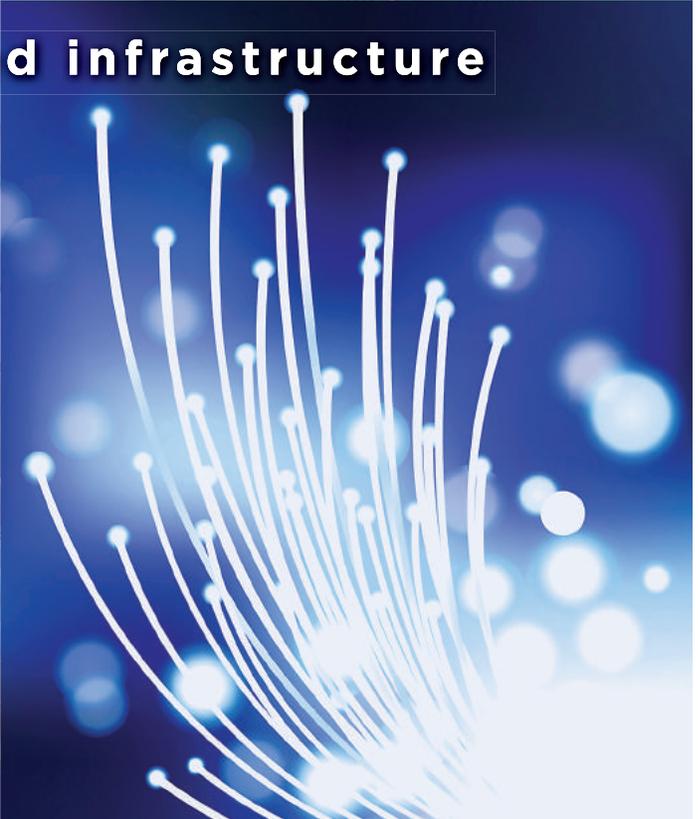
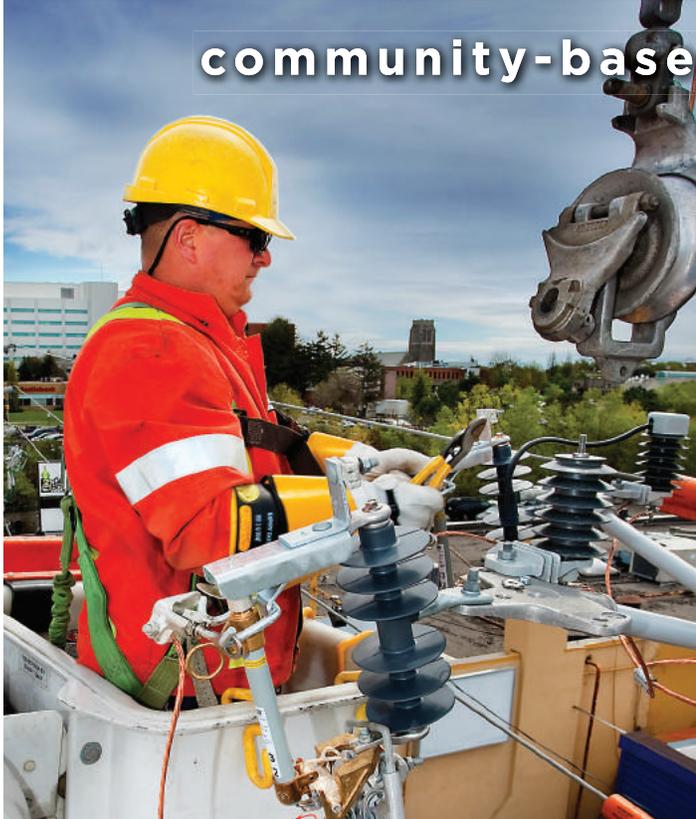


Growing

community-based infrastructure



2011

**Oshawa Power
& Utilities Corporation**
annual report

2011 at a glance

\$5.4 million
Net income

54,000
Customers

11%
Compound annual
growth rate (2001-2011)

\$12.5 million
Infrastructure investments
in our community



2011

Oshawa Power & Utilities Corporation annual report

page

4	Oshawa Power and Utilities Corporation <ul style="list-style-type: none">- Corporate structure- Board of directors and executive team- Community-based infrastructure assets
6	Message from the Chairman and the President & CEO
10	Safely maintaining and expanding OPUC's infrastructure
12	Encouraging sustainability
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18	Financial highlights

Oshawa Power and Utilities Corporation (OPUC)

OPUC is an infrastructure asset holding company that provides energy and communications services through the following subsidiaries:



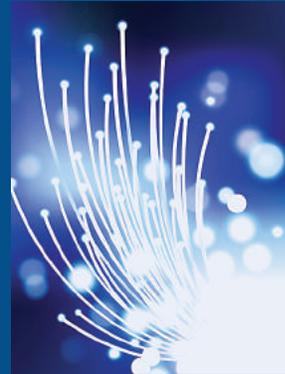
OPUCN

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



OPUCES

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



OPUCS

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



2252112

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



OPUC board of directors



Bruce Fenton
Chairman



Bernie Schroder
Vice Chairperson



Lou Meehan, CA



Isabelle Roberts



Marc Rosen, PhD, P.Eng



Ron Stewart



Jay Swartz, LL.B.

