ONTARIOPOWER GENERATION

News
from Ontario Power Generation

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OPG REPORTS 2018 FIRST QUARTER FINANCIAL RESULTS

Strong results attributable to former Lakeview generating station land sale and continued strong nuclear generation performance

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) today reported net income attributable to the Shareholder of $535 million for the first quarter of 2018, inclusive of a one-time after-tax gain of $205 million related to the sale of the former Lakeview generating station (GS) property, compared to $64 million for the same period in 2017.

"As Ontario's publicly-owned electricity generator, we are pleased to report our strong first quarter results that have resulted in significant net income to our shareholder, the Province of Ontario. We remain focused on continuing to supply Ontario with safe, reliable, and low-cost power that is more than 99 per cent free of greenhouse gas emissions to help moderate customer's electricity bills, and are investing in our assets for the benefit of Ontarians for years to come," said Jeff Lyash, OPG President and CEO. "Canada's single largest investment in low-cost, clean energy, the refurbishment of the Darlington Nuclear Station, remains on time and on budget due to the hard work and dedication of our employees and partners. Refurbishing this public asset will ensure OPG remains Ontario's largest provider of low-cost electricity for another 30 years, generating clean power that is virtually free of carbon emissions."

Lyash continued, "In addition to investing in the Darlington Nuclear Station, OPG has begun the relicensing process to keep the Pickering Nuclear Station operating until 2024. Running Pickering until 2024 will save electricity customers up to $600 million and benefit Ontario by contributing over $12 billion to the economy. Pickering remains a safe, efficient and reliable public asset that can continue to supply low-cost electricity for up to 1.5 million homes each day, with almost no carbon emissions."

"Major contributors to the strong financial results for the quarter include the one-time gain on the sale of OPG's former Lakeview generating station lands in Mississauga, Ontario in March, the net proceeds of which will be transferred to our shareholder, and the continued strong nuclear generation performance," added Lyash. "In the same month as the Lakeview sale, a special dividend of $283 million from last year's sale of our head office premises was transferred to the Province."

The increase in net income in the first quarter of 2018 is also attributable to the impact of the new regulated prices for OPG's nuclear and most of its hydroelectric generation, resulting from the Ontario Energy Board's (OEB) decision on OPG's application for new regulated prices for the 2017-2021 period issued in December 2017.

The OEB issued the final payment amounts order on the application in March 2018, allowing OPG to begin collecting revenues based on the new regulated prices. Taking into account the impact of the OEB's decision, OPG continues to provide electricity at a price that is approximately 40 per cent less than the average of other generators. OPG is the only electricity generator in Ontario that has its prices set through a public hearing process by the OEB.

Generating and Operating Performance

Electricity generated during the three months ended March 31, 2018 increased to 18.8 terawatt hours (TWh) from 18.6 TWh for the same quarter in 2017.

Regulated – Nuclear Generation Segment

Higher nuclear generation of 0.4 TWh during the three months ended March 31, 2018 was primarily due to fewer planned outage days at the Darlington GS.

For the three months ended March 31, 2018, the unit capability factor for the operating units at the Darlington GS was 96.5 per cent, compared to 85.3 per cent for the same quarter in 2017. The increase was primarily due to a lower number of planned outage days at the station.

At the Pickering GS, the unit capability factor decreased to 74.5 per cent for 2018, compared to 78.5 per cent for the same quarter in 2017, primarily due to a higher number of planned outage days in the cyclical maintenance schedule at the station in the first quarter of 2018.

Regulated – Hydroelectric Segment

Lower generation from the regulated hydroelectric stations of 0.3 TWh during the three months ended March 31, 2018, compared to the same quarter in 2017, was primarily due to lower water flows on the northwestern and eastern Ontario river systems.

The availability of 87.3 per cent at these stations in 2018 was lower than 89.5 per cent for the same quarter in 2017. The decrease in the availability was primarily due to a higher number of unplanned outage days at the eastern and northeastern Ontario regions' regulated hydroelectric stations.

Contracted Generation Portfolio Segment

Generation from the Contracted Generation Portfolio during the three months ended March 31, 2018 increased by 0.1 TWh compared to the same quarter in 2017.

The availability of these hydroelectric stations for the three months ended March 31, 2018 was 80.1 per cent, compared to 83.6 per cent for the same quarter in 2017. The decrease in the availability was primarily due to a higher number of planned outage days at the Little Long GS on the Lower Mattagami River.

Total Generating Cost

The Enterprise Total Generating Cost per megawatt hour (MWh) was $49.84 for the three months ended March 31, 2018, compared to $47.86 for the same quarter in 2017. The increase was mainly a result of higher operations, maintenance and administration expenses and higher sustaining capital expenditures, partially offset by higher nuclear electricity generation.

Generation Development

OPG is undertaking a number of generation development and life extension projects in support of Ontario's electricity planning initiatives. Significant developments during the first quarter of 2018 were as follows:

Darlington Refurbishment

The Darlington Refurbishment project is expected to extend the operating life of the four-unit Darlington GS by approximately 30 years. In early May 2018, OPG completed the removal of the existing reactor components, signifying the completion of the second major segment of the Unit 2 refurbishment. The refurbishment of Unit 2 has now transitioned into the third major segment, the installation and reassembly of reactor components. The Darlington Refurbishment project continues to track on schedule and to the $12.8 billion budget.

