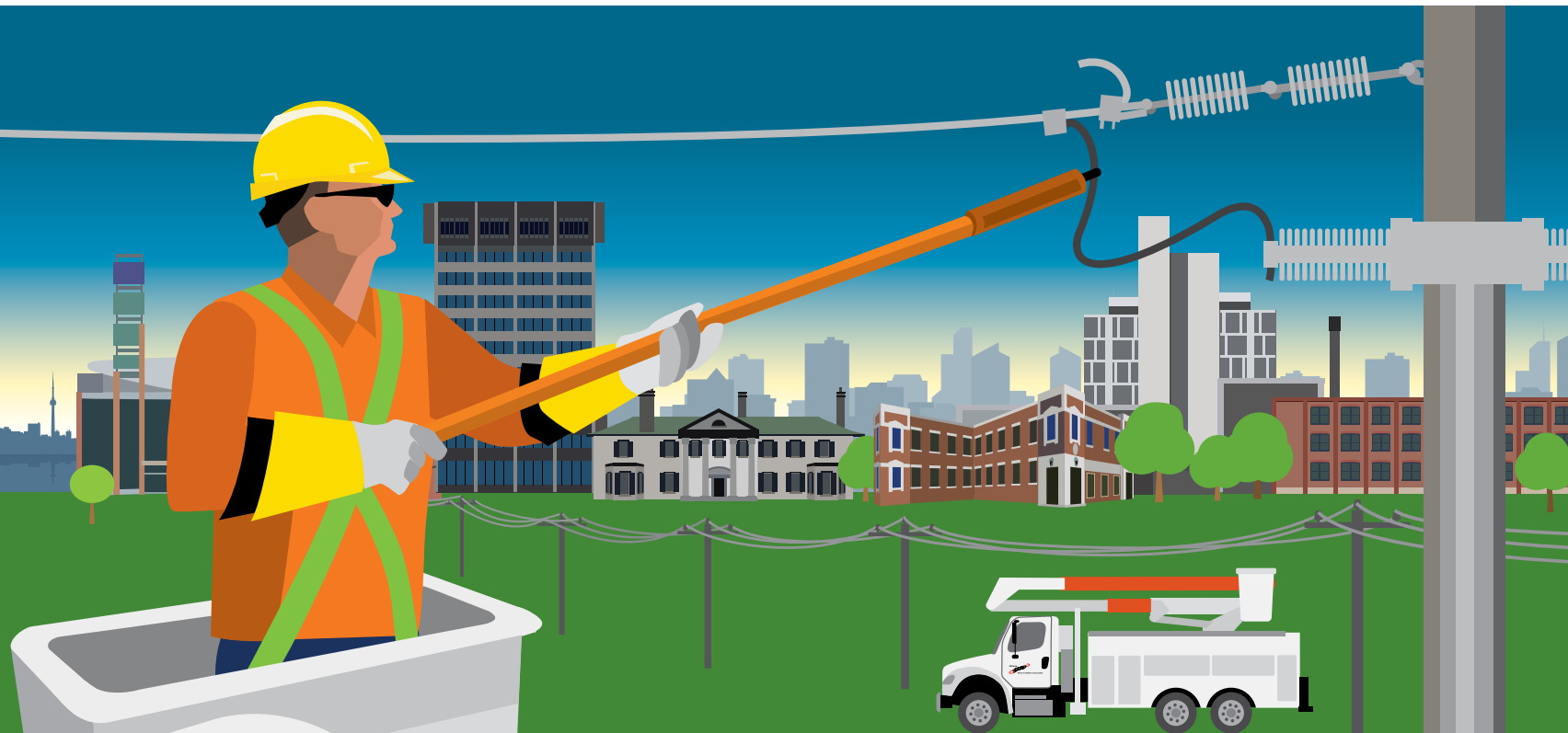


OSHAWA

POWER & UTILITIES CORPORATION

1 company. 1 focus.



2016 ANNUAL REPORT

OSHAWA

POWER & UTILITIES CORPORATION

1 company. 1 focus.

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THE OSHAWA POWER & UTILITIES CORPORATION FAMILY OF COMPANIES

Oshawa Power & Utilities Corporation (Oshawa Power) safely and efficiently manages its regulated electricity distribution network, revitalizing assets and ensuring capacity to provide for customers' needs both today and in the future. With a strategic focus on diversification, OPUC is making prudent investments in unregulated initiatives to augment solid returns from the regulated business.

Oshawa PUC Networks Inc.
OPUCN is a regulated utility that distributes electricity in the community of Oshawa.

Oshawa PUC Services Inc.
OPUCS provides a reliable dark fibre optics communications network within Oshawa and Durham.

Oshawa PUC Energy Services Inc.
OPUCES develops, constructs and operates clean energy generation assets in Ontario.

2252112 Ontario Inc.
2252112 develops, constructs and operates renewable energy generation assets in Ontario.

OSHAWA POWER BOARD OF DIRECTORS

Ron Stewart
Chair
Grant Buchanan
Terry Caputo
Denise Carpenter

Jeff Coles
Donna Kingelin
Lou Meehan
Marc Rosen

OSHAWA POWER EXECUTIVE

Ivano Labricciosa
President & CEO
Phil Martin
*Vice President of Finance
and Regulatory Compliance*

THE CUSTOMER IS OUR FOCUS

In a business environment where the forces of technological advancement, changing government policy and workforce renewal are continuously at play, there remains one question at the core of every decision made at Oshawa Power & Utilities Corporation (Oshawa Power) –

What is in the best interest of our customers?

In 2016, our steadfast dedication to this guiding principle drove our utility to provide the lowest rates in Durham Region, achieve consistent improvements to the services we offer and maintain a steady revenue stream to our shareholder – the City of Oshawa. We take great pride in declaring that net income before hedging activities increased to \$5,720,000 in 2016 from \$4,776,000 in 2015. This result is in keeping with our Ontario Energy Board (OEB) 2015-2019 rate filing which allows us to capture past expenditures using current rates. Also having a substantial positive impact on Oshawa Power's financial position in 2016 was our success in expanding our unregulated portfolio in recent years to the point where these activities contributed 18 per cent of our net income in 2016.

In our last rate filing, the OEB complimented Oshawa Power for “doing more with less”. From line crews and engineers, to customer service representatives and support staff, the entire Oshawa Power team worked diligently to ensure they kept operating costs low in 2016. Furthermore, with a strong 2016 balance sheet underpinned by cash flow and debt levels that were significantly below the OEB allowance, we can state with confidence that our ability to finance our future activities remains strong.

In addition to completing infrastructure renewal, reliability enhancements and network expansion consistent with our OEB-approved *Distribution System Plan*, we moved forward with construction of

the new Enfield Transformer Station and Municipal Station 9. These projects will provide Oshawa Power with a third secure point of supply, help augment our reliability and allow for expansion of capacity as development continues in north Oshawa.

In support of efforts to make Oshawa the principle transportation hub for the eastern sector of the Greater Toronto Area, we participated in preliminary discussions with the Port of Oshawa to further the development of our community's waterfront.

“AS A RESULT OF STEADY GROWTH IN RECENT YEARS, OUR UNREGULATED BUSINESS ACTIVITIES HAVE BECOME A SOURCE OF REVENUE AND PRIDE FOR OSHAWA POWER.”

Also, we installed new infrastructure in co-ordination with the 2016 opening of the section of the 407 ETR that extends across Oshawa to Harmony Road, and we relocated poles and wires to make way for Region of Durham road widening and infrastructure replacement projects in Oshawa.

We continue making operational improvements that are enhancing our customer's experience. We have optimized new call centre technology that provides our customers with more options and increases

reliability. Our systems now offer an outbound feature that allows us to directly contact customers to inform them of power outages in their areas. Additionally, the Outage Management System (OMS) we implemented in 2016 has increased overall reliability and improved our customer communications. Now, the OMS can automatically dispatch crews to the precise location of power outages and provide updates on expected restoration times to our customers through our website and social media feeds that we recently rolled out on Facebook and Twitter.

