

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31

(millions of dollars – except where noted)

	2011	2010
Revenue (Notes 2 and 13)	1,308	1,443
Fuel expense (Note 13)	166	247
Gross margin (Note 13)	1,142	1,196
Expenses (Note 13)		
Operations, maintenance and administration	712	727
Depreciation and amortization (Note 4)	158	166
Accretion on fixed asset removal and nuclear waste management liabilities (Notes 5 and 8)	172	165
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 8)	(138)	(141)
Property and capital taxes	8	19
Restructuring (Note 16)	-	25
	912	961
Income before the following:	230	235
Other losses (gains) (Note 13)	1	(1)
Income before interest and income taxes	229	236
Net interest expense	41	45
Income before income taxes	188	191
Income tax expense (recovery) (Note 9)		
Current	124	33
Future	(87)	15
	37	48
Net income	151	143
Basic and diluted income per common share (dollars)	0.59	0.56
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)

	2011	2010
Operating activities		
Net income	151	143
Adjust for non-cash items:		
Depreciation and amortization (Note 4)	158	166
Accretion on fixed asset removal and nuclear waste management liabilities (Note 8)	172	165
Earnings on nuclear fixed asset removal and nuclear waste management funds (Note 8)	(138)	(141)
Pension costs (Note 10)	65	31
Other post employment benefits and supplementary pension plans (Note 10)	65	52
Future income taxes and other accrued charges (Note 9)	(87)	15
Provision for restructuring (Note 16)	-	25
Mark-to-market on derivative instruments	6	93
Provision for used nuclear fuel and low and intermediate level waste	12	11
Regulatory assets and liabilities (Note 5)	(88)	(134)
Other	-	2
	316	428
Contributions to nuclear fixed asset removal and nuclear waste management funds	(63)	(72)
Expenditures on fixed asset removal and nuclear waste management (Note 8)	(38)	(51)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	13	26
Contributions to pension funds	(68)	(68)
Expenditures on other post employment benefits and supplementary pension plans	(19)	(17)
Expenditures on restructuring (Note 16)	(10)	-
Net changes to other long-term assets and liabilities	15	41
Net changes in non-cash working capital balances (Note 14)	263	(69)
Cash flow provided by operating activities	409	218
Investing activities		
Investment in fixed and intangible assets	(283)	(177)
Cash flow used in investing activities	(283)	(177)
Financing activities		
Issuance of long-term debt (Note 6)	190	580
Repayment of long-term debt (Note 6)	(190)	(534)
Net increase in short-term notes (Note 7)	1	-
Cash flow provided by financing activities	1	46
Net increase in cash and cash equivalents	127	87
Cash and cash equivalents, beginning of period	280	71
Cash and cash equivalents, end of period	407	158

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at (millions of dollars)	March 31 2011	December 31 2010
Assets		
Current assets		
Cash and cash equivalents	407	280
Accounts receivable (Note 3)	186	270
Fuel inventory	711	734
Prepaid expenses	53	42
Income and capital taxes recoverable	-	65
Future income taxes (Note 9)	62	73
Materials and supplies	88	85
	1,507	1,549
Fixed assets (Note 13)		
Property, plant and equipment	19,933	19,654
Less: accumulated depreciation	6,227	6,099
	13,706	13,555
Intangible assets (Note 13)		
Intangible assets	348	345
Less: accumulated amortization	301	297
	47	48
Other long-term assets		
Deferred pension asset	1,149	1,146
Nuclear fixed asset removal and nuclear waste management funds (Note 8)	11,437	11,246
Long-term investments	31	30
Long-term materials and supplies	389	400
Regulatory assets (Note 5)	1,554	1,559
Long-term accounts receivable and other assets	45	44
	14,605	14,425
	29,865	29,577