In addition to the execution of refurbishment activities on Unit 2, OPG is progressing with planning activities on the refurbishment of Unit 3 and ensuring that lessons learned from the Unit 2 refurbishment are being incorporated. OPG is also entering into commitments to procure major components that require long lead times. Execution of the prerequisite activities for the Unit 3 refurbishment have commenced. The Unit 3 refurbishment is expected to commence upon the return to service of Unit 2. As of March 31, 2018, $137 million has been invested in planning and prerequisite activities related to the refurbishment of Unit 3. In February 2018, the Government of Ontario confirmed its commitment to proceed with the refurbishment of Unit 3.

Total life-to-date capital expenditures on the project were approximately $4.7 billion as at March 31, 2018.

Ranney Falls Hydroelectric GS

In 2017, OPG began construction work on a 10 MW single-unit powerhouse on the existing Ranney Falls GS site. The new unit will replace an existing unit that reached its end of life in 2014. Construction continues in the expanded forebay, powerhouse and spillway area. Fabrication of the sectional gates and two head gates has been completed, with assembly and site delivery in progress. Turbine and generator unit fabrication is also in progress. The project's expected in-service date is in the fourth quarter of 2019, with a budget of $77 million. The project is tracking on schedule and on budget. The Ranney Falls GS is included in the Regulated – Hydroelectric segment.

Nanticoke Solar Facility

The project encompasses the construction of a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands under a contract with the Independent Electricity

System Operator, through Nanticoke Solar LP, a partnership between OPG and a subsidiary of the Six Nations of Grand River Development Corporation. Significant contracts for equipment and engineering construction services were executed and site preparation commenced in the first quarter of 2018. The facility is expected to be completed in the first quarter of 2019, with a budget of $107 million. The project is included in the Contracted Generation Portfolio segment.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	**Three Months Ended March 31 2018**	**2017**
Revenue	**1,407**	1,176
Fuel expense	**155**	155
Operations, maintenance and administration	**722**	708
Depreciation and amortization	**186**	167
Other (gains) expenses, net [1]	**(227)**	47
Income before interest and income taxes	**571**	99
Net interest expense	**19**	19
Income tax expense	**13**	12
Net income	**539**	68
Net income attributable to the Shareholder	**535**	64
Net income attributable to non-controlling interest [2]	**4**	4
Income before interest and income taxes		
Electricity generation business segments	**324**	139
Regulated – Nuclear Waste Management	**(33)**	(47)
Fair Hydro Trust	**4**	-
Other [1]	**276**	7
Total income before interest and income taxes	**571**	99
Cash flow		
Cash flow provided by operating activities	**226**	168
Electricity generation (TWh)		
Regulated – Nuclear Generation	**10.4**	10.0
Regulated – Hydroelectric	**7.7**	8.0
Contracted Generation Portfolio [3]	**0.7**	0.6
Total electricity generation	**18.8**	18.6
Nuclear unit capability factor (per cent) [4]		
Darlington Nuclear GS	**96.5**	85.3
Pickering Nuclear GS	**74.5**	78.5
Availability (per cent)		
Regulated – Hydroelectric	**87.3**	89.5
Contracted Generation Portfolio – hydroelectric stations	**80.1**	83.6
Equivalent forced outage rate		
Contracted Generation Portfolio – thermal stations	**0.3**	1.6
Enterprise Total Generating Cost (TGC) per MWh for the three months ended March 31, 2018 and March 31, 2017 ($/MWh) [5]	**49.84**	47.86
Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI) for the twelve months ended March 31, 2018 and December 31, 2017 (%) [5]	**11.5**	7.6

1. For the three months ended March 31, 2018, includes the pre-tax gain on sale of the former Lakeview GS site.
2. Relates to the 25 per cent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation in the Lower Mattagami Limited Partnership, the 33 per cent interest of Coral Rapids Power Corporation (CRP), a corporation wholly owned by the Taykwa Tagamou Nation, in the PSS Generating Station Limited Partnership, and the 10 per cent interest of a corporation wholly owned by the Six Nations of Grand River Development Corporation in the Nanticoke Solar LP. CRP increased its partnership interest in PSS to 33 per cent in April 2017.
3. Includes OPG's share of generation volume from its 50 per cent ownership interests in the Portlands Energy Centre and Brighton Beach GS.
4. Nuclear unit capability factor excludes unit(s) during the period in which they are undergoing refurbishment. Unit 2 of the Darlington GS is excluded from the measure effective October 15, 2016, when the unit was taken offline for refurbishment.
5. Enterprise TGC per MWh and ROE Excluding AOCI are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about the non-GAAP measures is provided in OPG's Management's Discussion and Analysis for the three months ended March 31, 2018, in the sections *Highlights – Return on Equity Excluding Accumulated Other Comprehensive Income*, *Highlights – Enterprise Total Generating Cost per MWh*, and *Supplementary Non-GAAP Financial Measures.*

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our mission is providing low cost power in a safe, clean, reliable and sustainable manner for the benefit of our customers and shareholder.

Ontario Power Generation Inc.'s unaudited interim financial statements and Management's Discussion and Analysis as at and for the three months ended March 31, 2018 can be accessed on OPG's web site (www.opg.com), the Canadian Securities Administrators' web site (www.sedar.com), or can be requested from the Company.

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ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2018 FIRST QUARTER REPORT

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three months ended March 31, 2018. OPG's unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars.

For a complete description of OPG's corporate strategies, risk management, corporate governance, and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, Annual Information Form, and MD&A as at and for the year ended December 31, 2017.