More than just your average utility, Oshawa Power is receiving recognition for our innovative conservation projects. Our 2016 conservation and demand management efforts to promote the Independent Electricity System Operator's (IESO) LED adoption programs have made the company a leader in reaching the province's *Conservation First* 2017 mid-term targets. When the City of Oshawa took on its largest energy conservation initiative to date – converting 12,000 of its street lights to LED technology – we stepped up to fill a leadership role in the project.

By November 2016, we had successfully completed the first phase of an ongoing residential solar energy management study that we have taken on with our Japanese partners. This groundbreaking project provided 30 participating Oshawa households with in-home systems that can produce 60 to 70 per cent of the electricity they need,

store power onsite for future use and operate off the grid during outages. The insights gained from the study will tremendously benefit our industry for years to come.

Our HomeBeat™ mobile app pilot was another resounding success for the company. By acting on suggestions for behavioral changes provided by the online program, the pilot's 1,100 participants reduced their energy consumption by 2.3 per cent.

Oshawa Power's unique expertise in providing innovative CDM solutions didn't go unnoticed in 2016. We are now working toward innovative collaboration solutions in partnership with gas utilities to bring shared value to our partners and the community alike.

As a result of steady growth in recent years, our unregulated business activities have become a source of revenue and pride for Oshawa Power. In 2016, our company became the only Durham Region utility to reach beyond its service territories to participate in a district energy project. On May 1, we began managing and operating Regent Park Energy Inc. in downtown Toronto. This massive district energy network provides heating and cooling to 18 buildings in Canada's largest social housing project.

Also, we continued to supply the province with clean and green energy produced by our distributed energy generation projects within Oshawa and successfully renegotiated 10-year contracts with our dark fibre communication network customers.

During 2016, Oshawa Power moved forward with a provincially funded micro-grid pilot at the University of Ontario Institute of Technology. With the project's key components fully integrated with the 2.4 MW combined heat and power (CHP) plant that Oshawa Power owns and operates on the campus, the stage is set for future testing of the capacity of the micro-grid to provide for the energy needs of the campus when isolated from the grid.

Oshawa Power recognizes that providing a healthy, safe and welcoming workplace where employees are fully engaged in satisfying customer-focused careers was not only key to our past success, it will be a critical determinant of our utility's future success. We remain committed to creating an environment where every Oshawa Power employee will feel empowered to bring their ideas forward.

2016 was the second year that Oshawa Power received IHSA's COR™ accreditation, scoring a near-perfect 98 per cent in a third-party audit. We also passed our Electrical Safety Authority audit of procedures and implementation without a single remark for the fourth year and were recognized

for our efforts around wellness with a Healthy Workplace Gold award from Durham Region for our healthy eating, physical activity and sun safety programs.

As we bid farewell to many retiring employees over the course of 2016, we saw the aging workforce issue that Ontario's energy sector faces as an opportunity to bring fresh ideas and new energy into our business. By providing co-op positions, internships and apprenticeships throughout our company to students from Oshawa's post-secondary institutions, we have found another way to engage our community in our industry while ensuring that the best and brightest minds will drive the future success of our company.

Oshawa Power and its employees believe in helping in the community where we work. During 2016, we continued our long-standing commitments to the Heart & Stroke Foundation, the CURE Foundation and Big Brothers Big Sisters. Employees also raised funds and made impromptu contributions to food and toy drives for local community organizations, right in the workplace.

Finally, as we remain committed to a path that puts our customers first in everything we do, we will continue to keep in step with the energy needs of our dynamic community and search for opportunities to grow our revenue stream for our shareholder, the City of Oshawa. We look forward to a future where, by engaging people with our business wherever we can in new and exciting ways, we will expand our role as a positive force in our community.



Ron Stewart (left)
Chair

Ivano Labricciosa (right)
President & CEO

INVESTING TO BETTER MEET OSHAWA'S PRESENT AND FUTURE DEMAND FOR POWER

FOLLOWING THROUGH ON ITS FIVE-YEAR *DISTRIBUTION SYSTEM PLAN*, OSHAWA POWER WAS ACTIVE THROUGHOUT THE COMMUNITY IN 2016, RENEWING INFRASTRUCTURE AND PUTTING IN PLACE THE DISTRIBUTION CAPACITY NEEDED TO MEET DEMAND AS THE COMMUNITY CONTINUES ITS RAPID PACE OF DEVELOPMENT.

TWO NEW TRANSFORMER STATIONS

With design complete and contracts signed in 2016, construction is set to begin on the Enfield Transformer Station (TS) and the utility's Municipal Station 9 (MS9). The Enfield TS will provide Oshawa Power's network with an all-important third secure source point to Hydro One's transmission network. This will allow for the addition of capacity required to meet future demand as north Oshawa is developed and give the utility the flexibility to substantially improve the reliability of its network. Scheduled to go into service in 2019, the Enfield TS is being built by Hydro One, on their property at Townline Road North and Winchester Road East, to meet Oshawa Power's present and future load demands. MS9, which Oshawa Power is having built at Wilson Road North and Conlin Road East, is scheduled to go into service in 2018.

OSHAWA POWER 2016 CAPACITY FACTS



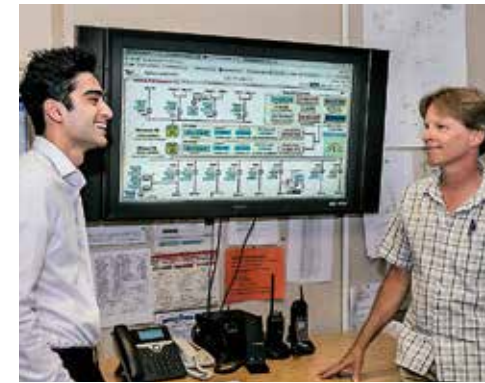
615.6 MVA

total maximum rated capacity of municipal substations



221.8 MW

total peak demand served



REAL-TIME COLLECTION OF WHOLESALE METER DATA GIVES NETWORK OPERATORS NEW FLEXIBILITY

Oshawa Power's new Transmission Management System gives the utility a live picture of the load demand its larger commercial customers are putting on the utility's network. With this data at their fingertips, system operators are able to reduce load by redistributing supply across the utility's network during demand periods when power is more expensive.



ONLINE CAPITAL REBUILD PLAN MAP SHOWS CUSTOMERS WHERE OSHAWA POWER IS AT WORK IN THEIR COMMUNITY

To give its customers more visibility of ongoing capital projects, in 2016 the utility began posting details of its 2016-2019 network modernization and expansion projects to a map on the company's website.

OSHAWA POWER ADDED 854 NEW CUSTOMERS IN 2016

The utility succeeded in expanding its customer base by 1.5 per cent, never failing to connect customers on time and as promised. The majority of these connections were in the Kingmeadow and Dantonbury subdivisions.



2016 Projects 2018 Projects
2017 Projects 2019 Projects



PLAYING AN ACTIVE ROLE IN MAKING OSHAWA A TRANSPORTATION HUB

As the section of the 407 ETR that stretches across Oshawa to Harmony Road reached completion in 2016, Oshawa Power crews worked hard to keep the company well ahead of its ongoing commitments related to development of the highway. In addition, the utility participated in the Port of Oshawa's discussions on further development of Oshawa's waterfront. The utility also relocated its poles and wires to make way for the Region of Durham's 2016 road widening and infrastructure projects in Oshawa.