Executive team

Atul Mahajan
President & CEO

Denise Flores
Vice-President,
Engineering &
Operations

Phil Martin
Vice-President,
Finance & Regulatory
Compliance

OPUC community-based infrastructure assets

Service area
149 km²

Energy supplied
1,109,719,464 kWh

Total demand served
235 MW

Municipal substations
8

Total maximum rated capacity
of all municipal substations
520 MVA

Overhead primary circuit length
570 km

Underground primary cable circuit length
417 km

Distribution transformers
6,439

Number of poles
11,192

Fibre optic network length
73 km

Generation assets
under development and/or operation
3.0 MW



Atul Mahajan, President & CEO (left) and Bruce Fenton, Chairman (right).

Message from the Chairman and the President & CEO

We serve a strong and expanding city, with development in Oshawa continuing on a steady path. According to the 2011 census, Oshawa is one of Canada's 15 fastest-growing metropolitan areas. Oshawa Power and Utilities Corporation's (OPUC) role in this growth is crucial. We are providing community-based infrastructure services to our customers and solid returns for our shareholders.

Supported by this management philosophy, and thanks to the dedicated efforts of our employees, we are pleased to report 2011 net income of \$5.4 million and declare a dividend of \$1.7 million. Year over year, our net income increased by 22.4%. Included in our 2011 net income is the impact of a favourable decision by the Ontario Energy Board (OEB) resulting in non-recurring income of \$1.2 million. Excluding this item, our normalized net income for 2011 was \$4.2 million. Over the last 10 years the sum of cumulative dividends paid and shareholder equity has increased to \$58.7 million. This represents a very healthy compound annual average growth rate of 11%.

As part of the OEB's multi-year rate-setting process, each Ontario local distribution company is required to complete a rate application once every four years. In June 2011, we filed a detailed rate case for OPUC Networks Inc. for rates effective January 2012. Our successful efforts in cost containment and conservative investment that followed the 2008-09 economic downturn were integral to our application, the outcome of which has resulted in a reduction to distribution rates for most of our customers. We continue to maintain one of the lowest electricity distribution rates in the province. Moving forward, this rate stability will help Oshawa attract new investment. Also, we are pleased that the OEB approved our plan for increased investment in infrastructure for 2012.

We are prudently managing our traditional electricity distribution business while growing the rest of our business portfolio. We remain confident that clean, sustainable energy generation projects and provision of telecommunication services, using our extensive high-capacity fibre optic network, are key to our future growth. In 2011, revenue from these emerging businesses was \$2.2 million, approximately 10% of our total revenue.

We are custodians of OPUC infrastructure assets on behalf of the citizens of Oshawa and so must invest in these assets efficiently and effectively. In 2011, as part of our five-year asset management plan, we spent \$12.5 million on capital projects. To ensure sufficient system capacity is available and to improve service reliability, we upgraded several of our station transformers and replaced older distribution assets. In addition to planned enhancements to our distribution grid, we also supported the growth of north Oshawa and the University of Ontario Institute of Technology (UOIT) expansion in the downtown core. We continue to invest in smart grid technologies that allow us to more effectively manage our resources and reduce outage restoration time. We actively contributed to the development plans for the future extension of Highway 407 as well as other City of Oshawa and Durham Region planned infrastructure projects in our city.

We provided customer value and shareholder returns without compromising safety or reliability. We are proud to have achieved Outcomes Level 2 which is a component of ZeroQuest[®], an independent health and safety auditing program conducted by the Infrastructure Health and Safety Association. In 2011, we also invested in state-of-the-art interactive voice response (IVR) technology to enhance our customer service capability.

Our sustainability efforts continued during 2011. We supported our residential and small commercial customers' transition to Time-of-Use billing with an updated company website that helps them conserve and shift their electricity usage. We promoted the Ontario Power Authority's (OPA) saveonenergy^{OM} programs throughout the community by holding educational sessions and by participating in community and retail events. This outreach allowed us to interact one-on-one with our customers in the community. In 2011, we connected several of our customer's small (OPA - micro Feed-in Tariff) solar generation projects to our distribution grid.

We moved forward with the detailed preparations required for future expansion of OPUC's generation portfolio. These efforts support our plans to complete rooftop solar power generation systems on city-owned buildings during 2012, including the GM Centre, the home of our beloved Oshawa Generals and Oshawa Power basketball team (no relation to OPUC). Ultimately, our investments will provide enough clean and green OPUC-generated power to supply the needs of 1,000 Oshawa homes. We also continue to be involved in electric vehicle charging projects that include other Durham Region stakeholders such as UOIT.

Our investment in the Oshawa community and its residents continued. Our company and our employees were generous with donations and volunteer hours. Through their combined efforts, we raised money for many local charities and not-for-profit organizations.

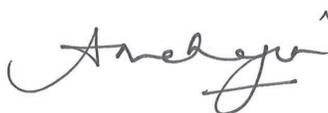
We are also proud that our customers joined our employees in the spirit of giving. Our 2011 campaign to promote electronic billing offered a monetary incentive. Customers enrolling in the service had the option of either donating the incentive to United Way or applying it directly to their account balance. A number of our generous customers opted to donate their incentive to United Way.

