INTERIM CONSOLIDATED STATEMENTS OF (LOSS) INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2009**	**2008**
Revenue *(Note 15)*		
Revenue before revenue limit rebate	**1,509**	1,630
Revenue limit rebate *(Note 14)*	**(28)**	(67)
	1,481	1,563
Fuel expense *(Note 15)*	**261**	304
Gross margin *(Note 15)*	**1,220**	1,259
Expenses		
Operations, maintenance and administration	**742**	691
Depreciation and amortization *(Note 5)*	**178**	175
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 9)*	**159**	135
Losses on nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**6**	51
Property and capital taxes	**26**	6
	1,111	1,058
Income before the following:	**109**	201
Other losses *(Note 15)*	**-**	7
Income before interest and income taxes	**109**	194
Net interest expense	**39**	40
Income before income taxes	**70**	154
Income tax expense (recovery) *(Note 10)*		
Current	**31**	158
Future	**48**	(166)
	79	(8)
Net (loss) income	**(9)**	**162**
Basic and diluted (loss) income per common share *(dollars)*	**(0.04)**	**0.63**
Common shares outstanding *(millions)*	**256.3**	**256.3**

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2009**	**2008**
Operating activities		
Net (loss) income	**(9)**	162
Adjust for non-cash items:		
Depreciation and amortization *(Note 5)*	**178**	175
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 9)*	**159**	135
Losses on nuclear fixed asset removal and nuclear waste management funds	**6**	51
Pension and other post employment benefit costs *(Note 11)*	**63**	106
Future income taxes *(Note 10)*	**48**	(166)
Mark-to-market on derivative instruments	**(2)**	6
Provision for used nuclear fuel	**9**	8
Regulatory assets and liabilities *(Note 6)*	**4**	(7)
Other	**(9)**	8
	447	478
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(87)**	(114)
Expenditures on nuclear fixed asset removal and nuclear waste management	**(38)**	(54)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**23**	8
Contributions to Pension Fund	**(66)**	(66)
Expenditures on other post employment benefits and supplementary pension plans	**(19)**	(16)
Revenue limit rebate *(Note 14)*	**(54)**	(66)
Net changes to other long-term assets and liabilities	**(17)**	127
Net changes in non-cash working capital balances *(Note 16)*	**(148)**	(52)
Cash flow provided by operating activities	**41**	245
Investing activities		
Increase in regulatory assets *(Note 6)*	**(1)**	(2)
Investment in fixed and intangible assets	**(121)**	(128)
Net proceeds from sale of long-term assets	**-**	6
Cash flow used in investing activities	**(122)**	(124)
Financing activities		
Issuance of long-term debt *(Note 7)*	**140**	275
Repayment of long-term debt *(Note 7)*	**(177)**	(203)
Cash flow (used in) provided by financing activities	**(37)**	72
Net (decrease) increase in cash and cash equivalents	**(118)**	193
Cash and cash equivalents, beginning of period	**315**	110
Cash and cash equivalents, end of period	**197**	303

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2009**	**December 31 2008**
Assets		
Current assets		
Cash and cash equivalents *(Note 9)*	**197**	315
Accounts receivable *(Note 4)*	**408**	525
Fuel inventory	**687**	736
Prepaid expenses	**38**	32
Income tax recoverable	**12**	-
Future income taxes *(Note 10)*	**22**	6
Materials and supplies	**128**	132
	1,492	1,746
Fixed assets *(Note 15)*		
Property, plant and equipment	**18,086**	17,976
Less: accumulated depreciation	**5,388**	5,246
	12,698	12,730
Intangible Assets *(Notes 2 and 15)*		
Intangible assets	**362**	357
Less: accumulated amortization	**306**	300
	56	57
Other long-term assets		
Deferred pension asset	**845**	797
Nuclear fixed asset removal and nuclear waste management funds *(Note 9)*	**9,137**	9,209
Long-term investments *(Note 3)*	**78**	74
Long-term materials and supplies	**344**	338
Future income taxes *(Note 10)*	**-**	62
Regulatory assets *(Note 6)*	**1,045**	522
Long-term accounts receivable and other assets	**48**	44
	11,497	11,046
	25,743	25,579