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	March 31	December 31
	2011	2010
Liabilities		
Current liabilities		
Accounts payable and accrued charges	754	762
Income and capital taxes payable	102	-
Long-term debt due within one year <i>(Note 6)</i>	197	385
Short-term notes payable <i>(Note 7)</i>	156	155
Deferred revenue due within one year	12	12
	<u>1,221</u>	<u>1,314</u>
Long-term debt <i>(Note 6)</i>	<u>4,031</u>	<u>3,843</u>
Other long-term liabilities		
Fixed asset removal and nuclear waste management <i>(Note 8)</i>	12,854	12,704
Other post employment benefits and supplementary pension plans	1,954	1,908
Long-term accounts payable and accrued charges	524	525
Deferred revenue	158	152
Future income taxes <i>(Note 9)</i>	637	798
Regulatory liabilities <i>(Note 5)</i>	243	248
	<u>16,370</u>	<u>16,335</u>
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings	3,175	3,024
Accumulated other comprehensive loss	(62)	(69)
Attributable to shareholder of OPG Inc.	<u>8,239</u>	<u>8,081</u>
Non-controlling interest <i>(Notes 2 and 15)</i>	4	4
	<u>8,243</u>	<u>8,085</u>
	<u>29,865</u>	<u>29,577</u>

Commitments and Contingencies *(Notes 6, 11, and 12)*

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)

	2011	2010
Common shares	5,126	5,126
Retained earnings		
Balance at beginning of period	3,024	2,375
Net income	151	143
Balance at end of period	3,175	2,518
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	(69)	(24)
Other comprehensive income (loss) for the period	7	(12)
Balance at end of period	(62)	(36)
Attributable to shareholder of OPG Inc.	8,239	7,608
Non-controlling interest (Notes 2 and 15)	4	4
	8,243	7,612

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31

(millions of dollars)

	2011	2010
Net income	151	143
Other comprehensive income (loss), net of income taxes		
Net gain (loss) on derivatives designated as cash flow hedges ¹	6	(10)
Reclassification to income of losses (gains) on derivatives designated as cash flow hedges ²	1	(2)
Other comprehensive income (loss) for the period	7	(12)
Comprehensive income	158	131

¹ Net of income tax expenses of nil and \$1 million for the three months ended March 31, 2011 and 2010, respectively.

² Net of income tax recoveries of nil and \$1 million for the three months ended March 31, 2011 and 2010, respectively.

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

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, and are presented in Canadian dollars. 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, 2010.

The preparation of financial statements in conformity with Canadian GAAP 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 2010 comparative amounts have been reclassified from financial statements previously presented to conform to the 2011 financial statement presentation.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Changes Applicable to the Current Period

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

Effective January 1, 2011, Ontario Power Generation Inc. (“OPG” or the “Company”) adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1582 *Business Combinations* (“Section 1582”), Section 1601 *Consolidated Financial Statements* (“Section 1601”), and Section 1602 *Non-controlling Interests* (“Section 1602”). Section 1582 specifies a number of changes, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards are harmonized with International Financial Reporting Standards (“IFRS”). These standards shall be applied prospectively to business combinations whose acquisition date is on or after the date of adoption. As a result of adopting Section 1602, the Company has reclassified its non-controlling interests as a separate component of equity. The adoption of Section 1582 and Section 1601 did not have a material impact on the Company’s consolidated financial statements for the three months ended March 31, 2011.

Revenue Recognition – Generating Assets

Effective March 1, 2011, energy revenue generated from the nuclear facilities owned and operated by OPG is based on a regulated price of 5.59¢/kWh pursuant to the decision and order issued by the Ontario Energy Board (“OEB”) in March and April 2011, respectively, on the application for new regulated prices filed by OPG in May 2010. The nuclear regulated price includes a rate rider of 0.43¢/kWh for the recovery of approved nuclear variance and deferral account balances based on recovery periods authorized by the OEB. Effective March 1, 2011, generation from OPG’s regulated hydroelectric facilities receives a regulated price of 3.41¢/kWh, pursuant to the OEB’s decision and order. The hydroelectric regulated price is net of a negative rate rider of -0.17¢/kWh reflecting the repayment of the approved regulated hydroelectric variance account balances. These rate riders will remain in effect until December 31, 2012. The new regulated prices were determined using a forecast cost of service methodology and an approved 24-month revenue requirement of approximately \$6.7 billion.

