in respect of the achievement of performance objectives in the previous year, paid out 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 employers share of basic life insurance premiums

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

6 Mr. Hoverd assumed this position on September 2, 2008. Had Mr. Hoverd been employed for the entire year, his base salary would have been $215,000

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. Ottawa City Council appoints the members of the Board of Directors of Hydro Ottawa Limited. 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 Enterprise Executive Team, comprised of 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 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.

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

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

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

APPOINTMENTS TO THE BOARDS OF DIRECTORS

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 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 personnel. It also reviews and assesses the performance of the President and Chief Executive Officer, oversees the Board Assessment process, and monitors compliance with codes of conduct.

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

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

BOARD AND COMMITTEE MEETING ATTENDANCE

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

HYDRO OTTAWA HOLDING INC.

Director	Board Meetings	Committee Meetings
Pierre Richard (Chair)	6/6	12/12
Patrick Dion	6/6	4/4
Shawn Gibbons	6/6	4/4
Manon Harvey	6/6	8/8
Jan Harder	4/6	N/A
Peter Hume	1/6	N/A
John Kelly	5/6	4/4
Rosemarie Leclair	6/6	N/A
Larry O'Brien	1/6	1/3
Ford Ralph	6/6	8/8
Ken Wigglesworth	6/6	8/8

HYDRO OTTAWA LIMITED

Director	Board Meetings	Committee Meetings
Pierre Richard (Chair)	5/5	N/A
George Anderson	5/5	3/3
Steve Desroches	3/4	N/A
Manon Harvey	5/5	N/A
O. Allan Kupcis	5/5	3/5
Rosemarie Leclair	5/5	N/A
Duncan Watt	2/5	2/5

MEMBERS OF THE BOARD OF DIRECTORS

HYDRO OTTAWA HOLDING INC.


Pierre Richard (Chair), Q.C.


Patrick Dion


Shawn Gibbons


Councillor Jan Harder*


Manon Harvey, C.A.


Councillor Peter Hume


John Kelly


Rosemarie Leclair, LL.B.


Mayor Larry O'Brien*


Ford Ralph


Ken Wigglesworth, C.A.

HYDRO OTTAWA LIMITED


Pierre Richard (Chair), Q.C.


George Anderson


Councillor Alex Cullen*


Councillor Steve Desroches*


Manon Harvey, C.A.


O. Allan Kupcis


Rosemarie Leclair, LL.B.


Duncan Watt

*Note: The Corporation and the members of the Board of the Directors wish to convey their appreciation for the dedicated service of Mayor Larry O'Brien and Councillors Jan Harder, Alex Cullen, and Steve Desroches, whose tenure ended in 2010.

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.

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.

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 2010, 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 400,000 active and retired members and survivors, and 931 employers.

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Hydro Ottawa Holding Inc.