As required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. Since January 1, 2012, OPG also has received exemptive relief from the Ontario Securities Commission (OSC) that allows OPG to apply US GAAP instead of International Financial Reporting Standards (IFRS). In April 2018, the OSC approved an exemption which allows the Company to continue to apply US GAAP up to January 1, 2024. The term of the exemption is subject to certain conditions, which may result in the expiry of the exemption prior to January 1, 2024. For details, refer to the section, *Changes in Accounting Policies and Estimates* under the heading, *Exemptive Relief for Reporting under US GAAP.* This MD&A is dated May 15, 2018.

FORWARD-LOOKING STATEMENTS

The MD&A contains forward-looking statements that reflect OPG's current views regarding certain future events and circumstances. Any statement contained in this document that is not current or historical is a forward-looking statement. OPG generally uses words such as "anticipate", "believe", "foresee", "forecast", "estimate", "expect", "schedule", "intend", "plan", "project", "seek", "target", "goal", "strategy", "may", "will", "should", "could", and other similar words and expressions to indicate forward-looking statements. The absence of any such word or expression does not indicate that a statement is not forward-looking.

All forward-looking statements involve inherent assumptions, risks, and uncertainties, including those set out in the section, *Risk Management,* and forecasts discussed in the section, *Core Business, Strategy, and Outlook.* All forward-looking statements could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's generating station performance and availability, fuel costs, surplus baseload generation (SBG), cost of fixed asset removal and nuclear waste management, performance and earnings of investment funds, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations and funds, income taxes, proposed new legislation, the ongoing evolution of Ontario's electricity industry, environmental and other regulatory requirements, operating licence applications to the Canadian Nuclear Safety Commission (CNSC), health, safety and environmental developments, business continuity events, the weather, financing and liquidity, applications to the Ontario Energy Board (OEB) for regulatory prices, the impact of regulatory decisions by the OEB, Ontario's Fair Hydro Plan and forecasts of earnings, cash flows, Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI), Total Generating Cost (TGC), Operations, Maintenance and Administration (OM&A) expenditures, retention of critical talent, supplier and third party performance, and project expenditures. Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this

MD&A are made only as of the date of this MD&A. Except as required by applicable securities laws, OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events, or otherwise.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province or Shareholder).

As at March 31, 2018, OPG's electricity generation portfolio had an in-service capacity of 16,218 megawatts (MW). OPG operates two nuclear generating stations, 66 hydroelectric generating stations, three thermal generating stations, and one wind power turbine. In addition, OPG and TransCanada Energy Ltd. co-own the 550 MW Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS), and OPG and ATCO Power Canada Ltd. co-own the 560 MW Brighton Beach gas-fired combined cycle GS (Brighton Beach). OPG's 50 percent share of the in-service capacity and generation volume of these co-owned facilities is included in the generation portfolio statistics set out in this report. The income from the co-owned facilities is accounted for using the equity method of accounting, and OPG's share of income is presented as income from investments subject to significant influence in the Contracted Generation Portfolio segment.

OPG also owns two other nuclear generating stations, the Bruce A GS and the Bruce B GS, which are leased on a long-term basis to Bruce Power LP. Income from these leased stations is included as leasing revenue under the Regulated – Nuclear Generation segment. The leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2017 annual MD&A in the section, *Business Segments*.

All of OPG's owned and co-owned generating facilities are located in Ontario. OPG does not operate PEC, Brighton Beach, the Bruce A GS and the Bruce B GS.

In-Service Generating Capacity

OPG's in-service generating capacity by business segment as of March 31, 2018 and December 31, 2017 was as follows:

(MW)	As at March 31 2018	 December 31 2017
Regulated – Nuclear Generation [1]	**5,728**	5,728
Regulated – Hydroelectric	**6,426**	6,426
Contracted Generation Portfolio [2]	**4,064**	4,056
Total	**16,218**	16,210

[1] The in-service generating capacity as of March 31, 2018 and December 31, 2017 excludes Unit 2 of the Darlington Nuclear GS (Darlington GS). The unit, which has a generating capacity of 878 MW, was taken offline in mid-October 2016 and is currently undergoing refurbishment.

[2] Includes OPG's share of in-service generating capacity of 275 MW for PEC and 280 MW for Brighton Beach.

During the three months ended March 31, 2018, total in-service capacity increased by 8 MW. The increase was due to the completion of the overhaul and upgrade of Unit 1 of the Harmon hydroelectric GS, which was returned to service in February 2018 as part of the Contracted Generation Portfolio segment.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results and summarizes OPG's income before interest and income taxes by business segment. Significant factors which contributed to OPG's results during the three months ended March 31, 2018, compared to the same period in 2017, are discussed below. A detailed discussion of OPG's performance by reportable segment is included in the section, *Discussion of Operating Results by Business Segment*.

(millions of dollars – except where noted) (unaudited)	**Three Months Ended March 31** **2018**	**2017**
Revenue	**1,407**	1,176
Fuel expense	**155**	155
Operations, maintenance and administration	**722**	708
Depreciation and amortization	**186**	167
Other (gains) expenses, net [1]	**(227)**	47
Income before interest and income taxes	**571**	99
Net interest expense	**19**	19
Income tax expense	**13**	12
Net income	**539**	68
Net income attributable to the Shareholder	**535**	64
Net income attributable to non-controlling interest [2]	**4**	4
Electricity production (TWh) [3]	**18.8**	18.6
Cash flow		
Cash flow provided by operating activities	**226**	168
Segment Results		
Regulated – Nuclear Generation	**75**	(118)
Regulated – Hydroelectric	**171**	180
Contracted Generation Portfolio	**78**	77
Total electricity generation business segments	**324**	139
Regulated – Nuclear Waste Management	**(33)**	(47)
Fair Hydro Trust	**4**	-
Other [1]	**276**	7
Income before interest and income taxes	**571**	99

1 For the three months ended March 31, 2018, includes the pre-tax gain on sale of the former Lakeview GS site.

2 Relates to the 25 percent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, in the Lower Mattagami Limited Partnership, the 33 percent interest of Coral Rapids Power Corporation (CRP), a corporation wholly owned by the Taykwa Tagamou Nation, in the PSS Generating Station Limited Partnership (PSS), and the 10 percent interest of a corporation wholly owned by the Six Nations of Grand River Development Corporation in the Nanticoke Solar LP. CRP increased its partnership interest in PSS to 33 percent in April 2017.