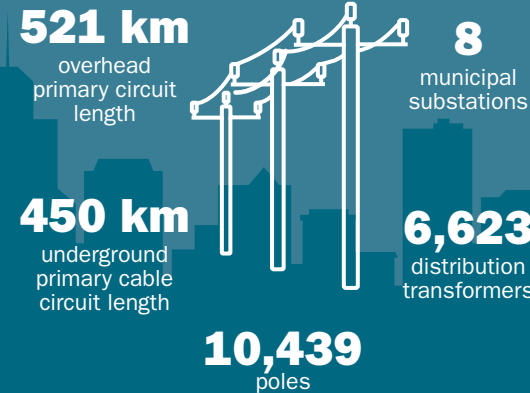
MODERNIZING INFRASTRUCTURE TO BETTER SERVE THE COMMUNITY

OSHAWA POWER CONTINUED TO IMPLEMENT ITS PROGRAM OF SCHEDULED SYSTEM RENEWAL MEASURES THAT ARE INCREASING RELIABILITY AND UTILIZED PLANNED NETWORK ENHANCEMENTS AS A MEANS OF SIGNIFICANTLY IMPROVING OUTAGE RESPONSE TIMES.

OSHAWA POWER KEPT ITS 2016 NETWORK MODERNIZATION AND REPLACEMENT PROJECTS 9% UNDER BUDGET

As outlined in the utility's *Distribution System Plan*, Oshawa Power continued its efforts to improve reliability by replacing and upgrading existing infrastructure – the poles and cables that make up its network. In 2016, overhead projects included work in the Athabasca Road and Eastlawn Road area, and a project in the Bloor Street West and Park Road area. The utility also completed seven underground infrastructure projects in the Aruba, Athabasca, Northdale, Oxford, Sorento, Southdown and Wentworth areas.

OSHAWA POWER 2016 DISTRIBUTION FACTS



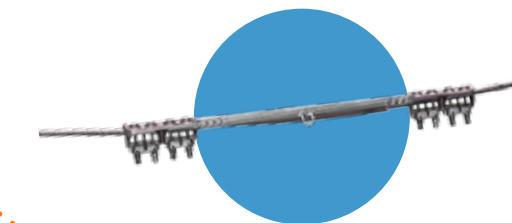
IMPROVING THE THREE R'S – RELIABILITY, RESPONSIVENESS, AND RESTORATION TIMES

During 2016, Oshawa Power was active on many fronts, enhancing its network with new technologies.



Neutral ground reactors for transformer stations

These reduce short circuit stresses on distribution systems that cause the most widespread type of fault in an electrical system and provide longer life for distribution system equipment.



Quick connect sleeves

This equipment is helping shorten outage times by allowing crews to more quickly repair faults in overhead lines.



SF6 breakers that need near-zero maintenance

Four of the utility's twelve 44 kV breakers located in municipal stations were replaced with state-of-the-art technology that requires minimal service and has a significantly longer life expectancy than traditional oil-filled breakers.



Smart fault indicators

This new technology uses sensors mounted on overhead lines and wireless communications to automatically gather and relay precise outage information to the Outage Management System. This reduces outage response times by more precisely directing trouble crews to the location of faults.



Self-healing technology for overhead distribution system

Plans were developed for adding automated switches to improve reliability and ensure stability while laying the foundation for a grid that will meet future requirements.



Outage Management System (OMS) fully integrated with the utility's SCADA, metering system and new cloud-based IVR system

Engineers worked with line crews and network operators to develop algorithms that use real-time smart meter data and the company's GIS information to automatically determine the severity, cause and location of faults on the utility's network.

UNDERGROUND NETWORK RELIABILITY – OUT OF SIGHT, BUT VERY MUCH TOP OF MIND

Although faults in underground networks are rare, when they do occur they can be difficult to locate and typically have long restoration times. During 2016, Oshawa Power worked with Schneider Electric, a global leader in electrical engineering, to develop a system for underground distribution infrastructure in the City's core that would use advanced technologies to automatically locate faults and reroute power, minimizing the number of customers impacted by an outage. The project involved creating a self-healing grid by installing automated switches and controls in 15 vault rooms and implementing a communication infrastructure that connects the self-healing technologies to the control room via the utility's dark fibre network. Although the efficacy of the system has been proven in Europe, this will be the first system of its kind to be installed, tested and put into service in North America.



ENHANCING RESPONSIVENESS IS THE KEY TO IMPROVING CUSTOMER SATISFACTION

LACKING THE ORGANIZATIONAL SILOS FOUND IN LARGER UTILITIES, OSHAWA POWER CAN QUICKLY ASSEMBLE CROSS-FUNCTIONAL TEAMS IN AN ATMOSPHERE OF ACCESSIBILITY THAT SPURS QUICK DEVELOPMENT AND IMPLEMENTATION OF SOLUTIONS THAT ARE HAVING MAJOR IMPACTS ON THE COMPANY'S RELATIONSHIP WITH ITS CUSTOMERS.

OEB 2016 GRADE OF SERVICE METRIC

(Number of Calls Answered Within 30 Seconds)

65%
OEB THRESHOLD FOR LDCS

72%
2015 OSHAWA POWER

74%
2016 OSHAWA POWER

CUSTOMER SERVICE LEVELS SET FOR MAJOR 2017 IMPROVEMENTS

Even with the key Ontario Energy Board (OEB) Grade of Service metric improving to 74 per cent in 2016, a 2 per cent improvement over 2015 and well above the OEB threshold of 65 per cent, early results from initiatives Oshawa Power undertook in the second half of 2016 indicate that the company stands on the threshold of massively improving customer service levels.

VOIP PHONE SYSTEM IS A GAME CHANGER

Even though the Voice Over Internet Protocol (VOIP) phone system purchased by Oshawa Power in 2016 had only been installed for a few short months, it was abundantly clear by year-end that it was helping customer service staff elevate their performance to previously unimagined levels. Its use of analytical tools, including the Team Performance Wallboard which graphically displays real-time metrics on all call centre activities, is allowing the department to optimize resource allocation as never before.



76%
ONTARIO LDC AVERAGE

92%
OSHAWA POWER

OSHAWA POWER SCORES 16% ABOVE ITS PEERS FOR CUSTOMER SATISFACTION IN 2016

According to UtilityPulse, the leading customer opinion pollster for local distribution companies in Ontario since 1987, "Satisfaction happens when an enterprise's core services meet or exceed the customer's needs, wants, or expectations". Oshawa Power's results from the *UtilityPulse 2016 Customer Satisfaction Survey* indicate that, in spite of the disruption in the energy sector in recent years, the company is still seen by the public as a low-cost, high-efficiency utility.

HOW DO YOU CALL 18,000 CUSTOMERS IN 30 MINUTES?



Oshawa Power successfully completed this feat when it called customers affected by a November 2016 outage. The "cloud" capabilities of Oshawa Power's new cloud Interactive Voice Recognition (IVR) system are providing the utility with access to the expanded bandwidth required to handle massive influxes of incoming and outgoing calls. In addition, customers calling into the utility can use the cloud IVR's self-serve menus to access outage reporting, account balances, payment and billing histories, etc.



PROMOTING PAPERLESS BILLING WAS A WIN, WIN, WIN

When the utility succeeded in using a Twitter and Facebook social media campaign to drive total participation in its paperless billing program to 25 per cent in 2016, it made winners of all involved. Not only does the utility's carbon footprint get smaller every time a customer switches to paperless billing, Oshawa Power reduces the costs associated with printing and mailing out bills, and it achieves significant operational efficiencies. In addition to electronically receiving bills and email notifications, eBilling users obtained access to a full slate of online tools that come with the utility's eCare program. Also, two lucky Oshawa Power customers each won a tablet for taking part in the utility's 2016 eBilling enrollment contest.

MOBILE WORKFORCE SOLUTION TAKES THE GUESS WORK OUT OF OUTAGES

In 2016, Oshawa Power's on-call service staff received portable tablets capable of two-way communication with the utility's Outage Management System (OMS). Now, the OMS automatically notifies crews of service interruptions and, before they arrive to service an outage, the technicians are being provided with details on the suspected cause and potential location of faults. In addition, technicians working in the field can use the tablets to directly supply outage status updates to the OMS. The company plans to permanently mount tablets in each of its service vehicles.