In its decision, the OEB also approved the continuation of the existing hydroelectric incentive mechanism (“HIM”), but determined that a portion of the resulting net revenues should be shared with ratepayers effective March 1, 2011. Prior to March 1, 2011, energy revenue generated from the nuclear facilities owned and operated by OPG was based on a regulated price of 5.50¢/kWh, including a rate rider of 0.20¢/kWh for the recovery of the approved nuclear variance and deferral account balances, pursuant to the OEB’s 2008 decision. Pursuant to this decision, prior to March 1, 2011, the revenue from the regulated hydroelectric generation was based on a regulated price of 3.67¢/kWh, which included the recovery of the approved regulated hydroelectric variance account balances and was subject to the HIM.

Electricity generated from OPG’s other generating assets remains unregulated and continues to receive the Ontario electricity spot market price, except where an energy supply agreement is in place.

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board (“AcSB”) confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to IFRS, as issued by the International Accounting Standards Board (“IASB”), for interim and annual financial reporting purposes of fiscal years beginning on or after January 1, 2011. As a result of recent changes to Part I of the CICA Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. OPG meets the AcSB’s criteria for the deferral and has chosen to adopt IFRS effective January 1, 2012.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. In line with OPG’s IFRS conversion project, an assessment has been completed to identify the key accounting differences from Canadian GAAP. OPG’s assessment of the impact of IFRS is based on the IFRS standards in effect at the time of conversion on January 1, 2012 and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. OPG’s interim consolidated financial statements, as currently disclosed in accordance with Canadian GAAP, will be significantly different when presented in accordance with IFRS. OPG will publish its first consolidated financial statements prepared in accordance with IFRS for the three months ending and as at March 31, 2012, and for the corresponding comparative period. The opening balance sheet as at January 1, 2011 will be disclosed in the March 31, 2012 interim consolidated financial statements.

3. SALE OF ACCOUNTS RECEIVABLE

In October 2003, the Company signed 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 transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust’s recourse to the Company is generally limited to its income earned on the receivables.

During 2010, in accordance with the receivable purchase agreement, OPG renewed the agreement with a maturity date of August 31, 2013 and a commitment of \$250 million.

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

<i>(millions of dollars)</i>	Principal Amount of Receivables as at	
	March 31 2011	December 31 2010
Total receivables portfolio ¹	309	377
Receivables sold	250	250
Receivables retained	59	127

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:

<i>(millions of dollars – except where noted)</i>	Three Month Ended March 31	
	2011	2010
Pre-tax charges	1	1
Average cost of funds <i>(percent)</i>	1.7	1.0

4. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2011 and 2010 consists of the following:

<i>(millions of dollars)</i>	Three Month Ended March 31	
	2011	2010
Depreciation	134	136
Amortization of intangible assets	4	5
Amortization of regulatory assets and liabilities <i>(Note 5)</i>	20	25
	158	166

Interest capitalized to construction in progress at an average rate of five percent during the three months ended March 31, 2011 (three months ended March 31, 2010 – six percent) was \$18 million (three months ended March 31, 2010 – \$18 million).

5. REGULATORY ASSETS AND LIABILITIES

The OEB's decision issued in 2008 authorized certain variance and deferral accounts effective April 1, 2008, including those authorized pursuant to *Ontario Regulation 53/05*, a regulation under the *Ontario Energy Board Act, 1998*. During the second quarter of 2009, the OEB issued a decision that authorized a Tax Loss Variance Account effective April 1, 2008. During the fourth quarter of 2009, the OEB issued a decision on the treatment of variance and deferral accounts for the period after December 31, 2009 and established the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account effective January 1, 2010. During January and February 2011, the Company recorded additions to the variance and deferral accounts authorized by the OEB pursuant to the above decisions.