We will continue to successfully navigate a challenging regulatory and economic environment. Our net income for 2011 was bolstered by a non-recurring payout. The OEB rate setting policies, the continued need for infrastructure investment and low interest rates are expected to put downward pressure on our returns in the short term. However, we are confident that our prudent investments in infrastructure will serve the needs of our growing community, help to update and modernize our distribution grid and provide us with superior financial returns in the future.

With a solid foundation and diversity in energy and communication-related services, Oshawa Power and Utilities Corporation continues to leverage its expertise on behalf of the city we support. As our city and the region evolve, we are here: delivering energy, which includes energy generated from renewable sources in Oshawa, and offering connectivity through our fibre optic network. *We are truly growing a community-based infrastructure company.*



Bruce Fenton
Chairman



Atul Mahajan
President & CEO



OPUC's community-based infrastructure is...

...rooted in a deep understanding of Oshawa's existing and future needs, then using that knowledge, provides services that maximize value for customers and shareholders alike. Building community-based infrastructure is OPUC's core competency. The Company is positioned to help Oshawa grow and, wherever opportunities arise, to also assist other communities with similar needs.

OPUCES' natural gas fueled combined heat and power plant (shown here), located on the Durham College/UOIT campus, generates both electricity and thermal energy that provides power and heat to various campus buildings.



“ While we are closely monitoring and planning for increased development in north Oshawa, we continue to provide reliable power to all our customers across Oshawa through plant upgrades and improvements. ”

Denise Flores

Vice-President, Engineering & Operations

In 2011, to improve system reliability, OPUCN replaced one of its transformers located in south Oshawa with a unit featuring remote monitoring and diagnostic capabilities.

Operations: safely maintaining and expanding OPUC's infrastructure

"Viewing OPUC assets as one's own" was foundational to Operations planning and the work that was completed in 2011. Rooted in optimizing assets in a fiscally-responsible way, this philosophy guided the first year of OPUCN's new five-year asset management plan. This thinking also underpinned the Company's approach to maintenance and upgrades of existing assets and to new investments, while ensuring that reliability and safety standards were improved or were not compromised. Capital spending amounted to \$12.5 million in 2011.

Station work and transformer replacements were a focus for 2011. These projects represented \$3.24 million of the total capital spent. This, along with service reliability improvements, resulted in transformers being upgraded to higher-capacity more-efficient units. In addition to responding to increased demand from residential development in north Oshawa, the Company continued to address changing capacity requirements in the City's downtown core resulting from the University of Ontario Institute of Technology (UOIT) expansion.

Residential development and the future extension of Highway 407 through north Oshawa are increasing the City of Oshawa's demand for electricity. Following its initial conversations with the City and Durham Region, OPUCN had planned to build a new substation in north Oshawa. However, the Operations team, mindful of the need to "manage OPUC assets as if they were their own", felt that they could achieve comparable results and improve system reliability through alternative solutions. They fulfilled the area's needs by upgrading a station's transformer from 12 MVA to 25 MVA and by replacing each of the aging transformers in two other substations with 25 MVA units.

Investment in Smart Grid technology and the information it provides play a huge role in optimizing resources and ensuring reliability of the distribution system. Self-healing networks continued to minimize power outages by enabling the system to switch to an alternate supply without interrupting service. Managing input from alternative energy sources through OPUCES will also be made easier with this technology.

OPUCES' natural gas fueled combined heat and power plant, located on the Durham College/UOIT campus, continued to generate both electricity and thermal energy that provides power and heat to various campus buildings. The plant displaced the equivalent load of more than 600 homes from the electricity grid in Ontario.

With their extensive network of high-capacity fibre optic cables in Durham Region, OPUCS continued to provide customers with network solutions. In 2011, OPUCN itself began to take advantage of these services. Working with Hydro One, the Company implemented a solution that significantly increased the bandwidth to its corporate office and updated its IT infrastructure. This provided both the capacity and security for data transfer from Oshawa's smart meters, as well as support for OPUC's expanded web services. In the future, the increased bandwidth will also enhance OPUCN's metering automation and operational data storage systems.



As required under Ontario's Occupational Health & Safety Act, OPUCN line maintainers annually complete confined-space rescue training using a davit arm. The training reinforces safety procedures while working in underground transformer vaults and manholes.

DEVELOPMENT OF A SAFETY CULTURE WITHIN OPUC REMAINED MISSION-CRITICAL IN 2011

OPUC continued to improve overall workplace safety under the framework of the Infrastructure Health & Safety Association (IHSA). The Company achieved the Outcomes Level 2 component of ZeroQuest®, the independent health and safety auditing program that is conducted by the IHSA.

OPUC also maintained its ongoing commitment to Incident Reporting and Management as one of the best means of ensuring that every incident, however minor, is quickly and accurately reported, then acted upon in a timely fashion. In addition, OPUC's health and safety training for employees included instruction on workplace ergonomics and fleet driver safety.



“ We took the time to learn about solar technology by installing a solar power generation system on the rooftop of our own downtown Oshawa corporate office in 2010. Our approach was to start with a pilot project, analyze the results, then confidently deploy the technology at other sites. We know this prudent strategy will provide us with the greatest success in expanding our generation connection portfolio. ”

Jayesh Shah

Director, Asset Management and New Initiatives

The OPUCES solar power generation pilot project located on the roof of OPUC's downtown Oshawa corporate office.