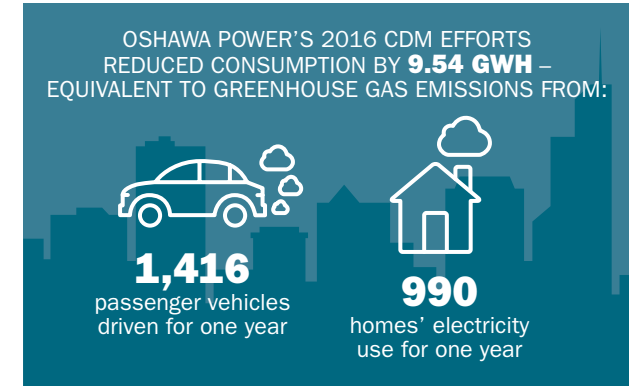


LED INCENTIVE PROGRAMS HELPED OSHAWA POWER'S 2016 CONSERVATION EFFORTS SHINE

WITH LED TECHNOLOGY RAPIDLY BECOMING A FINANCIALLY VIABLE OPTION IN RECENT YEARS, OSHAWA POWER'S CONSERVATION AND DEMAND MANAGEMENT (CDM) LEADERSHIP REALIZED THAT FOCUSING ON PROMOTING THE PROVINCE'S LED INCENTIVE PROGRAMS IN 2016 COULD PUT THE UTILITY WELL ON ITS WAY TO MEETING THE PROVINCE'S CONSERVATION FIRST 2017 MID-TERM TARGETS.

OSHAWA POWER HELPS THE CITY'S LED STREETLIGHT CONVERSION PROJECT MAKE HISTORY

When the City of Oshawa reached out to Oshawa Power for technical and project management expertise for its largest energy-efficiency project to date, utility staff eagerly stepped up to take on a leadership role. From start to finish, utility representatives were heavily involved – helping City staff understand the project's scope during the procurement stage, securing quotes, meeting with potential vendors, working closely on design approvals, attending weekly meetings with the project's stakeholders and reviewing applications required to obtain a Save on Energy incentive. As a result of these efforts, the City anticipates a Retrofit Program incentive cheque in excess of \$1.1 million. Their electricity consumption will be reduced by over 9,700 MWh each year; allowing this project to achieve payback in under four years. LED lights have a life expectancy of 20 years, making this project an ongoing winner for the City.



HOMEOWNERS WERE CRAZY FOR COUPONS

Homeowners across Oshawa showed their enthusiasm for LED bulbs by redeeming thousands of Save on Energy lighting coupons throughout 2016. Excitement for the high-quality, energy-efficient lighting hit a fever pitch, allowing Oshawa Power to hit 780 per cent of the utility's Save on Energy Coupons program target.



HOUSEHOLDS STRIKE A NEW BEAT FOR CONSERVATION

The high level of enthusiasm in Oshawa for issues around energy conservation was apparent during 2016 when 1,100 households signed up for Oshawa Power's Bidgely HomeBeat™ pilot – achieving 200 per cent of the target enrollment. This program provides users with information on their consumption patterns via a mobile app so that they can easily make behavioural changes to help save money on their electricity bills. With pilot participants achieving 2.3 per cent energy savings, the utility is looking forward to launching the program on a community-wide basis.



SMALL BUSINESS LIGHTING PROGRAM GETS BIG RESULTS

By helping more than 200 small business customers receive up to \$2,000 each in free lighting upgrades, Oshawa Power achieved more than 400 per cent of its 2016 conservation target for the IESO's Small Business Lighting program. And, the business owners barely lifted a finger – the utility's contractors arrived at their door as scheduled, audited their existing lighting, then installed the lighting for free. Participating businesses, such as the King Ritson Dental Clinic, are both saving on their Oshawa Power bills and finding new operational efficiencies. The clinic's staff have noticed huge improvements in lighting when colour matching fillings and replacements since their office changed to LED lighting.



EXPANDING OSHAWA POWER'S PORTFOLIO OF UNREGULATED ENERGY PROJECTS

THE SUCCESS OSHAWA POWER HAS ACHIEVED IN DEVELOPING AND OPERATING CLEAN AND GREEN ENERGY PROJECTS WITHIN OSHAWA ALLOWED THE COMPANY TO EXPAND ITS PORTFOLIO OF UNREGULATED BUSINESS ACTIVITIES BEYOND THE COMMUNITY FOR THE FIRST TIME IN 2016.

CANADA'S LARGEST SOCIAL HOUSING PROJECT LOOKS TO OSHAWA FOR DISTRICT ENERGY EXPERTISE

In taking over operation of Regent Park Energy Inc. on May 1, 2016, Oshawa Power became the first Durham Region utility to manage a district energy generation project beyond its service territory. The boilers and centrifugal chillers that make up the district energy system supply heating and cooling through a massive network of pipes to a mix of 18 residential and commercial buildings in the Regent Park area in downtown Toronto. Plans are in the works to add natural gas fired combined heat and power (CHP) plants to the system in the near future. In conjunction with a Toronto Community Housing project that will see Regent Park's existing low-rise buildings replaced with a complex of high-rise towers, the district energy system will be expanded to supply a total of 35 buildings.

OSHAWA POWER 2016 UNREGULATED PORTFOLIO



2.4 MW
output of combined heat and power (CHP) plant



547 kW
generation assets (not including CHP)



Provincially funded programs were utilized to improve the energy efficiency of the operation.

This included the completion of a lighting retrofit project for the Energy Centre building and a study to set out the business case for retrofitting the system's pumps with variable frequency drives.

IT TOOK A TEAM EFFORT TO MAKE THE REGENT PARK ENERGY PROJECT A MAJOR TRIUMPH FOR OSHAWA POWER

The utility's success in operating this district energy project without any complaints or outages over the balance of 2016 can be directly attributed to company-wide efforts to help the project take flight.



Two full-time employees were hired to work onsite, operating the system at Regent Park Energy.



Innovative solutions were developed for obtaining funds from the province to use in commissioning a CHP plant that is planned for the site.



Utility staff provided answers to a steady stream of technical and operational questions.

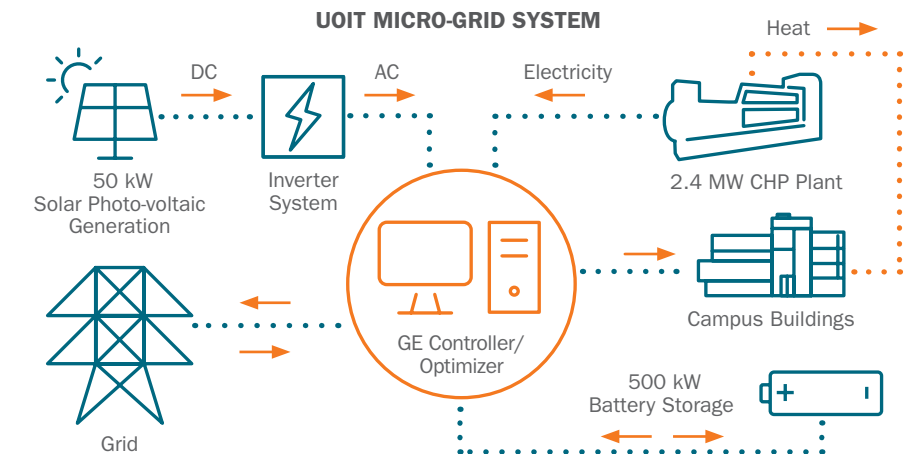


RESIDENTIAL SOLAR ENERGY STORAGE STUDY IS UP AND RUNNING

During 2016, Oshawa Power completed the first phase of a multi-year pilot it is conducting in partnership with NEDO, a Japanese organization that promotes research in the renewable energy field. The study will examine the efficiency and reliability of residential energy management systems in a live setting. With the rooftop solar panels, storage batteries and inverters that make up the systems installed at 30 participating Oshawa homes by November (free of charge to the homeowners), the real-world capacity of the systems to supply backup power was quickly put to the test. Study participants who were at home during a major outage later in the month found themselves completely unaware that their systems had been successfully operating off the grid.