In March and April 2011, respectively, the OEB issued its decision and order establishing new regulated prices for OPG's regulated generation effective March 1, 2011. In its decision, the OEB approved OPG's request for the disposition of variance and deferral account balances as at December 31, 2010 without adjustments. The OEB approved OPG's application for the disposition of the Tax Loss Variance Account balance over a 46-month period ending December 31, 2014, the unamortized portion of the Pickering A Return to Service Deferral Account balance over a ten-month period ending December 31, 2011 and all other balances over a 22-month period ending December 31, 2012. The approved disposition of the regulatory balances resulted in rate riders of 0.43¢/kWh and -0.17¢/kWh being included in the new regulated prices for OPG's nuclear and regulated hydroelectric generation, respectively, as discussed in Note 2 to these interim consolidated financial statements. Any shortfall or over-recovery of the approved variance and deferral account balances due to differences between actual and forecast production is recorded in the Nuclear and Hydroelectric Deferral and Variance Over/Under Recovery Variance Accounts and will be collected from, or refunded to ratepayers following OPG's next application to the OEB.

In its 2011 decision and order, the OEB authorized the continuation of previously existing variance and deferral accounts as proposed by OPG, with the exception of the Nuclear Fuel Cost Variance Account, which has been discontinued as of March 1, 2011. Only interest and amortization are recorded in this account effective March 1, 2011.

The OEB also established the Hydroelectric Surplus Baseload Generation ("SBG") Variance Account and the HIM Variance Account. The Hydroelectric SBG Variance Account captures the financial impact of foregone production at OPG's regulated hydroelectric facilities due to SBG. The HIM Variance Account captures the net revenues from the HIM that are required to be returned to ratepayers.

During March 2011, the Company recorded additions to the variance and deferral accounts authorized by the OEB's 2011 decision and order, and amortized approved regulatory balances based on recovery periods established by the OEB in its decision and order.

OPG also recorded interest on outstanding balances in the variance and deferral accounts at the interest rate prescribed by the OEB, which was 1.47 percent during the three months ended March 31, 2011. The interest rate fluctuated in the range of 0.55 percent to 1.20 percent per annum during the year ended December 31, 2010.

In March 2011, OPG recorded a regulatory asset of \$54 million related to the amount of income taxes payable by OPG, as a result of the OEB's approval for recovery of certain variance and deferral account balances effective March 1, 2011. During the first quarter of 2011, the recognition of the regulatory asset resulted in a reduction to current income tax expense of \$57 million and a charge of \$3 million to depreciation and amortization expense. The regulatory asset is based on the amount of income taxes expected to be recovered from ratepayers through current regulated prices and is amortized as these income taxes are recovered.

The regulatory assets and liabilities recorded as at March 31, 2011 and December 31, 2010 are as follows:

<i>(millions of dollars)</i>	March 31 2011	December 31 2010
Regulatory assets		
Future Income Taxes <i>(Note 9)</i>	650	711
Bruce Lease Net Revenues Variance Account	244	250
Tax Loss Variance Account	516	492
Current Income Taxes	54	-
Nuclear Liabilities Deferral Account	37	39
Other	53	67
Total regulatory assets	1,554	1,559
Regulatory liabilities		
Nuclear Development Variance Account	112	111
Hydroelectric Water Conditions Variance Account	65	70
Income and Other Taxes Variance Account	43	40
Other	23	27
Total regulatory liabilities	243	248

As at March 31, 2011 and December 31, 2010, other regulatory assets include the Pickering A Return to Service Deferral Account, Nuclear Deferral and Variance Over/Under Variance Account, the Nuclear Fuel Cost Variance Account, and other regulatory asset balances. As at March 31, 2011 and December 31, 2010, other regulatory liabilities include the Hydroelectric Deferral and Variance Over/Under Variance Account, the Capacity Refurbishment Variance Account, and other regulatory liability balances.