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2009**	**December 31 2008**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**790**	1,015
Revenue limit rebate payable *(Note 14)*	**59**	85
Long-term debt due within one year *(Note 7)*	**715**	357
Deferred revenue due within one year	**12**	12
Income and capital taxes payable	**-**	104
	1,576	1,573
Long-term debt *(Note 7)*	**3,088**	3,483
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(Note 9)*	**11,516**	11,384
Other post employment benefits and supplementary pension plans	**1,729**	1,703
Long-term accounts payable and accrued charges	**423**	445
Deferred revenue	**113**	108
Future income taxes *(Note 10)*	**397**	-
Regulatory liabilities *(Note 6)*	**78**	54
	14,256	13,694
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings	**1,743**	1,752
Accumulated other comprehensive loss	**(46)**	(49)
	6,823	6,829
	25,743	25,579

Commitments and Contingencies (Notes 3, 7, 12, and 13)

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2009**	**2008**
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**1,752**	1,664
Net (loss) income	**(9)**	162
Balance at end of period	**1,743**	1,826
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	**(49)**	17
Other comprehensive income (loss) for the period	**3**	(31)
Balance at end of period	**(46)**	(14)
Total shareholder's equity at end of period	**6,823**	6,938

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2009**	**2008**
Net (loss) income	**(9)**	162
Other comprehensive income (loss), net of income taxes		
Net income (loss) on derivatives designated as cash flow hedges[1]	**8**	(27)
Reclassification to income of gains on derivatives designated as cash flow hedges[2]	**(5)**	(4)
Other comprehensive income (loss) for the period	**3**	(31)
Comprehensive (loss) income	**(6)**	131

[1] Net of income tax expense of $2 million and recovery of $4 million for the three months ended March 31, 2009 and 2008, respectively.

[2] Net of income tax recovery of $2 million and $2 million for the three months ended March 31, 2009 and 2008, respectively.

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008 (UNAUDITED)

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements, except as discussed in Note 2 to these interim consolidated financial statements. These interim consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2008.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain of the 2008 comparative amounts have been reclassified from financial statements previously presented to conform to the 2009 financial statement presentation.

The interim consolidated financial statements include the accounts of Ontario Power Generation Inc. ("OPG" or the "Company") and its subsidiaries. OPG accounts for its interests in jointly controlled entities using the proportionate consolidation method. All significant intercompany transactions have been eliminated on consolidation.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Accounting for Regulated Operations

The Canadian Institute of Chartered Accountants ("CICA") revised its guidance on accounting for rate regulated operations, effective January 1, 2009, with amendments to Handbook Sections 1100, *Generally Accepted Accounting Principles*, and 3465, *Income Taxes*, and Accounting Guideline 19 ("AcG-19"), *Disclosures by Entities Subject to Rate Regulation,* as follows:

- to remove the temporary exemption pertaining to the application of Section 1100 to rate regulated operations, including the elimination of the opportunity to use industry practice as an acceptable basis for recognition and measurement of assets and liabilities arising from rate regulation;
- to amend Section 3465 to require the recognition of future income tax assets and liabilities as well as a separate regulatory asset or liability for the amount of future income taxes expected to be included in future rates and recovered from or paid to customers; and
- to amend AcG-19, as necessary, as a result of amendments to Sections 1100 and 3465.

As a result of the changes to Section 3465, OPG is required to recognize future income taxes associated with its rate regulated operations. OPG applied the changes prospectively to interim and annual consolidated financial statements beginning January 1, 2009. The impact of the change is disclosed in Note 10, *Income Taxes*.

In addition, effective January 1, 2009, with the removal of the temporary exemption in Section 1100, the Company must now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. Certain assets and liabilities arising from rate regulation continue to have specific guidance under a primary source of GAAP that applies only to the particular circumstances described therein, including those arising under Section 1600, *Consolidated Financial Statements*, Section 3061, *Property, Plant and Equipment*, Section 3465, and Section 3475, *Disposal of Long-Lived Assets and Discontinued*

Operations. Other assets and liabilities arising from rate regulation do not have specific guidance under a primary source of GAAP. Therefore, Section 1100 directs the Company to adopt accounting policies that are developed through the exercise of professional judgment and the application of concepts described in Section 1000, *Financial Statement Concepts*. In developing these accounting policies, the Company may consult other sources including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Therefore, in accordance with Section 1100, the Company has determined that these assets and liabilities qualify for recognition under GAAP and this recognition is consistent with the Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. As a result, there is no effect on the Company's financial statements for the three months ended March 31, 2009, with the exception of the impact of the amendment to Section 3465, as discussed above.

Intangible Assets

In February 2008, the CICA adopted Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008, with early adoption encouraged.

OPG adopted the Handbook Section on January 1, 2009 and reclassified prior period comparative amounts from Property, Plant, and Equipment to Intangible Assets. The adoption of this standard did not have a significant impact on the Company's financial position or results of operations. As at March 31, 2009 and December 31, 2008, OPG reported intangible assets of $56 million and $57 million, respectively. Intangible assets are amortized over a period of five years.

3. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

On January 21, 2009, the Pan-Canadian Investors Committee for third-party asset-backed commercial paper ("ABCP") announced that the restructuring Plan (the "Plan") affecting $32 billion of third-party ABCP had been fully implemented. Pursuant to the terms of the Plan, OPG's short-term commercial paper has been exchanged for longer term notes of approximately $58 million. OPG received five classes of notes, which are supported by margin funding facilities from third-party liquidity providers, Canadian banks and governments. The long term MAV II notes consist of $23 million Class A-1 notes, $21 million Class A-2 notes, $4 million Class B notes, $2 million Class C notes, $1 million Class 14, $2 million Class 15 and $5 million IA Tracking notes.

The terms and conditions of the various series of ABCP and the terms and conditions of the various classes of new notes that investors received in exchange differ significantly. Therefore, OPG removed $35 million from its accounting records, which represented a book value of $58 million minus a total provision of $23 million. Furthermore, OPG recognized notes of $35 million, which represents the fair value of the new ABCP notes.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the notes. The Company estimates the fair value of the notes using a valuation technique which incorporates a probability weighted approach applied to the discounted estimated future cash flows, considering the terms of the notes and other available data regarding market conditions for such investments as at March 31, 2009. Fair value was determined based on the same methodology previously developed, but with updated credit spread and discount rate information.

OPG classified the new ABCP notes for the purposes of measurement subsequent to their initial recognition and related income reporting as held for trading. The restructured notes are expected to have a maturity of eight to nine years. The exact maturity will be impacted by the release of collateral as underlying swap trades mature. The stated maturity of the notes is 2056. OPG continues to monitor the development of a secondary market to help assess the fair value of its remaining holdings.

4. SALE OF ACCOUNTS RECEIVABLE

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables.

The accounts receivable reported and securitized by the Company are as follows:

	Principal Amount of Receivables as at	
(millions of dollars)	**March 31 2009**	**December 31 2008**
Total receivables portfolio [1]	**415**	507
Receivables sold	**300**	300
Receivables retained	**115**	207

[1] Amount represents receivables outstanding, including receivables that have been securitized, which the Company continues to service.

The pre-tax charges and average cost of funds are as follows:

	Three Months Ended March 31	
(millions of dollars)	**2009**	**2008**
Pre-tax charges	**2**	3
Average cost of funds *(percent)*	**2.5**	4.6

5. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2009 and 2008 consists of the following:

	Three Months Ended March 31	
(millions of dollars)	**2009**	**2008**
Depreciation on fixed assets	**149**	139
Amortization on intangible assets	**6**	5
Amortization of regulatory assets and liabilities *(Note 6)*	**21**	29
Nuclear waste management costs	**2**	2
	178	175

Interest capitalized to construction in progress at six percent during the three months ended March 31, 2009 (three months ended March 31, 2008 – six percent) was $17 million (three months ended March 31, 2008 – $13 million).

6. Regulatory Assets and Liabilities and Summary of Rate Regulated Accounting

Pursuant to the Ontario Energy Board's ("OEB") decision issued in 2008 with respect to OPG's application for regulated payment amounts effective April 1, 2008, OPG recorded additions to approved variance and deferral accounts for the three months ended March 31, 2009. OPG also continued to amortize regulatory balances approved for recovery by the OEB effective April 1, 2008, as well as record interest on outstanding regulatory balances at the interest rate prescribed by the OEB. Prior to April 1, 2008, OPG recorded additions to variance and deferral accounts prescribed by a regulation pursuant to the *Electricity Restructuring Act, 2004* (Ontario). OPG also amortized the Pickering A return to service deferral account prior to April 1, 2008 in accordance with the terms of the regulation. The regulation required OPG to record interest on its regulatory balances at the interest rate of six percent prior to April 1, 2008.

Beginning on January 1, 2009, OPG started recording a regulatory asset or liability related to the recognition of future income taxes for its rate regulated operations, as required by the CICA's amended guidance for accounting for rate regulated operations described in Notes 2 and 10.