ALL OF THE KEY COMPONENTS THAT WILL MAKE UP ONE OF CANADA'S LARGEST MICRO-GRIDS CAME TOGETHER ON THE UOIT CAMPUS DURING 2016

The 500 kW lithium-ion battery storage, inverter system, 50 kW solar photo-voltaic generation and GE micro-grid controller/optimizer were installed and integrated with the existing 2.4 MW CHP plant that the utility owns and operates at the University of Ontario Institute of Technology (UOIT). Oshawa Power and its project partner, Panasonic Eco Solutions Canada, are looking forward to final testing in July 2017 which will determine the systems capacity to handle critical loads when operating in "island mode" – isolated from the grid during a major outage.



EMPOWERING EMPLOYEES IN A CUSTOMER-CENTRIC WORKPLACE

OSHAWA POWER RECOGNIZES ONE OF THE MOST IMPORTANT KEYS TO ITS FUTURE SUCCESS IS THE COMPANY'S ABILITY TO PROVIDE A HEALTHY, SAFE AND WELCOMING WORKPLACE WHERE EMPLOYEES ARE EMPOWERED TO SHARE THEIR KNOWLEDGE AND PARTICIPATE FULLY IN DECISION MAKING.



A YOUTHFUL APPROACH TO THE AGING WORKFORCE CHALLENGE

With Oshawa Power bidding fond farewell to seven retiring employees in 2016 – almost 10 per cent of the utility's workforce – a number of fresh faces could be seen throughout the company. The utility's program of providing students from local post-secondary institutions with internships, co-op positions and placements was in full force during the year, as UOIT students and graduates put in a cumulative 9,650 hours of work at the company. In addition, with support from the utility, five apprentices that work for Oshawa Power continued studying toward certification in their chosen trade.



LISTENING AS NEVER BEFORE

The utility took its own pulse in 2016, with a company-wide employee engagement survey. Three areas of focus were brought to light – company vision, teamwork and professional development. In response, Oshawa Power established an employee engagement steering committee called "The Buzz", to work in tandem with the company's Social Committee to develop action plans. A constant theme from the survey was the employees' appetite for more open communication. As a result, in 2016 the utility rolled out its own intranet site where employees can complete human resources forms online. It also started posting employee news to its Facebook and Twitter feeds.



RECOGNIZED AS AN AWARD-WINNING WORKPLACE

- The company's wellness efforts were acknowledged by Durham Region with a Healthy Workplace Gold award for the utility's healthy eating, physical activity and sun safety programs.
- For the second year running, Oshawa Power was the only Durham Region utility to achieve the Infrastructure Health & Safety Association's Certificate of Recognition™. The utility scored a near-perfect 98 per cent in an audit conducted under the highest safety standard in the province.
- The utility successfully completed its Electrical Safety Authority's annual Ontario Regulation 22/04 - Electrical Distribution Safety Audit – without the auditors including a single comment or recommendation.



ENGAGING HIGH SCHOOL STUDENTS WITH THE ENERGY SECTOR

Seven children of Oshawa Power employees had a fun and educational day when they participated in Take Our Kids to Work Day on November 2, 2016. The group received safety training and donned the required personal protective equipment before travelling to the utility's pole yard where each student had a chance to take a bucket truck ride 60 feet above the ground.



OSHAWA POWER PUNCHES ABOVE ITS WEIGHT CLASS WHEN IT COMES TO CHARITIES

While the utility takes great pleasure in continuing to support a number of worthy causes that are household names in Oshawa, it's the heartfelt efforts of individuals and small groups within the company to touch the lives of those less fortunate that the entire utility looks to with pride. This included generous employee donations made to Oshawa families in need through the 2016 Durham Regional Police – Toy & Food Drive.



FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED DECEMBER 31, 2016

(DOLLARS EXPRESSED IN THOUSANDS UNLESS LABELLED OTHERWISE)

STRATEGIC OVERVIEW

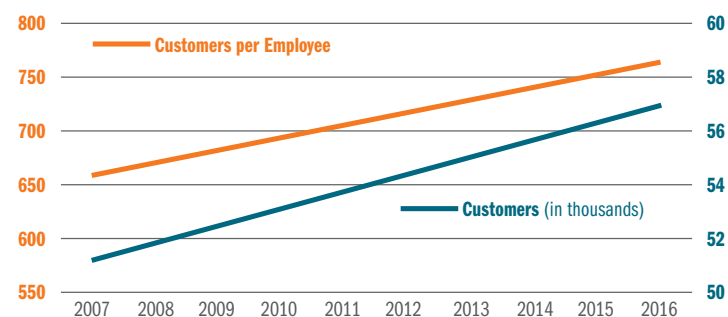
Oshawa Power and Utilities Corporation (“OPUC” or the “Company”) and its four subsidiaries are incorporated under the *Ontario Business Corporation Act* and were formed to conduct regulated electricity distribution and other non-regulated operations that include generating heat and power, operating a fibre optic network and providing other energy services. OPUC is wholly owned by the Corporation of The City of Oshawa.

OPUC’s four wholly owned subsidiaries include Oshawa PUC Networks Inc. (“OPUCN”), Oshawa PUC Services Inc. (“OPUCS”), Oshawa PUC Energy Services Inc. (“OPUCES”) and 2252112 Ontario Inc. (“2252112”).

Through its principal subsidiary, OPUCN, the Company provides regulated electricity distribution services to businesses and residences in the service area of Oshawa, Ontario.

OPUCN distributed electricity to approximately 57,000 customers in 2016. There were 57,458 customers in December 2016 which is a reported increase of 854 or 1.5% over December 2015.

Customer Growth – Latest 10 Years



OPUCS provides dark fibre optic network connections to various municipalities, universities, schools, hospitals, enterprise customers and telecommunication carriers. In fibre optic communications networks, dark fibre or unlit fibre refers to dedicated optical fibre lines, available for use through lease agreements.

OPUCES operates a 2.4 megawatt natural gas fired co-generation plant which provides electricity and thermal energy to Durham College and the University of Ontario Institute of Technology (“UOIT”). OPUCES also manages and operates Regent Park Energy Inc. which provides heating and cooling to 18 buildings in Canada’s largest social housing project.

2252112 has constructed and operates rooftop solar panel projects in Oshawa with total capacity of 650 kilowatts (DC).

REGULATORY ENVIRONMENT

Rate Setting and Regulation

The Ontario Energy Board (“OEB”) has regulatory oversight of electricity matters in the Province of Ontario. *The Ontario Energy Board Act, 1998* sets out the OEB’s powers, including the issuance of distribution licenses that must be obtained by any person owning or operating a distribution system under 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 for ensuring that local distribution companies (“LDC”) fulfill their obligations to connect and service customers.

On October 18, 2012, the OEB released its report, *Renewed Regulatory Framework for Electricity Distributors: A Performance-Based Approach (“RRFE”)*. The OEB established three rate-setting methods under RRFE: 4th Generation Incentive Rate, Custom Incentive Rate and Annual Incentive Rate Index. Each LDC has the option to select the method that best meets its needs and circumstances, and apply to the OEB to have its rates set on that basis.

4th Generation Incentive Rate-setting (“4th Generation IR”) is most appropriate for distributors that anticipate some incremental investment needs will arise during the plan term. The OEB expects that this method will be appropriate for most LDCs. LDCs with relatively steady state investment needs (i.e., primarily sustainment), may opt for the Annual Incentive Rate-setting Index (“Annual IR Index”). The Custom Incentive Rate-setting (“Custom IR”) method may be appropriate for LDCs with significantly large multi-year or highly variable investment commitments with relatively certain timing and level of associated expenditures.

OPUCN determined the Custom IR method was appropriate given the demands for large and variable capital expenditure requirements relating to programs for renewing aging infrastructure and increasing capacity in response to expansion plans for the City of Oshawa.

In January 2015, OPUCN filed its Custom IR application with the OEB seeking approval to change rates that it charges for electricity delivery, retail services, allowances, loss factor and specific services charges for a period of five years, to be effective January 1, 2015 to December 31, 2019. This application requested a revenue requirement to recover costs, and provides a rate of return on a deemed capital structure applied to rate base assets.