The changes in the regulatory assets and liabilities during the three months ended March 31, 2011 and the year ended December 31, 2010 are as follows:

<i>(millions of dollars)</i>	Future Income Taxes	Bruce Lease Net Revenues Variance	Tax Loss Variance	Current Income Taxes	Nuclear Liabilities Deferral	Nuclear Develop- ment Variance	Hydro- electric Water Conditions Variance	Income and Other Taxes Variance	Other (net)
Regulatory assets (liabilities), January 1, 2010	592	328	295	-	86	(55)	(55)	(21)	54
Change during the year	119	(81)	194	-	-	(50)	(14)	(19)	34
Interest	-	3	3	-	1	(1)	(1)	-	-
Amortization during the year	-	-	-	-	(48)	(5)	-	-	(48)
Regulatory assets (liabilities), December 31, 2010	711	250	492	-	39	(111)	(70)	(40)	40
Change during the period	(61)	4	33	57	-	(6)	2	(4)	(7)
Interest	-	1	2	-	-	-	-	(1)	-
Amortization during the period	-	(11)	(11)	(3)	(2)	5	3	2	(3)
Regulatory assets (liabilities), March 31, 2011	650	244	516	54	37	(112)	(65)	(43)	30

The following table summarizes the income statement and other comprehensive income statement impacts of recognizing regulatory assets and liabilities:

<i>(millions of dollars)</i>	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	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	1,308	(35)	1,273	1,443	(150)	1,293
Fuel expense	166	6	172	247	4	251
Operations, maintenance and administration	712	(7)	705	727	(16)	711
Depreciation and amortization	158	(25)	133	166	(33)	133
Accretion on fixed asset removal and nuclear waste management liabilities	172	4	176	165	3	168
Earnings on nuclear fixed asset removal and nuclear waste management funds	(138)	(3)	(141)	(141)	(16)	(157)
Property and capital taxes	8	(4)	4	19	(3)	16
Net interest expense	41	1	42	45	-	45
Income tax expense	37	(9)	28	48	8	56
Other comprehensive income (loss)	7	(2)	5	(12)	4	(8)

6. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	March 31 2011	December 31 2010
Notes payable to the Ontario Electricity Financial Corporation	3,867	3,865
UMH Energy Partnership debt	198	198
Share of non-recourse limited partnership debt	163	165
	4,228	4,228
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	187	375
UMH Energy Partnership debt	2	2
Share of non-recourse limited partnership debt	8	8
	197	385
Long-term debt	4,031	3,843

Interest paid during the three months ended March 31, 2011 was \$84 million (three months ended March 31, 2010 – \$93 million), of which \$82 million relates to interest paid on long-term debt (three months ended March 31, 2010 – \$90 million). Interest on the notes payable to the Ontario Electricity Financial Corporation (“OEF”) is paid semi-annually.

During 2010, OPG executed an amended Niagara Tunnel project credit facility for an amount up to \$1.6 billion. As at March 31, 2011, advances under this facility were \$730 million, which included \$40 million of new borrowing during the first quarter of 2011.

OPG reached an agreement with the OEFC in the first quarter of 2011 for a \$375 million credit facility to refinance notes as they mature over the period from January 2011 to December 2011. Refinancing under this agreement totalled \$150 million as at March 31, 2011, which was issued at an interest rate of 5.4 percent with a 30-year term.

On May 17, 2011, senior notes totalling \$475 million were issued by the Lower Mattagami Energy Limited Partnership. The senior notes have interest rates of 4.3 percent for notes maturing in 2021 and 5.1 percent for notes maturing in 2041. These notes are secured by the assets of the Lower Mattagami project including existing operating facilities and facilities being constructed.

7. 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 multi-year term tranche. In May 2011, OPG renewed and extended the 364-day term tranche for a four-year term to May 18, 2015. The multi-year term tranche has 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, 2011, no commercial paper was outstanding (December 31, 2010 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

During 2010, the Lower Mattagami Energy Limited Partnership established a \$700 million bank credit facility to support the initial construction phase for the Lower Mattagami project and launched a commercial paper program. As at March 31, 2011, \$156 million of commercial paper was outstanding under this program (December 31, 2010 – \$155 million). In March 2011, OPG executed a \$700 million credit facility with the OEFC in support of the Lower Mattagami project. As at March 31, 2011, there was no outstanding borrowing under this credit facility (December 31, 2010 – nil). Long-term financing arrangements, as discussed in Note 6, are being established to support the total requirements of the project.