3 Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

Net income attributable to the Shareholder was $535 million for the first quarter of 2018, representing an increase of $471 million compared to the same quarter in 2017. Income before interest and income taxes was $571 million for the first quarter of 2018, representing an increase of $472 million compared to the same quarter in 2017. The following summarizes the significant factors which contributed to the variance:

Significant factors that increased income before interest and income taxes:

- Higher revenue from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments of approximately $210 million, reflecting the impact of new regulated prices approved by the OEB in its December 2017 decision and March 2018 payment amounts order on OPG's application for new regulated prices. Further details can be found under the heading, *Recent Developments – OEB's Payment Amounts Order on OPG's Application for New Regulated Prices*.
- Higher revenue of approximately $25 million, partially offset by an increase in fuel expense of $5 million, reflecting higher electricity generation of 0.4 terawatt hours (TWh) from the Regulated – Nuclear Generation segment.
- A pre-tax gain on the sale of the former Lakeview GS site of $273 million recognized in net income upon completion of the transaction in the first quarter of 2018. The sale was undertaken pursuant to a Shareholder Declaration and a Shareholder Resolution. Further details can be found under the heading, *Recent Developments – Sale of Lakeview Site*.
- Higher earnings of $14 million from the Regulated – Nuclear Waste Management segment, primarily due to higher earnings from the nuclear fixed asset removal and nuclear waste management funds (Nuclear Segregated Funds), partially offset by an increase in accretion expense on the nuclear fixed asset removal and nuclear waste management liabilities (Nuclear Liabilities).

Significant factors that reduced income before interest and income taxes:

- Higher depreciation and amortization expenses of $19 million, mainly due to new assets in service in the Regulated – Nuclear Generation segment.
- Higher OM&A expenses of $14 million, mainly reflecting higher services and materials costs associated with planned outages at the nuclear stations.
- Lower hydroelectric incentive mechanism payments of $7 million in the Regulated – Hydroelectric segment.

Net interest expense for the first quarter of 2018 was comparable with the same quarter in 2017.

Income tax expense increased by $1 million in the first quarter of 2018, compared to the same quarter in 2017. The increase due to higher income before taxes was largely offset by both a higher amount of deferred income tax expense recorded as a regulatory asset, and a reduction in income taxes due to a refundable tax credit of $86 million that lowered the effective tax rate in the first quarter of 2018.

Recent Developments

OEB's Payment Amounts Order on OPG's Application for New Regulated Prices

The OEB's decision on OPG's May 2016 five-year application for new regulated prices for nuclear and regulated hydroelectric generation was issued on December 28, 2017, following a public hearing process, with an effective date for the new base regulated prices of June 1, 2017. The decision included the OEB's findings with respect to ratemaking methodologies for OPG's regulated facilities, the basis for inputs into the hydroelectric incentive mechanism formula, and the elements of the nuclear revenue requirement. Pursuant to the OEB's decision, the new base regulated prices for the regulated hydroelectric facilities for each of the years 2017 to 2021 are determined by annually escalating the base regulated prices in effect prior to June 1, 2017, with some adjustments, using an approved formula equal to an industry-specific weighted inflation factor based on indices published annually by the OEB, less a stretch factor adjustment. For the nuclear facilities, a revenue requirement is determined for each of the years 2017 to 2021 based on the OEB-allowed level of operating costs and a return of and on invested capital, reduced by a stretch factor amount. Consistent with the requirement of *Ontario Regulation 53/05*, OPG's overall production-weighted regulated price is smoothed, with a portion of the approved nuclear revenue requirements for the 2017-2021 period deferred for future collection in the Rate Smoothing Deferral Account. The difference between the non-deferred portion of the annual nuclear revenue requirement, calculated by multiplying the approved nuclear base regulated price determined under rate smoothing and the approved forecast of OPG's nuclear electricity production, and the total approved nuclear revenue requirement determines the amount deferred for future collection. Further details on OPG's December 2017 decision can be found in OPG's 2017 annual MD&A in the section, *Highlights* under the heading, *Recent Developments – OEB's Decision on OPG's Application for New Regulated Prices*.

To reflect management's best estimate of the impact of the OEB's decision, in the fourth quarter of 2017, OPG recorded incremental net revenue for the June 1, 2017 to December 31, 2017 interim period based on the draft payment amounts order it submitted to the OEB on January 17, 2018 to reflect the December 2017 decision's findings. The revenue was recorded as an increase in regulatory assets for the June 1, 2017 to December 31, 2017 interim period revenue shortfall based on proposed new regulated prices, net of a regulatory liability for the Rate Smoothing Deferral Account.

On March 29, 2018, the OEB issued the final payment amounts order establishing new regulated prices for OPG's regulated facilities, with an implementation date of March 1, 2018. For the regulated hydroelectric facilities, the OEB approved the base regulated prices as calculated by OPG in the draft payment amounts order for the June 1, 2017 to December 31, 2017 period and for the January 1, 2018 to December 31, 2018 period, based on the approved incentive regulation formula and inflation indices published by the OEB. For the 2019-2021 period, the base regulated prices for the regulated hydroelectric facilities will be determined annually before the beginning of each year using the approved formula and published indices.