The regulatory assets and liabilities recorded as at March 31, 2009 and December 31, 2008 are as follows:

(millions of dollars)	**March 31 2009**	**December 31 2008**
Regulatory assets		
Future income taxes *(Note 10)*	**430**	-
Bruce revenues and costs variance	**367**	260
Pickering A return to service deferral account	**118**	123
Nuclear liabilities deferral account	**121**	132
Other	**9**	7
Total regulatory assets	**1,045**	522
Regulatory liabilities		
Nuclear generation development costs – Capacity refurbishment	**7**	6
Nuclear generation development costs – New nuclear development	**30**	21
Hydroelectric production variance	**27**	22
Ancillary services revenue variance	**9**	4
Other	**5**	1
Total regulatory liabilities	**78**	54

The changes in the regulatory assets and liabilities for the three months ended March 31, 2009 and the year ended December 31, 2008 are as follows:

(millions of dollars)	**Future Income Taxes**	**Bruce Revenues and Costs Variance**	**Pickering A Return to Service Deferral Account**	**Nuclear Liabilities Deferral Account**	**Nuclear Generation Development Costs**		**Hydro-electric Production Variance**	**Ancillary Services Revenue Variance**	**Other (net)**
					Capacity Refurbish-ment	**New Nuclear Develop-ment**			
Regulatory assets (liabilities), January 1, 2008	-	-	183	131	16	12	7	5	(12)
Increase (decrease) during the year	-	259	-	31	(6)	(30)	(25)	(7)	5
Interest	-	1	6	6	-	-	-	-	-
Amortization during the year	-	-	(66)	(36)	-	(3)	(4)	(2)	-
Other charges[1]	-	-	-	-	(16)	-	-	-	13
Regulatory assets (liabilities), December 31, 2008	-	260	123	132	(6)	(21)	(22)	(4)	6
Increase (decrease) during the period	430	105	-	-	(1)	(7)	(4)	(4)	(2)
Interest	-	2	1	1	-	(1)	-	-	-
Amortization during the period	-	-	(6)	(12)	-	(1)	(1)	(1)	-
Regulatory assets (liabilities), March 31, 2009	**430**	**367**	**118**	**121**	**(7)**	**(30)**	**(27)**	**(9)**	**4**

[1] Other charges for the year ended December 31, 2008 represent regulatory balances that were charged to operations based on the OEB's decision in 2008 that these amounts would not be refunded from or charged to ratepayers.

Impact of Regulatory Assets and Liabilities

The following table summarizes the income statement impact of recognizing regulatory assets and liabilities:

	Three Months Ended March 31, 2009			Three Months Ended March 31, 2008		
(millions of dollars)	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**1,481**	**(5)**	**1,476**	1,563	4	1,567
Fuel expense	**261**	**(4)**	**257**	304	(2)	302
Operations, maintenance, and administration	**742**	**(8)**	**734**	691	4	695
Depreciation and amortization	**178**	**(22)**	**156**	175	(16)	159
Losses on nuclear fixed asset removal and nuclear waste management funds	**6**	**130**	**136**	51	-	51
Accretion on fixed asset removal and nuclear waste management liabilities	**159**	**-**	**159**	135	19	154
Property and capital taxes	**26**	**-**	**26**	6	1	7
Net interest expense	**39**	**3**	**42**	40	4	44
Income tax expense (recovery)[1]	**79**	**(1)**	**78**	(8)	-	(8)

[1] Effective January 1, 2009, OPG is required to recognize future income taxes and a corresponding regulatory asset or liability associated with its rate regulated operations in accordance with amendments to CICA Handbook Section 3465 (see Notes 2 and 10). The impact of the regulatory asset or liability is reflected above for the three months ended March 31, 2009. Prior to January 1, 2009, OPG followed the taxes payable method of accounting for income taxes and therefore did not recognize these regulatory assets or liabilities. Accordingly, the impact of recognizing regulatory assets and liabilities for the three months ended March 31, 2008 shown above does not include the future income tax for the regulated operations and the associated regulatory asset or liability.

7. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**March 31 2009**	**December 31 2008**
Notes payable to the Ontario Electricity Financial Corporation	**3,625**	3,660
Share of non-recourse limited partnership debt	**178**	180
	3,803	3,840
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**708**	350
Share of limited partnership debt	**7**	7
	715	357
Long-term debt	**3,088**	3,483

Interest paid during the three months ended March 31, 2009 was $99 million (three months ended March 31, 2008 – $95 million), of which $93 million relates to interest paid on long-term debt (three months ended March 31, 2008 – $91 million). Interest on the notes payable to the Ontario Electricity Financial Corporation ("OEFC") is paid semi-annually.