In November 2015, the OEB rendered its decision on OPUCN’s Custom IR rate application. The decision provided for final rates effective October 1, 2015 through December 31, 2017, and interim rates for the period January 1, 2018 through December 31, 2019 subject to any updates reported to the OEB in relation to OPUCN’s planned activities for those years.

OPUCN believes the OEB’s decision was a “watershed” event for rate-setting and acknowledged OPUCN’s operating efficiencies and capital requirements to renew aging infrastructure and increase capacity to address expected high growth in the City of Oshawa.

Under the OEB’s Custom IR model, approved rate increases are paced strategically over the five-year period to match OPUCN’s capital investment requirements, operating costs, cost of debt and a reasonable rate of return for our shareholder.

Regulatory Assets and Liabilities

Due to the rate-regulated operations of OPUCN, the Company is obliged to record certain amounts in its financial statements as regulatory assets and liabilities. Regulatory assets and liabilities are defined by the OEB and are generally used by rate-regulated electricity distributors to record the difference between amounts charged to customers for consumption of electricity and the cost of that electricity charged to the distributor. These amounts are deferred until the manner and timing of disposition through future rates charged to customers is determined by the OEB.

REVENUE RECOGNITION

In 2016, OPUC recognized rate-regulated revenue primarily from OPUCN and non-regulated revenue from OPUCS, OPUCES and 2252112.

OPUCN recognizes electricity distribution revenue, based on a fixed monthly service fee combined with a variable charge that reflects the consumption and demand of electricity by its customers. In addition to the regulated distribution charges, OPUCN is required to collect from its customers funds that flow through to third parties. These flow-through amounts include the cost of electricity, line and connection rates, retail transmission rates, wholesale market charges and taxes.

OPUCN also derives other revenue from the completion of service work such as temporary cable installations, pole rentals for third-party communication lines and other miscellaneous operational services.

OPUCS generates revenue by providing dark fibre optic capacity to municipalities, universities, schools, hospitals, enterprise customers and telecommunication carriers.

OPUCES recognizes revenue from its combined heat and power (“CHP”) plant through three sources: electricity sales to the grid; thermal energy sales to Durham College and UOIT; and, a contingency capacity payment from the Independent Electricity System Operator (“IESO”).

Electricity is supplied to the grid and revenue is earned based on the volume of electricity supplied and the hourly Ontario electricity price. Thermal energy is sold to Durham College and UOIT under contract for use in heating campus buildings and domestic hot water. The CHP plant also receives a contingency capacity payment under contract with the IESO for periods when it is not economical to operate the plant.

OPUCES also receives management fees charged for administration and operation of Regent Park Energy Inc. which is owned by Toronto Community Housing Corporation.

2252112 owns and operates rooftop solar panel assets and receives revenue from the IESO under contracts issued through the Province’s *Green Energy and Green Economy Act*.

RESULTS OF OPERATIONS

International Financial Reporting Standards

The Company’s consolidated financial statements have been prepared by management in accordance with *International Financial Reporting Standards (“IFRS”)* as adopted by the International Accounting Standards Board (“IASB”) and interpretations as issued by the International Financial Reporting Interpretations Committee of the IASB, including accounting principles prescribed by the OEB in the *Accounting Procedures Handbook for Electric Distribution Utilities*.

Revenue

Revenue includes the sale of electrical energy which OPUCN collects from its customers and passes onto third parties through the IESO. These flow-through charges include the cost of electricity, line and connection fees, retail transmission fees, wholesale market charges and taxes.

Distribution revenue is realized at approved rates for delivery of electricity by OPUCN to its customers.

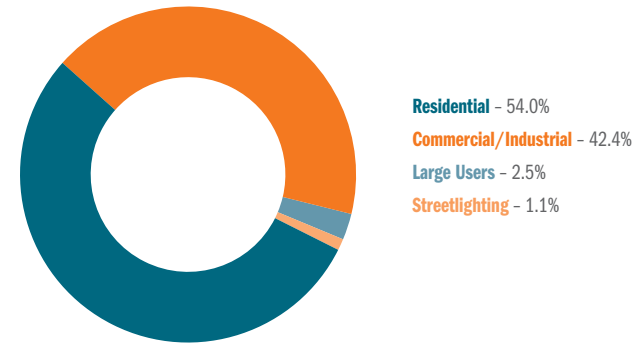
The following table summarizes the total sale of electrical energy, including flow-through charges paid to third parties and distribution revenue, provided under regulation from each of OPUCN’s major customer categories for 2016 and 2015, comparatively:

| Customer Category | 2016 | | | 2015 | | |
|--|------------------|-----------------|------------------|------------------|-----------------|------------------|
| | Energy | Distribution | Total | Energy | Distribution | Total |
| Residential | \$78,353 | \$14,061 | \$92,414 | \$67,866 | \$11,609 | \$79,475 |
| Commercial/Industrial (less than 5,000 kW) | 65,028 | 7,540 | 72,568 | 59,226 | 6,923 | 66,149 |
| Large Industrial (5,000 kW and above) | 4,002 | 237 | 4,239 | 3,830 | 249 | 4,079 |
| Street Lighting | 1,242 | 686 | 1,928 | 1,014 | 688 | 1,702 |
| Total Regulated Revenue | \$148,625 | \$22,524 | \$171,149 | \$131,936 | \$19,469 | \$151,405 |

Revenue from the sale of electrical energy passed onto third-parties increased 12.6% in 2016 when compared with 2015; an increase of \$16,689. Approximately \$10,000, or nearly 60% of the increase year-over-year resulted from the elimination of the Ontario Clean Energy Benefit in 2016. Energy consumption did not change in 2016, indicating the remaining increase is generally explained by higher rates charged for electricity.

Distribution revenue for 2016 increased by \$3,055, or 15.78% when compared with 2015. As noted previously, OPUCN applied for and received a rate increase from the OEB which took effect on January 1, 2016. The increase was required to recover investments in capital made by OPUCN since its previous cost of service rate decision in 2012, in addition to planned activity in 2016.

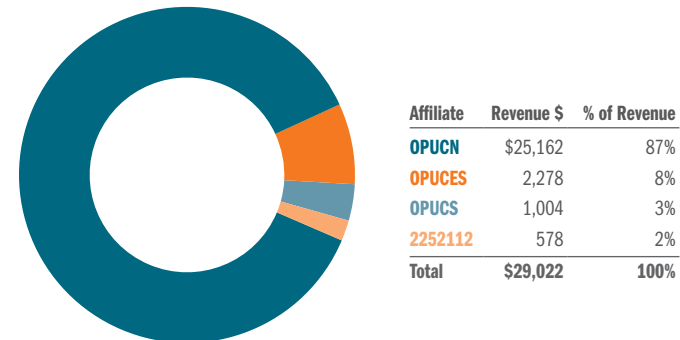
2016 - % of Electrical Revenue by Customer Type



Revenue also includes: management services, and combined heat and power from OPUCES; regulated service revenue including late fees, connection charges and other regulated services performed by OPUCN; OPUCS's fibre optic revenue from long-term leases of its dark fibre network; deferred revenue received from real estate developers for their share of capital invested in distribution infrastructure; electricity generation from 2252112's solar panel installations; and other miscellaneous services provided by the Company.

Revenue from these services totalled \$6,498 in 2016 compared with \$5,394 in 2015; an increase of \$1,104 or 20.5%. In May 2016, OPUCES was successful in acquiring a management services contract which generated over \$800 in revenue which accounts for nearly 75% of yearly increase in other revenue. The remaining increase is attributed to incentives received for conservation and demand management achievements and other regulated charges from OPUCN.