For the nuclear facilities, the OEB approved the 2017-2021 revenue requirements as submitted by OPG in the draft payment amounts order, with minor adjustments. The OEB also made certain adjustments to OPG's rate smoothing proposal and resulting nuclear base regulated prices for the June 1, 2017 to December 31, 2017 period and each of the years 2018 to 2021 submitted in the draft payment amounts order. Pursuant to the final payment amounts order, no amounts will be deferred in the Rate Smoothing Deferral Account for 2017 or 2018, with approximately $500 million to be deferred over the 2019-2021 period. Parties to OPG's application were given an opportunity to review and comment on the draft payment amounts order prior to the OEB's issuance of the final payment amounts order.

The OEB's adjustments to OPG's rate smoothing proposal and resulting nuclear base regulated prices in the final payment amounts order resulted in a partial reversal of the regulatory asset for the June 1, 2017 to December 31, 2017 interim period revenue shortfall recorded in the fourth quarter of 2017, largely offset by the reversal of the regulatory liability for the Rate Smoothing Deferral Account recorded in the fourth quarter of 2017. The combined effect of these reversals did not have a material impact on the results of operations for the first quarter of 2018.

In addition, for the period from March 1, 2018 to December 31, 2020, the final payment amounts order authorized interim period shortfall riders to collect the revenue shortfall for the June 1, 2017 to February 28, 2018 period based on the newly approved base regulated prices. The order established separate rate riders for the March 1, 2018 to December 31, 2020 period to recover variance and deferral account balances approved in the application. As the interim period shortfall riders and the variance and deferral account riders will collect amounts previously recorded as regulatory assets, they will contribute to improved cash flow from operations but are not expected to have a material impact on net income.

The OEB's final payment amounts order authorized the following regulated prices for electricity generated from OPG's nuclear and regulated hydroelectric facilities for the 2017-2021 period, effective June 1, 2017:

($/MWh)	**2017 June 1 to December 31**	**2018**	**2019**	**2020**	**2021**
Regulated – Nuclear Generation					
Base regulated price [1]	77.96	78.64	77.00	85.00	89.70
Interim period shortfall rider [1]	-	2.89	7.71	5.64	-
Variance and deferral account rate rider [2]	-	1.05	2.79	2.04	-
	77.96	82.58	87.50	92.68	89.70
Regulated – Hydroelectric					
Base regulated price [1, 3]	41.67	42.05	n/a	n/a	n/a
Interim period shortfall rider [1]	-	0.13	0.35	0.24	-
Variance and deferral account rate rider [2]	-	0.52	1.44	1.01	-
	41.67	42.70	n/a	n/a	n/a

[1] As part of the payment amounts order process, the OEB authorized separate rate riders to allow for the recovery of the revenue shortfall between the new base regulated prices and the previously approved base regulated prices that OPG continued to receive during the interim period between June 1, 2017 and February 28, 2018, over the March 1, 2018 to December 31, 2020 period. The revenue shortfall was recorded as a regulatory asset in the fourth quarter of 2017 and the first quarter of 2018.

[2] Consistent with the OEB's December 2017 decision, in 2018, OPG plans to file an application with the OEB requesting disposition of the next set of variance and deferral account balances, which may result in additional variance and deferral account riders prospectively over the period, depending on the outcome of the application.

[3] Base regulated prices for the regulated hydroelectric facilities for the 2019-2021 period will be determined annually before the beginning of each year using the OEB-approved incentive regulation formula and OEB-published inflation indices.

Darlington Refurbishment

In early May 2018, OPG completed the second major segment of the Unit 2 refurbishment of the Darlington GS, the removal of existing reactor components, and has transitioned into the third major segment, the installation and reassembly of new reactor components.

Planning activities for the refurbishment of Unit 3 of the Darlington GS continue. In February 2018, the Government of Ontario confirmed its commitment to proceed with the Unit 3 refurbishment. The Darlington Refurbishment project continues to track on schedule and to the $12.8 billion budget.

The Darlington Refurbishment project is discussed further in the section, *Core Business, Strategy, and Outlook* under the heading, *Project Excellence*.

Payment of Dividend to Shareholder

In April 2017, OPG completed the sale of its head office premises and associated parking facility located at 700 University Avenue and 40 Murray Street in Toronto, Ontario. The sale was undertaken pursuant to a Shareholder Declaration and a Shareholder Resolution received by OPG in December 2015. Pursuant to the Shareholder Declaration and the Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014* (Trillium Trust Act), OPG was required to transfer the proceeds from this disposition, net of prescribed deductions under the Trillium Trust Act, into the Province's Consolidated Revenue Fund. In accordance with these requirements, a special dividend of $283 million was authorized by OPG's Board of Directors and transferred into the Consolidated Revenue Fund in March 2018.

Sale of Lakeview Site

In March 2018, OPG completed the sale of its former Lakeview GS site property located in Mississauga, Ontario, with an after-tax gain on sale of $205 million recognized in net income in the first quarter of 2018. The sale was undertaken pursuant to a Shareholder Declaration and a Shareholder Resolution received by OPG in June 2016. Pursuant to the Shareholder Declaration and the Shareholder Resolution, and as prescribed in the Trillium Trust Act, OPG is required to transfer the proceeds from this disposition, net of prescribed deductions under the Trillium Trust Act, into the Province's Consolidated Revenue Fund. OPG expects that the amount of designated proceeds to be transferred into the Consolidated Revenue Fund will be largely consistent with the after-tax gain on sale, and is working with the Ontario Ministry of Finance to finalize the amount. In accordance with the Shareholder Resolution, approximately 67 acres of the site will be transferred to the City of Mississauga by the purchaser, for parkland, institutional, and cultural uses.