Debt financing for the Niagara Tunnel, the Portlands Energy Centre and the Lac Seul hydroelectric generating station projects is provided by the OEFC. As at March 31, 2009, debt financing for these projects, which is included as part of the notes payable to the OEFC, consisted of the following:

(millions of dollars)	**Niagara Tunnel**	**Portlands Energy Centre**	**Lac Seul Hydroelectric Generating Station**
Debt financing, as at December 31, 2008	340	305	20
New borrowing	30	10	-
Debt financing, as at March 31, 2009	**370**	**315**	**20**

OPG reached an agreement with the OEFC in 2007 for a $950 million credit agreement to refinance senior notes as they mature over the period from September 2007 to September 2009. Refinancing under this agreement totalled $500 million as at March 31, 2009, which included $100 million of refinancing in the first quarter of 2009 at an interest rate of 5.65 percent.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami and Hound Chute project. As at March 31, 2009, there was no borrowing under this credit facility. In addition, project financing was completed for the Upper Mattagami and Hound Chute development projects in May 2009. Senior Notes totalling $200 million were issued by the UMH Energy Partnership, a general partnership between OPG and UMH Energy Inc., a wholly-owned subsidiary of OPG. The senior notes have an interest rate of 7.59 percent and will mature in 2041. These notes are secured by the assets of the Upper Mattagami and Hound Chute project.

8. SHORT-TERM CREDIT FACILITIES

OPG maintains a $1 billion revolving committed bank credit facility which is divided into two tranches – a $500 million 364-day term tranche and a $500 million five-year term tranche. In the first quarter of 2009, OPG renewed and extended the maturity date of the 364-day term tranche to May 19, 2010. The five-year term tranche has not been extended; therefore, it has four years remaining with a maturity date of

May 20, 2013. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at March 31, 2009, no commercial paper was outstanding (December 31, 2008 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

In the second quarter of 2008, OPG entered into a $100 million five-year revolving committed bank credit facility in support of the Upper Mattagami Project. As at March 31, 2009, there were no borrowings under this credit facility.

9. Fixed Asset Removal and Nuclear Waste Management

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

(millions of dollars)	**March 31 2009**	**December 31 2008**
Liability for nuclear used fuel management	**6,297**	6,213
Liability for nuclear decommissioning and low and intermediate level waste management	**5,066**	5,020
Liability for non-nuclear fixed asset removal	**153**	151
Fixed asset removal and nuclear waste management liabilities	**11,516**	11,384

The change in the fixed asset removal and nuclear waste management liabilities for the three months ended March 31, 2009 and the year ended December 31, 2008 are as follows:

(millions of dollars)	**March 31 2009**	**December 31 2008**
Liabilities, beginning of period	**11,384**	10,957
Increase in liabilities due to accretion	**159**	608
Increase in liabilities due to nuclear used fuel and nuclear waste management variable expenses	**11**	47
Liabilities settled by expenditures on waste management	**(38)**	(195)
Decrease in the liabilities for non-nuclear fixed asset removal	**-**	(33)
Liabilities, end of period	**11,516**	11,384

The cash and cash equivalents balance as of March 31, 2009 includes $30 million of cash and cash equivalents that are for the use of nuclear waste management activities.

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities.

The nuclear fixed asset removal and nuclear waste management funds as at March 31, 2009 and December 31, 2008 consist of the following:

(millions of dollars)	Fair Value March 31 2009	Fair Value December 31 2008
Decommissioning Fund	**4,190**	4,325
Due to Province – Decommissioning Fund	**-**	-
	4,190	4,325
Used Fuel Fund[1]	**4,368**	4,424
Due from Province – Used Fuel Fund	**579**	460
	4,947	4,884
	9,137	9,209

[1] The Ontario NFWA Trust represented $1,494 million as at March 31, 2009 (December 31, 2008 – $1,386 million) of the Used Fuel Fund on a fair value basis.

As required by the terms of the Ontario Nuclear Funds Agreement, the Province provides a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") on behalf of OPG. The *Nuclear Safety and Control Act (Canada)* requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long term liabilities and the current market value of the Used Fuel Fund and the Decommissioning Fund. As of March 31, 2009, the value of this guarantee was $760 million. It is expected that that the CNSC will require the guarantee to be increased to approximately $1.5 billion as a result of the market value losses experienced in the latter half of 2008.