8. 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:

<i>(millions of dollars)</i>	March 31 2011	December 31 2010
Liability for nuclear used fuel management	7,630	7,534
Liability for nuclear decommissioning and low and intermediate level waste management	5,065	5,013
Liability for non-nuclear fixed asset removal	159	157
Fixed asset removal and nuclear waste management liabilities	12,854	12,704

The changes in the fixed asset removal and nuclear waste management liabilities for the three months ended March 31, 2011 and the year ended December 31, 2010 are as follows:

<i>(millions of dollars)</i>	March 31 2011	December 31 2010
Liabilities, beginning of period	12,704	11,859
Increase in liabilities due to accretion	176	673
Increase in liabilities due to changes in assumptions related to the decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station	-	293
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	12	56
Liabilities settled by expenditures on fixed asset removal and waste management	(38)	(181)
Change in the liabilities for non-nuclear fixed asset removal	-	4
Liabilities, end of period	12,854	12,704

The cash and cash equivalents balance as at March 31, 2011 includes \$3 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2010 – \$3 million).

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 in accordance with the Ontario Nuclear Funds Agreement (“ONFA”) and the federal Nuclear Fuel Waste Act (“NFWA”).

The nuclear fixed asset removal and nuclear waste management funds (“Nuclear Funds”) as at March 31, 2011 and December 31, 2010 consist of the following:

<i>(millions of dollars)</i>	Fair Value	
	March 31 2011	December 31 2010
Decommissioning Segregated Fund	5,350	5,267
Used Fuel Segregated Fund ¹	6,370	6,198
Due to Province – Used Fuel Segregated Fund	(283)	(219)
	6,087	5,979
	11,437	11,246

¹ The Ontario NFWA Trust represented \$1,977 million as at March 31, 2011 (December 31, 2010 – \$1,949 million) of the Used Fuel Segregated Fund on a fair value basis.

As required by the terms of the ONFA, the Province of Ontario (“Province”) has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission (“CNSC”) since 2003, 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, up to the value of the Provincial Guarantee. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. In December 2009, the CNSC approved an increase in the amount of the Provincial Guarantee to

\$1,545 million effective on March 1, 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is required to be submitted. In January 2011, OPG paid a guarantee fee of \$8 million based on a Provincial Guarantee amount of \$1,545 million.

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (“Section 3855”), the investments in the Nuclear Funds and the corresponding payables to the Province are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG’s interim consolidated financial statements.

The earnings on the Nuclear Funds for the three months ended March 31, 2011 and 2010 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2011	2010
Decommissioning Segregated Fund	90	87
Used Fuel Segregated Fund	51	70
Bruce Lease Net Revenues Variance Account (<i>Note 5</i>)	(3)	(16)
Total earnings	138	141

9. INCOME TAXES

OPG follows the liability method of tax accounting for all its business segments and records a corresponding regulatory asset or liability for the future income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

During the three months ended March 31, 2011, OPG recorded a decrease to the future income tax liability for the future taxes that are expected to be recovered or refunded through regulated prices charged to customers of \$61 million. Since these future income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for future income taxes. As a result, the future income taxes for the three months ended March 31, 2011 were not impacted.

The amount of cash income taxes paid during the three months ended March 31, 2011 was nil (three months ended March 31, 2010 – \$8 million).

10. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

Total benefit costs for the three months ended March 31, 2011 and 2010 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2011	2010
Registered pension plans	65	31
Supplementary pension plans	6	5
Other post employment benefits	59	47
Pension and other post employment benefit costs	130	83

11. FINANCIAL INSTRUMENTS

The Risk Oversight Committee (“ROC”) assists the Board of Directors to fulfill its oversight responsibilities for matters relating to identification and management of the Company’s key business risks. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer. Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG’s risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the ROC.

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 to be effective as a hedge, or when designation of a hedging relationship is terminated, any associated deferred gains or losses are recognized in income in the current period. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period’s consolidated statement of income.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges.