Electricity Generation

Electricity generation for the three months ended March 31, 2018 and 2017 was as follows:

	Three Months Ended March 31	
(TWh)	**2018**	**2017**
Regulated – Nuclear Generation	**10.4**	10.0
Regulated – Hydroelectric	**7.7**	8.0
Contracted Generation Portfolio [1]	**0.7**	0.6
Total OPG electricity generation	**18.8**	18.6
Total electricity generation by other generators in Ontario [2]	**19.1**	18.6

[1] Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

[2] Non-OPG generation is calculated as the Ontario electricity demand plus net exports, as published by the Independent Electricity System Operator (IESO), minus OPG electricity generation.

Total OPG electricity generation increased by 0.2 TWh during the first quarter of 2018, compared to the same quarter in 2017. This was due to higher electricity generation of 0.4 TWh from the Regulated – Nuclear Generation segment and 0.1 TWh from the Contracted Generation Portfolio, partially offset by lower electricity generation of 0.3 TWh from the Regulated – Hydroelectric segment.

The increase in electricity generation from the Regulated – Nuclear segment was primarily due to fewer planned outage days at the Darlington GS. The lower electricity generation from the Regulated – Hydroelectric segment was primarily due to lower water flows on the northwestern and eastern Ontario river systems.

OPG's operating results are affected by changes in grid-supplied electricity demand resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the province. For the first quarter of 2018, Ontario's electricity demand as reported by the IESO was 35.0 TWh compared to 34.3 TWh for the same quarter in 2017, excluding electricity exports out of the province.

Power that is surplus to the Ontario market is managed by the IESO, mainly through generation reductions at hydroelectric and certain nuclear stations, and other grid-connected renewable resources. Baseload generation supply surplus in Ontario continued to be prevalent during first quarter of 2018, resulting in total forgone hydroelectric generation for OPG of 0.8 TWh, which was comparable to the same quarter in 2017. The gross margin impact of production forgone at OPG's regulated hydroelectric stations due to SBG conditions during these periods was offset by the impact of a regulatory variance account authorized by the OEB. Production forgone at OPG's regulated hydroelectric stations due to SBG conditions was 0.8 TWh in the first quarter of 2018, which was comparable to the same quarter in 2017. OPG did not forgo any electricity production at its nuclear stations due to SBG conditions.

Average Sales Prices

The majority of OPG's generation is from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments. The regulated prices authorized by the OEB for electricity generated from OPG's nuclear and regulated hydroelectric generating stations are discussed further in the section, *Highlights* under the heading, *Recent Developments – OEB's Payment Amounts Order on OPG's Application for New Regulated Prices* and OPG's 2017 annual MD&A in the section, *Revenue Mechanisms for Regulated and Non-Regulated Generation*.

The average sales price for the Regulated – Nuclear Generation segment was 7.2 cents per kilowatt hour (¢/kWh) during the first quarter of 2018, compared to 5.8 ¢/kWh during the same quarter in 2017. The increase in the average sales price primarily reflected the impact of the new base regulated prices approved by the OEB in its December 2017 decision and March 2018 payment amounts order, partially offset by a partial reversal of the regulatory asset for the June 1, 2017 to December 31, 2017 interim period revenue shortfall to reflect the March 2018 payment amounts order. While the reversal of the regulatory liability for the Rate Smoothing Deferral Account that also resulted from the issuance of the March 2018 payment amounts order largely offset the revenue and income impact of the partial reversal of the June 1, 2017 to December 31, 2017 revenue shortfall regulatory asset, it did not impact the average sales price for the first quarter of 2018, as amounts deferred under rate smoothing are not included in the calculation of the average sales price until the period they are settled with ratepayers.

The average sales price for the Regulated – Hydroelectric segment was 4.2 ¢/kWh during each of the first quarters of 2018 and 2017. The average sales price was comparable in these periods as the impact of the new base regulated prices approved by the OEB in its December 2017 decision and March 2018 payment amounts order was offset by lower revenue under the hydroelectric incentive mechanism in the first quarter of 2018.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2018 was $226 million, compared to $168 million for the same period in 2017. The increase was mainly due to higher non-generation revenue cash receipts, lower expenditures on fixed asset removal and nuclear waste management activities, and lower income tax instalments.

Return on Equity Excluding Accumulated Other Comprehensive Income

ROE Excluding AOCI is an indicator of OPG's performance consistent with the Company's strategy to provide value to the Shareholder. ROE Excluding AOCI is measured over a 12-month period. ROE Excluding AOCI for the twelve months ended March 31, 2018 was 11.5 percent, compared to 7.6 percent for the twelve months ended December 31, 2017. The increase in ROE Excluding AOCI was primarily due to higher net income attributable to the Shareholder as a result of increased revenue reflecting the impact of the new base regulated prices approved by the OEB in its December 2017 decision and March 2018 payment amounts order, and the gain on the sale of the former Lakeview GS site recorded in the first quarter of 2018. ROE Excluding AOCI for these periods also reflected the after-tax gain of $283 million on the sale of the Company's head office premises and associated parking facility recorded in the second quarter of 2017. The gains on the sale of the former Lakeview GS site and the head office premises and associated parking facility, including the effect of the associated special dividend authorized in March 2018, together with the associated income tax effects of these transactions, contributed approximately 4.9 percent to ROE Excluding AOCI for the twelve months ended March 31, 2018 and approximately 2.5 percent for the twelve months ended December 31, 2017.