The losses from the Nuclear Funds during the three months ended March 31, 2009 were partially mitigated by the establishment of a variance account for revenues and costs associated with the Bruce nuclear stations, as a result of the OEB's decision. The earnings on the Nuclear Funds for the three months ended March 31, 2009 and 2008 are as follows:

(millions of dollars)	Three Months Ended March 31 2009	Three Months Ended March 31 2008
Decommissioning Fund	**(119)**	(85)
Used Fuel Fund	**(17)**	34
Bruce Variance Account	**130**	-
Total losses	**(6)**	(51)

10. INCOME TAXES

From April 1, 2005 to 2008, OPG followed the liability method of tax accounting for its unregulated operations and the taxes payable method for the rate regulated segments of its business. Under the liability method, future tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Under the taxes payable method, OPG does not recognize future income taxes relating to the rate regulated segments of its

business to the extent those future income taxes are expected to be recovered or refunded through future regulated prices charged to customers. Accordingly, OPG did not record future tax recoveries of $24 million during the three months ended March 31, 2008, which would have been recorded had OPG accounted for income taxes for the regulated segments using the liability method.

As discussed in Note 2, *Changes in Accounting Policies and Estimates*, effective January 1, 2009, OPG is required to recognize future income taxes associated with its rate regulated operations, including future income taxes on temporary differences related to the regulatory assets and liabilities recognized for accounting purposes. Accordingly, on January 1, 2009, OPG recorded a future income tax liability of $340 million, being the cumulative future income tax liability on January 1, 2009 related to differences between the accounting and tax bases of assets and liabilities, measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse, and recorded a corresponding regulatory asset. OPG also recorded an additional future income tax liability and a corresponding regulatory asset of $126 million for future income taxes resulting from regulatory assets that were recorded due to amendments to Section 3465. Effective January 1, 2009, OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future taxes relating to its rate regulated segment.

For the three months ended March 31, 2009, OPG recorded a reduction to the future income tax liability of $36 million, of which $10 million related to the reduction to the regulatory asset for future income taxes. The regulatory asset was also reduced by $36 million during the three months ended March 31, 2009. The future income tax expense for the three months ended March 31, 2009 was not impacted by the above, since the impact of the reduction to the future income tax liability was offset by a corresponding reduction to the regulatory asset.

The following table summarizes the future income tax liabilities recorded as a result of the changes to Section 3465:

(millions of dollars)	
Transition – January 1, 2009:	
Future income tax liabilities on temporary differences related to regulated operations	**340**
Future income tax liabilities resulting from income tax related regulatory assets	**126**
	466
Changes during the period:	
Decrease in future income tax liabilities on temporary differences related to regulated operations	**(26)**
Decrease in future income tax liabilities resulting from income tax related regulatory assets	**(10)**
Balance at March 31, 2009	**430**

The amount of cash income taxes paid during the three months ended March 31, 2009 was $147 million (three months ended March 31, 2008 – Nil).

11. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

Total benefit costs for the three months ended March 31, 2009 and 2008, are as follows:

(millions of dollars)	Three Months Ended March 31 2009	2008
Registered pension plan	**18**	47
Supplementary pension plans	**4**	4
Other post employment benefits	**41**	55
	63	106

12. FINANCIAL INSTRUMENTS

OPG's Board of Directors has approved, and management has implemented, a risk management governance structure designed to effectively identify, measure, monitor and report on key risks across the Company. Risk management activities are coordinated through a centralized risk management group, separate and independent from operational management. Risk information from the business units is independently assessed and aggregated by the Risk Services Group, and is reported by the Chief Risk Officer to the Executive Risk Committee and to the Audit/Risk Committee of the Board. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Derivatives and Hedging

At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. OPG also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the interim consolidated statement of (loss) income.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized in net (loss) income upon settlement when the underlying transactions occur.

OPG holds financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Notional Quantity**	**Terms**	**Fair Value**
	March 31, 2009			**December 31, 2008**		
Electricity derivative instruments	**0.8TWh**	**1.8 yrs**	**25**	0.9TWh	1 yr	20
Foreign exchange derivative instruments	**U.S. $60**	**Aug/09**	**4**	U.S. $35	July/09	6
Floating-to-fixed interest rate hedges	**40**	**1-10 yrs**	**8**	40	1–11 yrs	8
Forward start interest rate hedges	**235**	**1–11 yrs**	**(41)**	272	1–12 yrs	(50)

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. The weighted average fixed exchange rate for contracts outstanding at March 31, 2009 and December 31, 2008 was U.S. $0.84 and U.S. $0.95, respectively, for every Canadian dollar.