Revenue by Affiliate for 2016 (Excluding sale of electrical energy) (in thousands)



Expenses

Cost of Electrical Energy

Cost of electrical energy is the offset to sale of electrical energy collected on behalf of third parties. Sale of electrical energy less cost of electrical energy resulted in a gain of \$2,062 in 2016 compared with a gain of \$593 in 2015. The gain on sale of electrical energy is offset by net movements in regulatory balances, net of tax reported after net income for the year; (\$1,983) in 2016 and (\$494) in 2015.

Net Operations, Maintenance and Administrative Expenses

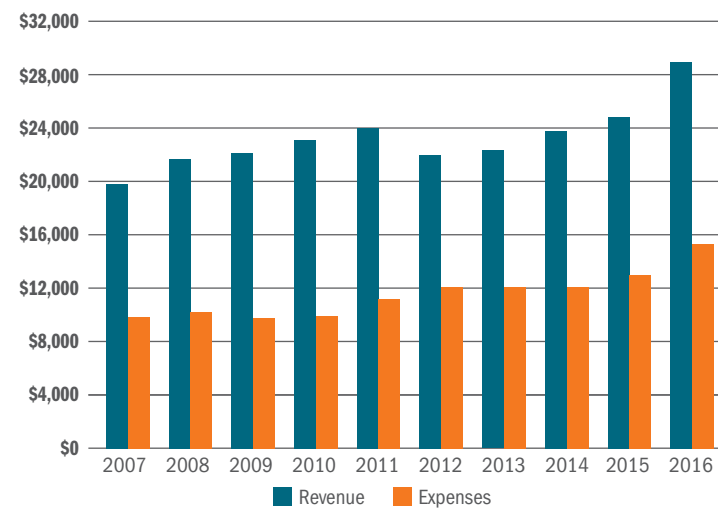
Net operations, maintenance and administrative ("OM&A") expenses increased by \$2,282 in 2016 to \$15,215, when compared with 2015; an increase of 17.6%.

Approximately \$800, or 35% of the total increase in OM&A, are expenses required under OPUCES's management services agreement acquired in May 2016.

In addition, the Company utilized third-party subject matter expertise in studying the merits of a business combination with other regional utilities, the cost of which was approximately \$500, or approximately 22% of the total increase in OM&A, in 2016.

Labour costs, including wages and benefits, increased by \$185 (less than 2% over prior year); labour costs allocated to capital projects decreased by nearly \$400; and allowance for doubtful accounts increased approximately \$350. In aggregate, 41% of the total increase in OM&A expenses are accounted for from these items.

Total Net Revenue and Net OM&A Expenses Over Latest 10 Years (in thousands)



Income From Operations

Income from operations increased \$2,772, or 37.4%, in 2016, from \$7,416 in 2015 to \$10,188 in 2016 comparatively.

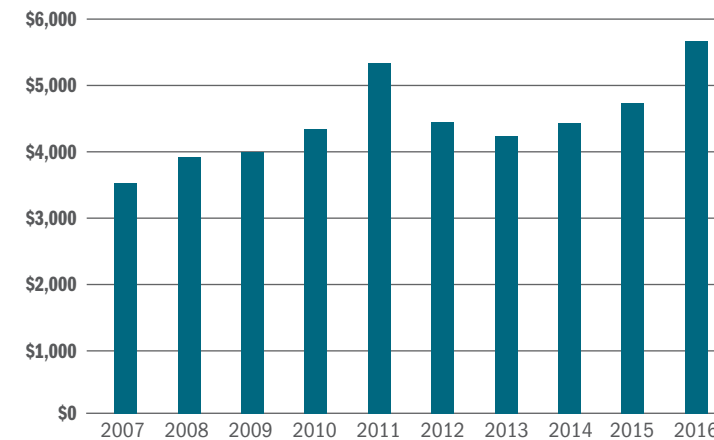
Net Income After Net Movements in Regulatory Balances

Net income after net movements in regulatory balances is reported before other comprehensive income/(loss). Net income after net movements in regulatory balances reported under IFRS is comparable to net income for the year reported under Canadian GAAP.

Net income after net movements in regulatory balances for 2016 was \$5,720 compared to \$4,776 in 2015; an increase of \$944.

Net Income Over Latest 10 Years

(in thousands)



Total Comprehensive Income for the Year

Total comprehensive income for the year is a reporting requirement under IFRS which incorporates other comprehensive income/(loss) previously reported in a separate statement under Canadian GAAP. The Company holds interest rate swaps on its term debt as a hedge against volatility in interest rates. Other comprehensive income/(loss) records the performance of the swaps against market rates.

Total comprehensive income for the year in the amount of \$6,330 increased \$2,424 compared with the previous year.

LIQUIDITY AND CAPITAL RESOURCES

Summary

Cash and cash equivalents as at December 31, 2016 was \$12,698 compared to \$12,975 on December 31, 2015.

The Company has sufficient liquidity to support its financial obligations and execute its operating and strategic plans. Based upon financial covenants with its lenders and industry acceptable norms for its capital structure, the Company has access to sufficient capital as required to support future development of its businesses.

In 2014, OPUCN developed a detailed business and rate case for a five-year period (2015 - 2019) which was submitted for review and approval with the OEB. Upon receiving OEB's approval in November 2015, this strategic exercise will provide sufficient assurance of funding required to compensate the Company for its required investments to rejuvenate the electricity distribution system and increase capacity to match the expected rapid growth in the City of Oshawa.

Cash Provided by Operating Activities

During 2016, operating activities reported under IFRS generated \$15,017 compared with \$12,223 in 2015, an increase of \$2,794.

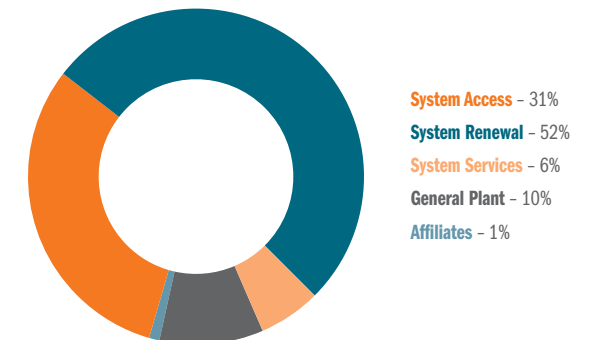
Cash provided by operating activities before changes in non-cash working capital was \$1,705 more in 2016 than in 2015. Changes in non-cash working capital increased cash provided by operating activities in 2016 by \$1,055, compared with a decrease of \$34 in 2015.

Under IFRS, changes in non-cash working capital included increases of \$2,275 and \$1,183 to deferred developer contributions for 2016 and 2015 respectively. Under Canadian GAAP, developer contributions in aid of construction was reported as an offset to additions to property, plant and equipment in investing activities.

Cash Used in Investing Activities

Cash used in investing activities in 2016 and 2015 was \$13,224 and \$14,730 respectively; a decrease of \$1,506 for additions to property, plant and equipment.

Capital Spending by Category



Cash Provided/(Used) in Financing Activities

Cash used in financing activities was \$2,070 in 2016, compared with cash provided of \$12,477 in 2015.

On June 17, 2015, the Company incurred additional debt in the amount of \$15,000 to refinance capital expenditures made over the last several years. The debt is due in one repayment obligation at maturity in June 2022 and is structured with a seven-year interest rate swap agreement with the Bank, effectively converting the term loan to a fixed interest rate of 2.71%.

Included in cash used in financing activities were dividend payments made to the Company's shareholder in the amount of \$1,900 and \$1,800 for 2016 and 2015 respectively.