<i>(millions of dollars – except where noted)</i>	Notional Quantity	Terms	Fair Value	Notional Quantity	Terms	Fair Value
	March 31, 2011			December 31, 2010		
Floating-to-fixed interest rate hedges	34	1-9 years	(4)	35	1-9 years	(4)
Forward starting interest rate hedges	335	1-12 years	(13)	375	1-12 years	(21)

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 losses of \$1 million, which includes the impact of income taxes, related to derivative instruments qualifying for hedge accounting were recognized in net income during the three months ended March 31, 2011. Existing net losses of \$6 million deferred in accumulated other comprehensive loss at March 31, 2011 are expected to be reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

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

<i>(millions of dollars – except where noted)</i>	Notional Quantity March 31, 2011	Fair Value	Notional Quantity December 31, 2010	Fair Value
Commodity derivative instruments				
Assets	4.6 TWh	3	1.7 TWh	3
Liabilities	0.5 TWh	-	0.1 TWh	-
Total		3		3

Under the Bruce Power lease agreement, lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price (“Average HOEP”) falls below \$30/MWh, and if certain other conditions are met. The conditional reduction to revenue included in the lease agreement is treated as a derivative according to Section 3855. OPG reported a liability of \$170 million as at March 31, 2011 (December 31, 2010 – \$163 million), which reflected the fair value of a derivative embedded in the Bruce Power lease agreement. This increase in the fair value of the derivative liability was primarily due to reductions in the expected future Average HOEP since the beginning of 2011. The income statement impact as a result of changes to the liability is offset by the income statement impact of the Bruce Lease Net Revenues Variance Account.

Fair Value

Fair value is the value that a financial instrument can be closed out or sold, in an arm’s length transaction with a willing and knowledgeable counterparty. The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. The quoted market price used for financial assets held by OPG is the current bid price.

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 fund investments. 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.

12. 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.

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of \$500 million was served on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together "British Energy"). The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. The claim amount includes \$65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British Energy is successful in defending against the Arbitration claim, they will not have suffered any damages to attempt to recoup from OPG. This Arbitration commenced on April 5, 2010. The Arbitration closing arguments have been rescheduled and are anticipated to occur in the third quarter of 2011. It may take some time for the arbitrator to come to a decision after the closing arguments have been completed.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defence. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defence until the conclusion of the Arbitration. That motion was scheduled to be heard March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

In September 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of 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. This Notice of Action was followed by service of the formal Statement of Claim in June 2010 upon the same parties seeking the same relief. OPG continues to assess the merits of the litigation.

A Notice of Arbitration was served upon OPG and the OEFC by a First Nation. The OEFC was subsequently released from the arbitration proceedings. The arbitration concerns whether OPG breached an Agreement to use its "best efforts" to engage the Province in discussion with the First Nation concerning the sharing of benefits related to hydroelectric development. The arbitration to determine whether there is any liability for damages continues. The arbitration is not expected to have any material impact on the Company's financial position.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. OPG has been brought into certain actions by the First Nations against other parties as a third party defendant.

Each of these matters is subject to various uncertainties. Some of these matters may be resolved unfavourably. While it is not possible to determine the ultimate outcome of the various pending actions, it is the Company's belief that their resolution is not likely to have a material adverse impact on its financial position.

Environmental

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 financial statements to meet certain other environmental obligations.

13. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended March 31, 2011 <i>(millions of dollars)</i>	Regulated			Unregulated			Elimination	Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other		
Revenue	788	12	184	149	146	41	(12)	1,308
Fuel expense	55	-	50	20	41	-	-	166
Gross margin	733	12	134	129	105	41	(12)	1,142
Operations, maintenance and administration	530	14	26	51	98	5	(12)	712
Depreciation and amortization	92	-	14	16	21	15	-	158
Accretion on fixed asset removal and nuclear waste management liabilities	-	170	-	-	2	-	-	172
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(138)	-	-	-	-	-	(138)
Property and capital taxes (recovery)	7	-	(2)	(3)	4	2	-	8
Restructuring	-	-	-	-	-	-	-	-
Other losses	-	-	-	-	1	-	-	1
Income (loss) before interest and income taxes	104	(34)	96	65	(21)	19	-	229