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net gains of $5 million related to derivative instruments qualifying for hedge accounting were recognized in net loss during the three months ended March 31, 2009. This amount was previously recorded in other comprehensive loss. Existing net gains of $11 million deferred in accumulated other comprehensive loss at March 31, 2009 are expected to be reclassified to net (loss) income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

The carrying amount (fair value) of derivative instruments not designated for hedging purposes is as follows:

(millions of dollars except where noted)	**Notional Quantity**	**Fair Value**	**Notional Quantity**	**Fair Value**
	March 31, 2009		**December 31, 2008**	
Foreign exchange derivative instruments	**U.S. $2**	**-**	-	-
Commodity derivative instruments				
Assets	**5.8 TWh**	**63**	6.9 TWh	49
Liabilities	**2.3 TWh**	**(36)**	2.2 TWh	(19)
		27		30
Market liquidity reserve		**-**		(4)
Total		**27**		26

Foreign exchange derivative instruments that are not designated as hedges have a weighted average exchange rate as at March 31, 2009 of U.S. $0.82 for every Canadian dollar.

Fair Value

Fair value is the value that a financial instrument can be closed out or sold, in a transaction with a willing and knowledgeable counterparty. The fair value of financial assets and liabilities, including exchange traded derivatives and other financial instruments for which quoted prices are available in an active market, are determined directly from those quoted market prices.

For financial instruments which do not have quoted market prices directly available, fair values are estimated using forward price curves developed from observable market prices or rates which may include the use of valuation techniques or models, based, wherever possible, on assumptions supported by observable market prices or rates prevailing at the dates of the interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and ABCP issued by third-party trusts. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate.

13. COMMITMENTS AND CONTINGENCIES

Litigation

Various legal proceedings are pending against OPG or its subsidiaries covering a wide range of matters that arise in the ordinary course of its business activities.

In August 2006, a Notice of Action and Statement of Claim in the amount of $500 million (the "Claim") was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited ("British Energy"), claiming that OPG is liable to them for breach of contract and negligence. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001. British Energy was an investor in Bruce Power L.P. In 2003, British Energy sold its interest in Bruce Power L.P. to a group of investors (the "Purchasers"). The Purchasers are claiming that British Energy is liable to them with respect to this purchase transaction. Their claim is currently the subject of an arbitration proceeding (the "Arbitration"). British Energy is therefore suing OPG in order to preserve any similar claim it may have against OPG pursuant to the 2001 lease transaction. British Energy has indicated that it does not require OPG to actively defend the Claim at this point in time as British Energy is defending the Arbitration commenced by the Purchasers. The Arbitration is scheduled to proceed in September 2009. It may narrow or eliminate the claims or damages British Energy has, so as to narrow or eliminate the need to continue the Claim against OPG. British Energy has reserved the right to require OPG to defend the Claim prior to the conclusion of the Arbitration should British Energy at some point believe there is some advantage in doing so.

In September 2008, a certain First Nation has served a Notice of Action against Canada, Ontario, OPG and the OEFC claiming damages in the amount of $200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the aboriginal and treaty rights and $0.5 million in special damages. A Notice of Arbitration was served at the same time upon OPG pursuant to an agreement between OPG and the said First Nations to address OPG's role in the sharing of benefits related to hydro development. While OPG assesses the merits of the litigation, neither the arbitration nor the claim is likely to have any material impact on the Company's financial position, and therefore, OPG has minimal exposure with respect to this claim.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. The claims by some of these First Nations total $45 million and claims by others are for unspecified amounts.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably with respect to OPG and could have a significant effect on OPG's financial position. Management has provided for contingencies that are determined to be likely and are reasonably measurable.

Environmental

OPG was required to assume certain environmental obligations from Ontario Hydro. A provision of $76 million was established as at April 1, 1999 for such obligations. As at March 31, 2009 and December 31, 2008, the remaining provision was $41 million.

Current operations are subject to regulation with respect to emissions to air, water and land as well as other environmental matters by federal, provincial and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet OPG's current environmental obligations.

14. REVENUE LIMIT REBATE

Eighty-five percent of the generation output from OPG's unregulated generation assets, excluding the Lennox generating station and forward sales as of January 1, 2005, were subject to a revenue limit. The term of the revenue limit rebate ended on April 30, 2009.

The change in the revenue limit rebate liability for the three months ended March 31, 2009 and the year ended December 31, 2008 are as follows:

(millions of dollars)	**March 31 2009**	**December 31 2008**
Liability, beginning of period	**85**	100
Increase to provision during the period	**28**	277
Payments made during the period	**(54)**	(292)
Liability, end of period	**59**	85

15. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended March 31, 2009	Nuclear	Regulated Nuclear Waste Manage-ment	Unregulated Hydro-electric	Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
(millions of dollars)								
Revenue	773	10	179	217	293	47	(10)	1,509
Revenue limit rebate	-	-	-	(11)	(17)	-	-	(28)
	773	10	179	206	276	47	(10)	1,481
Fuel expense	49	-	52	22	138	-	-	261
Gross margin	724	10	127	184	138	47	(10)	1,220
Operations, maintenance and administration	552	11	23	42	121	3	(10)	742
Depreciation and amortization	114	-	18	18	18	10	-	178
Accretion on fixed asset removal and nuclear waste management liabilities	-	157	-	-	2	-	-	159
Losses on nuclear fixed asset removal and nuclear waste management funds	-	6	-	-	-	-	-	6
Property and capital taxes	11	-	3	2	6	4	-	26
Income (loss) before interest and income taxes	47	(164)	83	122	(9)	30	-	109

Segment Income (Loss) for the Three Months Ended March 31, 2008	Nuclear	Regulated Nuclear Waste Manage-ment	Hydro-electric	Unregulated Hydro-electric	Fossil-Fuelled	Other	Elimination	Total
(millions of dollars)								
Revenue	765	9	178	244	421	22	(9)	1,630
Revenue limit rebate	-	-	-	(24)	(43)	-		(67)
	765	9	178	220	378	22	(9)	1,563
Fuel expense	41	-	49	23	191	-	-	304
Gross margin	724	9	129	197	187	22	(9)	1,259
Operations, maintenance and administration	499	10	24	45	121	1	(9)	691
Depreciation and amortization	106	-	16	20	22	11	-	175
Accretion on fixed asset removal and nuclear waste management liabilities	-	133	-	-	2	-	-	135
Losses on nuclear fixed asset removal and nuclear waste management funds	-	51	-	-	-	-	-	51
Property and capital taxes	(7)	-	3	-	7	3	-	6
Income (loss) before other gains and losses	126	(185)	86	132	35	7	-	201
Other (gains) and losses	-	-	-	-	(2)	9	-	7
Income (loss) before interest and income taxes	126	(185)	86	132	37	(2)	-	194

(millions of dollars)	Regulated Nuclear	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Fossil-Fuelled	Other	Total
Selected Balance Sheet Information						
As at March 31, 2009						
Segment fixed assets in service, net	**3,792**	**3,813**	**3,026**	**383**	**455**	**11,469**
Segment construction in progress	**202**	**472**	**138**	**32**	**385**	**1,229**
Segment property, plant and equipment, net	**3,994**	**4,285**	**3,164**	**415**	**840**	**12,698**
As at March 31, 2009						
Segment intangible assets in service, net	**21**	**-**	**1**	**-**	**20**	**42**
Segment development in progress	**-**	**-**	**-**	**-**	**14**	**14**
Segment intangible assets, net	**21**	**-**	**1**	**-**	**34**	**56**
As at December 31, 2008						
Segment fixed assets in service, net	3,822	3,823	2,970	396	456	11,467
Segment construction in progress	227	444	190	29	373	1,263
Segment property, plant and equipment, net	4,049	4,267	3,160	425	829	12,730
As at December 31, 2008						
Segment intangible assets in service, net	23	-	1	-	24	48
Segment development in progress	-	-	-	-	9	9
Segment intangible assets, net	23	-	1	-	33	57

16. Net Changes in Non-Cash Working Capital Balances

(millions of dollars)	Three Months Ended March 31 2009	2008
Accounts receivable	**131**	(24)
Prepaid expenses	**(6)**	(3)
Fuel inventory	**49**	64
Materials and supplies	**4**	1
Revenue limit rebate payable	**28**	67
Accounts payable and accrued charges	**(238)**	(167)
Income and capital taxes payable	**(116)**	10
	(148)	(52)

17. SEASONAL OPERATIONS

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, OPG's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, the revenue limit related to the generation from OPG's other generating assets and OPG's hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.

18. SUBSEQUENT EVENT

During January 2009, OPG filed a motion to review, and vary, a portion of the OEB's 2008 decision establishing OPG's current regulated prices as it pertains to the treatment of tax losses and their use for mitigation.

In May 2009, the OEB issued a decision and order that varied the 2008 decision in the manner requested by OPG. As requested by OPG, the decision authorized the creation of a tax loss variance account effective April 1, 2008. In accordance with the OEB's decision, the balance in this variance account will be determined based on the difference between regulatory tax losses for the period April 1, 2005 to April 1, 2008 calculated in accordance with the methodology specified in the OEB's 2008 decision and the revenue requirement reduction reflected in current regulated prices. The balance in the variance account will be reviewed by the OEB as part of OPG's next hearing. The variance account will result in an increase in regulatory assets and a corresponding increase in revenue.

The regulatory asset to be recorded during the second quarter of 2009 will include approximately $160 million relating to the period April 1, 2008 to March 31, 2009.