Encouraging sustainability as Oshawa’s infrastructure needs grow

In July 2011, transition of OPUCN customers to Time-of-Use billing was finalized, meeting the Ontario government’s deadline for the program’s implementation. Prior to going “live”, OPUCN ensured its systems were in compliance with the Independent Electricity System Operator standards.

In 2011, the Company continued to educate its residential customers on saving energy and shifting household demands for electricity. Much of this community outreach involved attending events at the GM Centre and other locations in the community, answering questions and addressing concerns. The Company’s website was updated so that customers can now view their consumption patterns and shift their electricity usage to mid-peak and off-peak periods. Conservation tips from the website and other marketing materials also helped residents reduce their environmental footprints.

OPUCN also encouraged residential customers to take advantage of the Ontario Power Authority (OPA) saveOnenergy^{OM} programs in 2011. The COUPON EVENT^{OM} was especially popular as residents redeemed coupons for instant rebates on products including CFL bulbs and ENERGY STAR[®]-qualified light fixtures, fans and power bars.

FRIDGE & FREEZER PICKUP ^{OM}	417 participants
HEATING & COOLING INCENTIVE ^{OM}	723 participants
COUPON EVENT ^{OM} booklet	1774 redemptions

Commercial and institutional customers were also focused on sustainability in 2011. OPUC’s green energy program progressed as OPUC executed solar energy supply contracts with the OPA. The project commits OPUC to installing and operating solar power systems on the roofs of key municipal buildings including The GM Centre, Donevan Recreation Complex and Civic Recreation Complex. In addition, OPUC also connected a total of 17 customer-owned microFIT installations to the distribution grid without any constraints.

OPUC was proud to be one of the sponsors of the 2011 Earth HourTM event that occurred on March 26, 2011 between 8:30 p.m. and 9:30 p.m. Oshawa’s electricity consumption during that hour dropped approximately 5.6 MW, or 3.6%. This is equivalent to approximately 56,000 homes each shutting off a 100 W light bulb.



In 2011, OPUCN purchased an electric vehicle — the General Motors Volt shown here with Denise Flores, Vice-President, Engineering & Operations, at the electric vehicle charging station in the parking lot of the OPUC corporate office. The car is used to showcase the vehicle itself and promote electric-powered automobile technology as an important factor in sustainable growth.

SUPPORTING ADOPTION OF ELECTRIC VEHICLE TECHNOLOGY IN OSHAWA

As a member of the Durham Strategic Energy Alliance (DSEA), OPUCN continued to be involved with the DSEA Electric Vehicle (EV) Program, partnering with University of Ontario Institute of Technology and other Durham Region local distribution companies. Seven EV charging stations were set up throughout Durham Region in 2011. Monitoring these charging stations will help in studying the impact that the charging stations’ use will have on OPUCN’s electrical distribution system. The data collected will ultimately be used in modelling the Company’s own grid requirements to ensure that power quality and reliability are maintained as EV use becomes more prevalent in Oshawa.



Focusing on customer service

OPUC customers seek different ways in which to interact with the corporation, whether that is by mail, in person, over the telephone or through the Internet. In response, OPUC expanded its customer touch points across several channels and continued to invest in technology to improve its own service infrastructure.

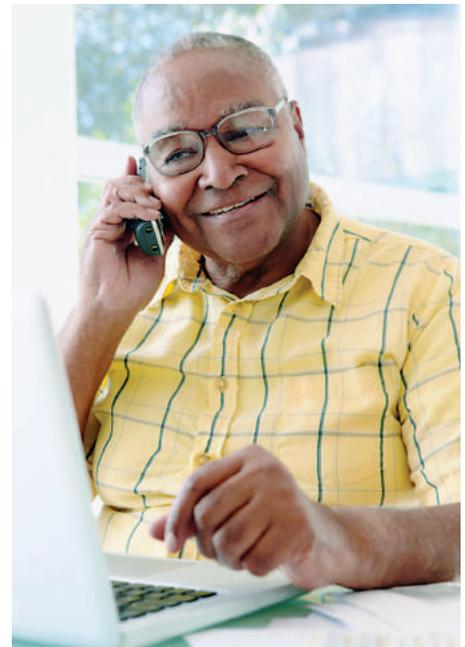
In 2011, renewed efforts were also made to promote OPUC's e-billing service which allows customers to view and pay their bills on-line. This saves the Company time and reduces the amount of paper and the costs associated with traditional mailing. Campaigns were run in which customers were offered \$5 account credits as an incentive to enrol in the program.

The OPUC website continued to evolve as a customer service portal. Clicking on the eCustomer Care button allows users to make requests for tree trimming or cable locates and report a streetlight outage – 24 hours a day. Customers can also use the website to provide OPUC with feedback on the timeliness and quality of its services.

Good customer service, from addressing concerns and accurate billing to timely response to outages and other field requests, is rooted in having the right employees in the right positions within the Company. This was a continuing priority for the Company in 2011.