Segment Income (Loss) for the Three Months Ended March 31, 2010 <i>(millions of dollars)</i>	Regulated			Unregulated			Elimination	Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Hydro- electric	Thermal	Other		
Revenue	793	11	184	149	268	48	(10)	1,443
Fuel expense	50	-	49	19	129	-	-	247
Gross margin	743	11	135	130	139	48	(10)	1,196
Operations, maintenance and administration	551	12	23	46	102	3	(10)	727
Depreciation and amortization	92	-	16	16	27	15	-	166
Accretion on fixed asset removal and nuclear waste management liabilities	-	164	-	-	1	-	-	165
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(141)	-	-	-	-	-	(141)
Property and capital taxes	11	-	3	1	1	3	-	19
Restructuring	-	-	-	-	25	-	-	25
Other gains	-	-	-	-	-	(1)	-	(1)
Income (loss) before interest and income taxes	89	(24)	93	67	(17)	28	-	236

	Regulated		Unregulated		Other	Total
	Nuclear	Hydro-electric	Hydro-electric	Thermal		
<i>(millions of dollars)</i>						
Selected Balance Sheet Information						
As at March 31, 2011						
Segment fixed assets in service, net	3,917	3,762	3,317	262	749	12,007
Segment construction in progress	199	973	496	17	14	1,699
Segment property, plant and equipment, net	4,116	4,735	3,813	279	763	13,706
As at March 31, 2011						
Segment intangible assets in service, net	15	-	5	1	17	38
Segment development in progress	5	-	-	-	4	9
Segment intangible assets, net	20	-	5	1	21	47
As at December 31, 2010						
Segment fixed assets in service, net	3,963	3,750	3,324	282	759	12,078
Segment construction in progress	174	913	367	20	3	1,477
Segment property, plant and equipment, net	4,137	4,663	3,691	302	762	13,555
As at December 31, 2010						
Segment intangible assets in service, net	18	-	5	1	16	40
Segment development in progress	3	-	-	-	5	8
Segment intangible assets, net	21	-	5	1	21	48

14. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three Months ended March 31	
	2011	2010
<i>(millions of dollars)</i>		
Accounts receivable	85	112
Prepaid expenses	(11)	(25)
Fuel inventory	23	72
Income and capital taxes recoverable	167	24
Materials and supplies	(3)	1
Accounts payable and accrued charges	2	(253)
	263	(69)

15. NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation (“LSFN”) regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the Lac Seul LP partnership.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the LSFN’s ownership interest in the partnership.

16. RESTRUCTURING

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. The closures occurred on October 1, 2010. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers’ Union, in accordance with their respective collective bargaining agreements. As determined by the collective bargaining agreements, restructuring costs of \$27 million were recorded during 2010 for those employees who have elected to leave. The change in the restructuring liability for severance costs for the three months ended March 31, 2011 is as follows:

(millions of dollars)

Liability, January 1, 2010	-
Restructuring charges during the year	27
Payments during the year	(12)
Liability, December 30, 2010	15
Payments during the period	(10)
Liability, March 31, 2011	5

In addition to the 2010 unit closure, Ontario’s Long-Term Energy Plan released in November 2010 and the Supply Mix Directive issued in February 2011 require the closure of two coal-fired units at the Nanticoke coal-fired generating station in 2011. The Independent Electricity System Operator has confirmed that these units are not required for meeting supply adequacy and system reliability in the period from December 31, 2011 through December 31, 2014. On March 25, 2011, OPG notified key stakeholders, including the Society of Energy Professionals and the Power Workers’ Union, of the decision in accordance with their respective collective bargaining agreements. The timing and amount of restructuring costs cannot be reasonably estimated at this time.

17. SEASONAL OPERATIONS

OPG’s quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Primarily during the first and third quarters of a fiscal year, OPG’s revenues are impacted 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 contingency support agreement with the OEFC, and OPG’s hedging strategies significantly reduced the impact of seasonal price fluctuations on the results of operations.