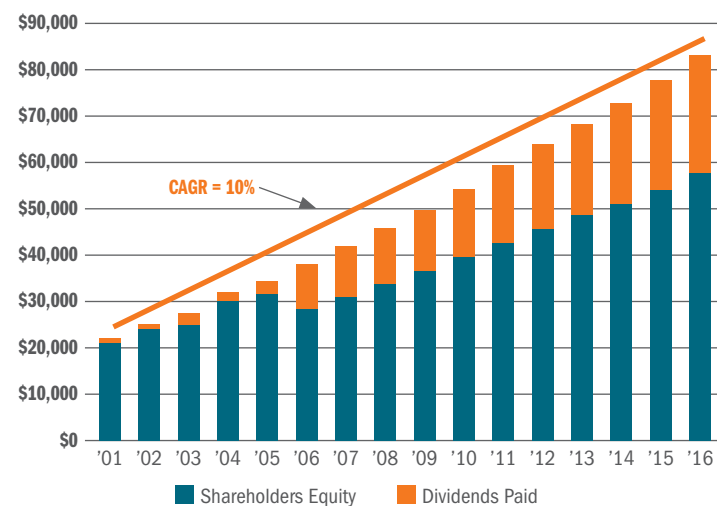
Other financing activities include the repayment of long-term debt on OPUCES's long-term debt related to its CHP plant and changes to customer advance deposits.

Shareholder Value

Shareholder value is a term used to define the Company's shareholder equity plus cumulative dividends paid (unadjusted for accumulated other comprehensive loss; that is, mid-contract gains or losses on financial instruments used to provide interest rate certainty). Cumulative shareholder value as of December 31, 2016, has increased to \$76.7 million which represents a consistent compound annual growth rate ("CAGR") of approximately 10% since 2001.

The following chart is the cumulative shareholder value since 2001 and portrays a consistent focus on maximizing shareholder value which provides a reliable cash flow stream to benefit the ratepayers of the City of Oshawa:

Shareholder Equity & Cumulative Dividends Paid
(in thousands)



OUTLOOK

Rates

In November 2015, the OEB rendered its decision in response to OPUCN's Custom IR application for rates effective January 1, 2015 and continuing throughout a five-year period ending December 31, 2019.

In its decision, the OEB acknowledged OPUCN's request for large-scale capital investments, continued efficiencies in OM&A and the opportunity for the utility to earn a fair and reasonable return for its shareholder. Based on this, the OEB approved final rates for the period October 1, 2015 through December 31, 2017 and interim rates for the remaining two years of the rate term applied for under the Custom IR methodology. Approved rates were implemented on January 1, 2016 and included a rate rider to recover revenue accrued for the 2015 bridge period, beginning on October 1, 2015. Rates for 2018 and 2019 may change to reflect significant changes to the Company's forecast for capital expenditures and other operating variables.

Under the RRFE, the Custom IR method allows LDCs with significantly large multi-year or highly variable investment commitments in capital expenditures with relative certainty of timing and spending levels, to adjust their rates annually for a minimum five-year period, taking into account the forecast investments in capital. As a result, rate increases are appropriately paced over the period avoiding sharp increases that occurred under the former rate-setting regime; and LDCs are able to sustain regulated profitability over the period.

The Ontario energy market will see continued growth in electricity prices as the electrical distribution landscape modernizes. OPUCN is no exception as we prepare for planned growth over the next five years to fund significant capital expansion plans. Approved electricity rates will facilitate the growth plans of the City of Oshawa; renew distribution infrastructure; and develop and improve distribution grid reliability. OPUCN's approved rate application includes capital expenditures that exceed \$75 million over the 2015-2019 period.

Under this rate-setting plan, the Company is confident that the prudent investments in infrastructure required to service the needs of its growing community will provide superior financial returns in the future while upgrading and modernizing the distribution grid will sustain reliability and provide for improved responsiveness.

Ontario's Energy Sector Outlook

The Premier's Advisory Council on Government Assets mandated to examine how to get the most out of key government assets to generate better returns and revenues for Ontarians. The council recommended ways to maximize the value and performance of Hydro One, OPG and the LCBO to help deliver on the multi-year targets set out in the Province's 2014 Budget.

In 2015, the report was accepted by the Premier and the government began pursuing the means to address all of its recommendations, including the partial sale of the Province's interest in Hydro One through an Initial Public Offering; the merger of Hydro One Brampton Networks Inc. with Enersource Corporation, PowerStream Holdings Inc. and Horizon Holdings Inc.; and the reduction of the transfer tax and departure tax from the current 33%.

The intended objective of these recommendations was to strengthen competition in the electricity distribution sector and increase the capacity of LDCs to motivate further consolidation.

On April 28, 2016, the Company announced they were considering a merger which would create a single utility covering the majority of Durham Region's population. Officials announced the signing of a memorandum of understanding to consider potential benefits and the feasibility of a merger among Veridian Corporation, OPUC and Whitby Hydro Energy.

Pursuant to its decision to study the potential for a merger of regional utilities, the Company expended significant time, effort and cost in 2016 to perform a thorough review to ensure it collected sufficient information and eliminated all potential outcomes before providing a recommendation to its shareholder in April 2016.

On March 1, 2017, the Company announced that it would be withdrawing from further merger discussions. After conducting a thorough review of the potential for the merger, the Company determined it to be in the best interest of its customers and shareholder to withdraw from any further discussions.

In response to the Province's stated objectives, the Board and management of OPUC will: continue to monitor the shifting landscape of Ontario's energy sector; leverage its current strengths to maximize value; comply with regulatory requirements defined by the OEB; and capitalize on opportunities presented in its business environment to offer the best options to its shareholder, including possible strategic mergers and acquisitions.

Regulatory Developments

Revenue Decoupling for Residential Customers

The OEB is charged with the responsibility of approving and setting rates for the transmission and distribution of electricity and for ensuring that LDCs fulfill their obligations to service customers. The OEB developed a policy regarding rate design for residential electricity customers whereby distribution delivery costs will be recovered through a fixed monthly charge from the residential customer class, and this new rate design will be phased-in over a four-year period to manage any bill impacts, beginning on January 1, 2016.

In its report, *A New Distribution Rate Design for Residential Electricity Customers (EB-2012-0410)* (the "Report") issued on April 2, 2015, the OEB confirmed that distribution rates for residential customers are to move to a fixed monthly distribution charge over a transition period starting in 2016.

The Report allows for exceptions in certain circumstances and in relation to its decision on OPUCN's rate application, the OEB determined that given the number of rate changes to be implemented on January 1, 2016 in accordance with its decision, the OEB will not require OPUCN to begin the transition to fully fixed residential rates until 2017. The transition for OPUCN will be implemented over a four-year period ending in 2020.

Ontario's Fair Hydro Plan

On March 2, 2017, the Government of Ontario announced several measures it will be implementing as part of a relief plan to lower electricity bills for Ontario residential customers by an average of 25%. The measures announced will also benefit many small businesses.

Referred to as *Ontario's Fair Hydro Plan*, it includes:

- The 8% rebate that came into effect on January 1, 2017;
- Increases in funding amounts for eligible participants in the Ontario Electricity Support Program (OESP);
- The establishment of an Affordability Fund to help further support energy-efficiency initiatives; and,
- Holding electricity price increases over the next four years to the rate of inflation.

Initial changes to take effect on May 1, 2017 will be reflected on customer bills starting this summer. More details are expected as new legislation is introduced in the weeks ahead.

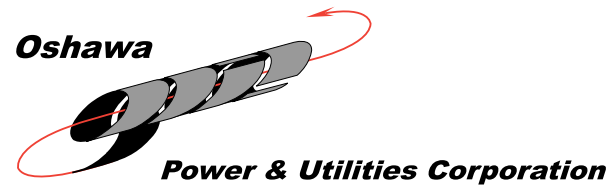
Summary

OPUC will continue to focus on developing and improving its distribution grid reliability, safe work practices and customer centric values.

Fulfilling the mandate to supply electricity to the residents of the City of Oshawa at competitive rates continues to be the key objective of the Company. OPUC plans to continue development of its core business while diversifying and growing other business units that include renewable energy and fibre optic communications on a cost-effective basis.

OPUC will take a responsible approach to new business development that will leverage its current strengths, comply with regulatory requirements defined by the OEB and capitalize on opportunities presented in its business environment. Strategically, the Company plans to diversify its business lines by focusing on low-risk, compatible opportunities that offer long-term stable returns for its shareholder.

OPUC audited financial statements are available at www.opuc.on.ca



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