OPUC's own internal infrastructure evolved as technology changes affected the traditional roles played by linesmen, clerical staff and other employees within the Company. "The ability to adapt to change is a core competency for success in our industry these days," said Nancy Brandon, Human Resources Manager. "We are focused on becoming a high-performance organization and, in 2011, put several foundational pieces in place. Throughout the year, we took advantage of training programs, health and safety meetings and employee town halls to make sure our employees understood our goals and were engaged in helping us meet them."

OPUC challenged its employees to find innovative ways to increase customer value and shareholder return by driving efficiencies in ways that would be sustainable for the Company and the environment. OPUC's employees' ability to embrace the challenge speaks to the strength of OPUC's human resources. "We are extremely proud of our employees' willingness to embrace the challenge and their responsiveness is a testament to the overall strength of OPUC's team," said Phil Martin, Vice-President, Finance & Regulatory Compliance.



ENHANCED INTERACTIVE VOICE RESPONSE (IVR) SYSTEM PROVIDES AUTOMATED OPTIONS TO CUSTOMERS

In March 2011, a new IVR system was introduced to handle company notifications and routine customer requests for information – 15% of the total number of calls. This cost-effective automation technology allowed OPUC to better serve the needs of its customers.



Participating in the community

OPUC and its employees share a strong belief in the value of investing both time and money in engaging with the community they proudly serve. In 2011, OPUC continued to match the efforts of its employees in community-strengthening projects. The Company’s community support ranged from donations to health and environmental charities, to those made in support of the many cultural activities that took place in Oshawa.

Following on our 2010 drive, in 2011 United Way also benefitted from support provided by OPUC employees. OPUCN used the promotion of its e-billing service to further increase donations. The Company offered customers a monetary incentive to switch to e-billing. Customers enrolling in the service had the option of either donating the incentive to United Way or applying it directly to their account balance. A number of generous customers opted to donate their incentive to United Way. The campaign also succeeded in driving customer participation rate in the OPUC e-billing program to 7 per cent.

Strengthening the infrastructure of the Oshawa community means more than just providing financial support. In 2011, OPUC staff volunteered their time to do whatever was needed. The Company showed its pride in being part of the Oshawa community in many ways.

OPUC COMMUNITY SUPPORT IN 2011

Alzheimer Society of Canada	Low-income Energy Assistance Plan
Canadian Breast Cancer Foundation	Oshawa Community Health Centre
Central Lake Ontario Conservation Fund	Oshawa’s Annual Christmas Tree Lighting Ceremony
Friends of Second Marsh	Royal Canadian Legion
Grandview Children’s Foundation	Santa’s Parade of Lights Oshawa
Greater Oshawa Chamber of Commerce	SickKids Foundation
Habitat for Humanity	



GIVING BACK BUILDS A STRONGER, BETTER COMMUNITY FOR ALL

(Top) OPUC provided sponsorship for Oshawa’s Annual Christmas Tree Lighting Ceremony on November 17, 2011. The event has been a tradition in Oshawa for more than 30 years.

(Bottom) OPUC was a Gold Sponsor of the 2011 Durham Children’s Groundwater Festival held at Samac Camp. During the week of September 28, over 4,000 Grade 4 students from the Region of Durham participated at more than 40 interactive learning centres with the goal of increasing the student’s awareness of water issues and motivating them to become water stewards in their home, classroom and community.

Financial highlights

for the Year Ended December 31, 2011

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.

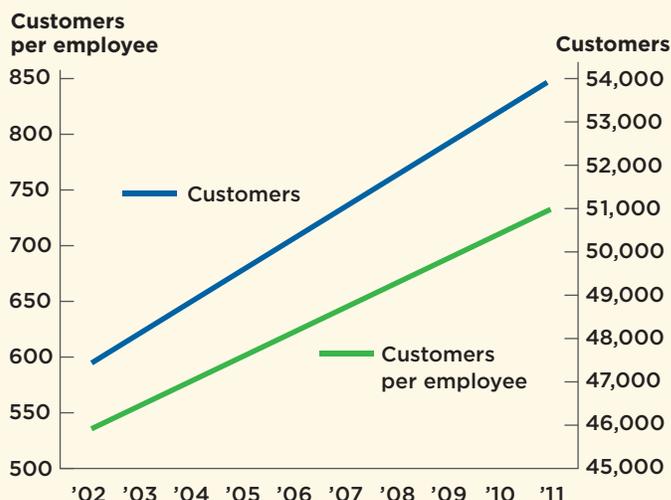
OPUCN distributed electricity to approximately 54,000 customers in 2011.

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 fibres, 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 University of Ontario Institute of Technology (“UOIT”), and a small solar powered generating system with a 7 kW capacity. OPUCES is also actively investigating other co-generation opportunities within Oshawa and elsewhere in the Province of Ontario.

2252112 is a newly formed company incorporated to pursue renewable energy generation opportunities. Thus far, 2252112 has successfully obtained approval from the Ontario Power Authority (“OPA”) for four rooftop solar panel projects in Oshawa with total capacity of 650 kilowatts (DC). Future revenue from the four projects is estimated at \$0.5 million per year.

Customer Growth Since 2002



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 (the “Act”) sets out the OEB’s powers to issue a distribution licence which must be obtained by any person owning or operating a distribution system under the Act. 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.