Enterprise Total Generating Cost per Megawatt Hour

The Enterprise TGC per megawatt hour (MWh) was $49.84 for the three months ended March 31, 2018, compared to $47.86 for the same period in 2017. The increase was mainly a result of higher OM&A expenses before the impact of regulatory variance and deferral accounts and higher sustaining capital expenditures, partially offset by higher nuclear electricity generation.

Nuclear Total Generating Cost per Megawatt Hour

The Nuclear TGC per MWh was $70.90 for the three months ended March 31, 2018, compared to $69.87 for the same period in 2017. The increase in Nuclear TGC per MWh was primarily due to higher OM&A expenses before the impact of regulatory variance and deferral account and higher sustaining capital expenditures, partially offset by higher nuclear electricity generation.

Hydroelectric Total Generating Cost per Megawatt Hour

The Hydroelectric TGC per MWh was $20.42 for the three months ended March 31, 2018, compared to $19.79 for the same period in 2017. The increase in the Hydroelectric TGC per MWh was primarily due to the decrease in hydroelectric electricity generation.

ROE Excluding AOCI, Enterprise TGC per MWh, Nuclear TGC per MWh and Hydroelectric TGC per MWh are not measurements in accordance with US GAAP, and should not be considered alternative measures to net income or any other performance measure under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of its performance and are consistent with the Company's strategic imperatives and related objectives. The definition and calculation of ROE Excluding AOCI, Enterprise TGC per MWh, Nuclear TGC per MWh and Hydroelectric TGC per MWh are found in the section, *Supplementary Non-GAAP Financial Measures*.

CORE BUSINESS, STRATEGY, AND OUTLOOK

The discussion in this section is qualified in its entirety by the cautionary statements included in the section, *Forward-Looking Statements,* at the beginning of the MD&A.

OPG's mission is to provide low cost power in a safe, clean, reliable and sustainable manner for the benefit of its customers and its Shareholder. OPG also seeks to pursue, on a commercial basis, generation development projects and other business growth opportunities to the benefit of the Shareholder.

The following sections provide an update to OPG's disclosures in the 2017 annual MD&A related to its four key strategic imperatives – operational excellence, project excellence, financial strength, and social licence. A detailed discussion of these strategic imperatives is included in the 2017 annual MD&A in the section, *Core Business, Strategy, and Outlook*.

Operational Excellence

Operational excellence at OPG is accomplished by the safe and environmentally responsible generation of reliable and cost-effective electricity from the Company's generating assets through a highly trained and engaged workforce.

Public Safety

To ensure continued public safety, radiation exposure to members of the public resulting from the operation of OPG's nuclear generating stations is estimated on an annual basis for individuals living or working near the stations. The annual dose to the public resulting from operations of each nuclear facility is expressed in microsieverts (μSv), which is an international unit of radiation dose measurement. For 2017, the annual public doses resulting from the Darlington GS operations and the Pickering Nuclear GS (Pickering GS) operations were 0.7 μSv and 1.8 μSv, respectively, which is approximately 0.1 percent and 0.2 percent of the annual legal limit of 1,000 μSv, respectively.

Electricity Generation Production and Reliability

The status updates for OPG's electricity generation portfolio as of March 31, 2018 are summarized below:

- OPG's current five-year operating licence for the Pickering GS was approved by the CNSC in 2013 and expires on August 31, 2018. This current licence was issued assuming that the station would shut down in 2020. As previously announced, OPG is continuing to execute on a plan to extend safe and reliable operation of the Pickering GS to 2024. In June 2017, OPG confirmed to the CNSC that it intends to cease commercial operation of all Pickering units on December 31, 2024. In August 2017, OPG submitted a ten-year licence renewal application to the CNSC in line with the plan to extend commercial operation to December 31, 2024 and place the station in a safe storage state in 2028. The first public hearing for the Pickering GS licence renewal application took place on April 4, 2018 and provided an opportunity for OPG to present its submission to the CNSC that outlined how the Pickering GS meets technical requirements and is qualified to continue operations. The final set of public hearings will take place between June 26 and June 28, 2018. Based on the evidence and documentation submitted to the CNSC, OPG continues to believe it is well positioned to obtain a licence renewal that would support its extended operations plan for the Pickering GS to 2024.
- In 2016, OPG submitted applications with the CNSC seeking a ten-year licence renewal for the Pickering Waste Management Facility (PWMF) to August 31, 2028. On February 7, 2018, following public hearings in April 2017, the CNSC announced that the PWMF licence was renewed for a ten-year period and will be valid until August 31, 2028.
- During the first quarter of 2018, OPG completed the overhaul and rehabilitation of Unit 1 of the Sir Adam Beck Pump hydroelectric GS to ensure reliable unit operation for approximately the next 20 years, as well as the overhaul and upgrade of Unit 1 of the Harmon hydroelectric GS, which increased the station's generating capacity by 8 MW.
- Definition phase work for the frequency conversion of Units 1 and 2 of the Sir Adam Beck 1 hydroelectric GS and the overhaul and upgrade of the R.H. Saunders hydroelectric GS units commenced during the first quarter of 2018.
- As part of the process to decommission the Nanticoke GS, OPG safely demolished the station's stacks in February 2018. The removal of the powerhouse and associated structures is in progress. A competitive bidding process for the demolition of the Lambton GS is continuing, with a contract for the removal of the powerhouse and associated structures expected to be issued during 2018. The costs of the decommissioning activities are charged to a previously established decommissioning provision.