As part of its regulation of local distribution companies (“LDCs”), the OEB established a multi-year electricity distribution rate setting plan which indicated that, commencing with 2008 rates, a limited number of distributors would be identified each year to file a future test year cost of service application. The plan would run for four years enabling each LDC in the province to rebase its rates once during the four-year plan. For any of the other LDCs seeking approval to change their distribution rates, LDCs would file a mechanistic, formulaic update to their current rates based on the OEB’s incentive regulation mechanism (“IRM”).

On April 7, 2011, the OEB approved the IRM application filed by the Company and issued its Decision and Order for rates effective May 1, 2011. Additionally, in June 2011, OPUCN filed its cost of service application with the OEB to rebase its rates for the four-year period commencing January 1, 2012.

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 the electricity 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 2011, OPUC earned rate-regulated revenue primarily from OPUCN and non-regulated revenue from OPUCS and OPUCES.

OPUCN earns electricity distribution revenue, based on a fixed monthly service fee combined with a variable charge that reflects the consumption 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; and wholesale market charges.

OPUCN also derives other revenue from the completion of service work such as 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 earns revenue from its combined heat and power (“CHP”) plant through three sources:

1. Electricity sales to the grid;
2. Thermal energy sales to Durham College and UOIT; and
3. A contingency capacity payment from the OPA.

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 OPA for periods when it is not economical to operate the plant.

RESULTS OF OPERATIONS

REGULATED REVENUE

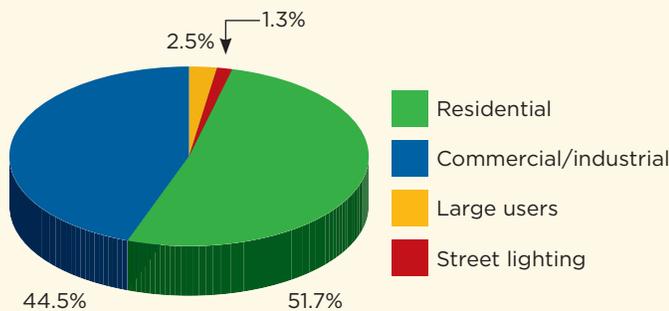
The following table lists the revenue generated by customer category from the sale of electricity, distribution services and other services provided under regulation for 2011 and 2010, comparatively:

Revenue by customer type for 2011 (in thousands)

Customer Category	2011	%	2010	%
Residential	\$59,184	52%	\$56,754	52%
Commercial/industrial	50,956	45%	49,236	45%
Large users (greater than 5,000 kW)	2,816	2%	2,672	2%
Street lighting	1,484	1%	1,473	1%
Total Regulated Revenue	\$114,440	100%	\$110,135	100%

Regulated revenue that flows through to third-parties, including cost of electricity, transmission and wholesale charges, increased by \$3.0 million and totalled \$94.2 million in 2011 compared with \$91.2 million in 2010; an increase of 3.3%. Regulated revenue from distribution and other services increased by \$1.0 million or 4%, and were \$21.8 million in 2011 and \$20.8 million in 2010. There was no material change in electricity consumption year over year. The increase in distribution revenue was primarily attributed to the amount earned by OPUCN on its investment in smart meters. Higher electricity costs were mostly the result of increases to commodity prices.

2011 - % of Revenue by Customer Type



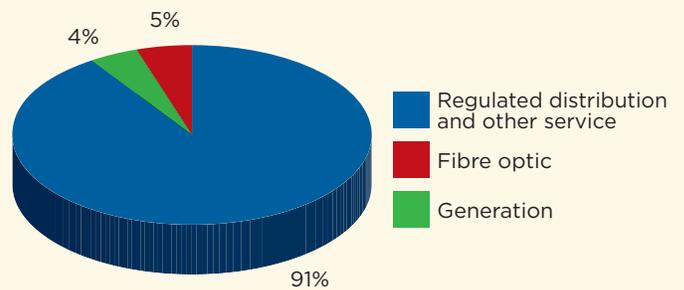
TOTAL NET REVENUE

Total net revenue includes sales from OPUCES for generating heat and power, OPUCS’s fibre optic network and regulated electricity distribution services provided by OPUCN. Regulated revenue that flows through to third-parties is recorded as sales and cost of sales of electrical energy and accordingly is not included in total net revenue.

Total net revenue increased to \$24.0 million in 2011 from \$23.0 million in 2010. Net revenue for 2011 included: net electricity distribution and other regulated revenue totalling \$21.8 million (2010 - \$20.8 million); energy generation in the amount of \$1.0 million in 2011 (2010 - \$1.0 million); and fibre leasing revenue of \$1.2 million (2010 - \$1.2 million).

Net revenue by service for 2011 (in thousands)

Service	Revenue (\$)	% of Revenue
Regulated distribution and other service	\$21,755	91%
Generation	1,039	4%
Fibre optic	1,164	5%
Total	\$23,958	100%



NET OPERATIONS, MAINTENANCE AND ADMINISTRATIVE EXPENSES

Net operations, maintenance and administrative (“OM&A”) expenses increased by \$1.3 million in 2011 to \$11.2 million, as compared with 2010; an increase of 13.3%.

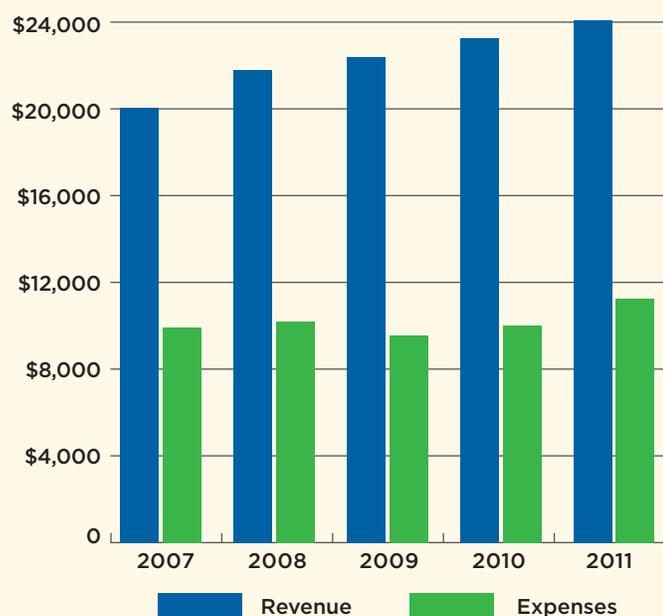
Increases in labour costs, provision for bad debts and lower allocations of costs to capital projects were the primary sources of higher OM&A expenses in 2011. Labour costs, including wages and salaries, benefits and subcontractor expenses, increased by an aggregate \$0.8 million; provision for bad debts increased by \$0.1 million; and allocations of costs to capital projects decreased by \$0.4 million.

As an ongoing initiative, in 2011 OPUCN strengthened its human resources in response to: new challenges and opportunities in the regulatory landscape; implementing smart meters and time-of-use electricity pricing; safely and reliably connecting renewable generation under the Green Energy and Green Economy Act; and addressing other current needs of the Company’s operational goals.

The provision for bad debts increased as a result of new “arrears management” regulations introduced by the OEB. The regulations provided additional relief for low-income customers which resulted in an increase to bad debt expense.

Allocations to capital projects decreased in 2011 due to a reduction in self-constructed infrastructure assets in comparison to 2010.

Revenue and Expenses for the Past 5 Years (in thousands)



The trend over the past five years illustrates that revenue continues to increase while net operations, maintenance and administrative expenses are relatively flat.

EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (“EBITDA”)

EBITDA is defined by the Company as net income before depreciation and amortization, interest and provision for payments in lieu of income taxes. The Company is reporting EBITDA in the belief that it may be useful for certain readers of the Financial Statements as an important measure of the Company’s performance.

EBITDA Since 2005 (in millions)



EBITDA has been steadily improving since 2005 primarily as a result of increasing revenues earned from both regulated and non-regulated activities. EBITDA decreased by \$0.4 million in 2011 as a result of increases to OM&A expenses explained above.

NET INCOME FOR THE YEAR

Net income for 2011 was \$5.4 million, an increase of \$1.0 million when compared with 2010. OPUCN recorded a non-recurring provision for deferred payment in lieu of taxes (“PILs”) in the amount of \$1.2 million which is the primary reason for the increase in net income for 2011.

The OEB approved distribution rates for PILs. The difference between actual amounts recovered for PILs and the OEB approved PILs amount included in OPUCN rates was recorded by the Company as a deferred tax amount in accordance with OEB guidelines. On August 12, 2011, the OEB issued revised guidelines for the calculation and recovery of deferred PILs. On January 10, 2012, the Company received approval to recover from customers a revised amount of \$1.2 million, and was granted a rate rider effective January 1, 2012 for this purpose. The amount of \$1.2 million will be recovered in rates over the next four years, however, in accordance with accounting rules, the entire \$1.2 million was recognized in net income for the year.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW FROM OPERATIONS

During 2011, operating activities generated \$6.3 million compared with \$11.0 million in 2010; a decrease of \$4.7 million which is primarily due to an increase in regulatory liabilities, net of regulatory assets.

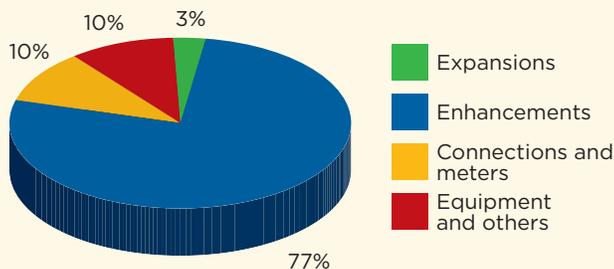
CAPITAL SPENDING

In 2011, approximately \$12.5 million was invested in the LDC's electricity distribution infrastructure; primarily system enhancements and expansions. Investments, net of developer contributions and an adjustment for the carrying cost of stranded meters replaced with smart meters, amounted to approximately \$10.0 million.

The 2011 investments in system enhancements and expansions represented an increase of more than 80% compared with 2010 expenditure levels which totalled \$6.8 million.

In 2010, OPUCN had made significant investments in its smart meter infrastructure, as mandated by the OEB, resulting in total additions to property, plant and equipment of \$12.6 million.

Capital Spending by Category



FINANCING ACTIVITIES

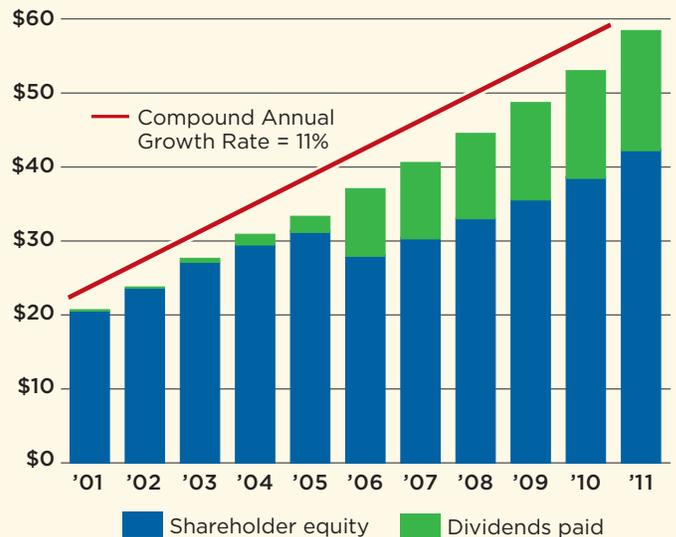
In 2011 and 2010, the Company made dividend payments to its shareholder in the amount of \$1.6 million and \$1.5 million, respectively.

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, 2011, has increased to \$58.7 million which represents a compound annual growth rate ("CAGR") of approximately 11% since 2001.

The following chart is the cumulative shareholder value since 2001 and portrays an important trend reflecting a healthy increase due to efforts of a dedicated team:

Shareholder Equity & Cumulative Dividends Paid (in millions)



OUTLOOK

RATES

As part of the OEB's multi-year rate setting process, Electricity Distributors file a detailed rate application every four years. In June 2011, OPUCN filed a detailed rate case for rates effective January 2012. The Company's efforts of cost containment and conservative investment that followed the 2008-09 economic downturn were an integral part of the OEB rate application, which resulted in a reduction to distribution rates for most of OPUCN's customers. OPUCN continues to maintain one of the lowest electricity distribution rates in Ontario. Moving forward, this price stability will help the City attract new investment.

The Company is also pleased that the OEB approved its plan for significant investment in infrastructure required in 2012. Looking ahead to meet the needs of a growing city and to plan for expansion of Highway 407, OPUCN has identified a need to invest aggressively in expanding and renewing its infrastructure and has forecasted an annual average investment of approximately \$12 million over the next five years. This aggressive investment program combined with lower OEB regulated returns will also lead to pressure on OPUCN's returns in the short term. However, 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.

CONSERVATION AND DEMAND MANAGEMENT ("CDM")

As one of the provisions of the Green Energy and Green Economy Act ("GEGEA"), the Minister of Energy and Infrastructure has set provincial targets for reductions in peak demand and energy consumption for the Province. These targets cover the period of 2011 through 2014.

As a result, the OEB has set individual CDM targets for electricity distributors to reach the provincial targets. These individual targets have been incorporated into distributor licenses. Oshawa's targets will result in reductions of approximately 5% in both demand and consumption, from current levels, by the end of 2014.

SMART GRID

The GEGEA also makes provision for the development of a smart grid in Ontario. The term refers to the advanced information exchange systems and equipment used to improve the flexibility, security, reliability, efficiency and safety of the integrated power system and distribution systems. The main goals of developing such a system include: increasing the use of renewable energy sources and technology; providing better price information and load control to electricity users; and accommodating the commercialization of emerging technologies for the benefit of Ontario consumers. To this end, the Minister of Energy and Infrastructure has directed the OEB to provide guidance to distributors concerning the preparation and approval of individual smart grid plans. All distributors will have to design and implement these plans.

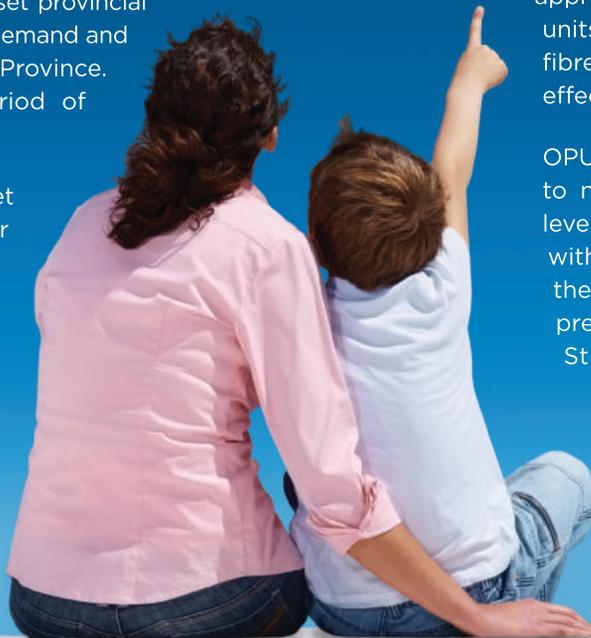
The OEB has formed a working group comprised of distributors and other interested and technically proficient parties to help in developing the appropriate direction. This process is ongoing and may result in a requirement for specific mandated investments related to smart grid.

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 taking an opportunistic approach to 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.





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