Environmental Performance

In February 2018, the CNSC released sampling results from its 2017 independent environmental monitoring program, which confirmed that the public and environment around the Pickering GS are protected and that there are no expected health impacts. Samples were collected in publicly accessible areas outside the Pickering GS site perimeter and included air, lake water, soil, and wild vegetation. Samples of food were also taken from a local farm near the Pickering GS.

In the first quarter of 2018, the Government of Canada introduced legislation to amend the *Fisheries Act* (Bill C-68) and to replace the *Canadian Environmental Assessment Act, 2012* with a more comprehensive *Impact Assessment Act* (Bill C-69). If passed by Parliament, this legislation could introduce new regulatory requirements to further protect fish and fish habitat, and for assessing designated projects. OPG is reviewing the proposed changes and exploring opportunities to mitigate any associated risks.

Disclosures related to the Company's environmental policy and environmental risks can be found in OPG's 2017 annual MD&A.

People and Culture

A well trained and engaged workforce is fundamental to the achievement of OPG's strategic imperatives. To succeed in a demanding business environment, OPG is focused on building a diverse, healthy, engaged workforce and fostering a culture of collaboration, accountability and innovation. OPG also continues to communicate and implement the values and behaviours expected from its employees in order to maintain a strong focus on safety, performance excellence, continuous improvement, and corporate citizenship.

In March 2018, the Employee Assistance Society of North America awarded OPG the annual Corporate Award of Excellence. These awards are given to organizations that showcase the excellence, innovation and impact of employee assistance programs in the workplace with a view to enhance employee well-being and support a healthy and productive working environment. OPG was recognized for its commitment to an organizational culture that values safety and good mental health as critical components of the organization's success.

Project Excellence

OPG is pursuing a number of generation development and other major projects in support of Ontario's electricity planning initiatives. The status updates for OPG's major projects as of March 31, 2018 are outlined below.

Project *(millions of dollars)*	Capital expenditures Year-to-date	 Life-to-date	Approved budget	Expected in-service date	Current status
Darlington Refurbishment	241	4,675	12,800 [1]	First unit - 2020 Last unit - 2026	The removal of existing Unit 2 reactor components was completed in early May 2018, with the installation of new components commencing thereafter. Planning activities for the refurbishment of Unit 3 are continuing. The overall project is tracking on schedule and to the $12.8 billion budget.
Ranney Falls Hydroelectric GS	8	36	77	2019	Construction is continuing in the expanded forebay, powerhouse and spillway area. Fabrication of the sectional gates and two head gates has been completed. Turbine and generator unit fabrication is in progress. The project is tracking on schedule and on budget.
Nanticoke Solar Facility	5	8	107	2019	Significant contracts for equipment and engineering construction services were executed and site preparation commenced in the first quarter of 2018. The facility is expected to be completed in the first quarter of 2019.
Deep Geologic Repository (DGR) for Low and Intermediate Level Radioactive Waste (L&ILW)	- [2]	208 [2]			In August 2017, the federal Minister of Environment and Climate Change requested further information related to the project's environmental assessment (EA). OPG is continuing to work on a response to this information request.

[1] The total project budget of $12.8 billion is for the refurbishment of all four units at the Darlington GS. Project costs that do not meet capitalization criteria are charged to OM&A expenses in the period incurred.

[2] Expenditures are charged against the Nuclear Liabilities.

Darlington Refurbishment

The Darlington generating units are approaching their originally designed end-of-life. Refurbishment of the four generating units is expected to extend the operating life of the station by approximately 30 years. The approved budget for the four-unit refurbishment is $12.8 billion, which includes the costs of the prerequisite projects in support of the execution phase of the refurbishment. The first refurbished unit is scheduled to be returned to service in the first quarter of 2020 and the last unit is scheduled to be completed by 2026.

OPG commenced the refurbishment of the first unit, Unit 2, in October 2016. The de-fuelling of the reactor and islanding of Unit 2, the physical separation of the unit under refurbishment from the three operating units, was completed in the first half of 2017, signifying the completion of the first major segment of the Unit 2 refurbishment.

The second major segment included the disassembly and removal of the existing reactor components. In early May 2018, OPG completed the removal of the reactor components, which included end fittings, pressure tubes, and calandria tubes, signifying the completion of the second major segment of the Unit 2 refurbishment.

The Unit 2 refurbishment has now transitioned into the third major segment, the installation and reassembly of reactor components, including new feeder tubes and fuel channel assemblies. Construction activities on the Heavy Water Storage and Drum Handling Facility are continuing.

In February 2018, the Government of Ontario confirmed its commitment to proceed with the refurbishment of the second unit at the Darlington GS, Unit 3. In March 2018, OPG's Board of Directors approved the funding to complete planning and prerequisite activities for the Unit 3 refurbishment. The planning activities are progressing in accordance with the overall project schedule. OPG is ensuring that lessons learned from the Unit 2 refurbishment are appropriately incorporated into the Unit 3 refurbishment. OPG is also entering into commitments to procure major components that require long lead times. The prerequisite activities have commenced, with the Unit 3 refurbishment execution expected to commence upon the return to service of Unit 2. As of March 31, 2018, $137 million has been invested in planning and prerequisite activities related to the Unit 3 refurbishment.

The Darlington Refurbishment project continues to track on schedule and to the $12.8 billion budget.

Ranney Falls Hydroelectric GS

In 2017, OPG began construction work on a 10 MW single-unit powerhouse on the existing Ranney Falls GS site. The new unit will replace an existing unit that reached its end of life in 2014. Construction continues in the expanded forebay, powerhouse and spillway area. Fabrication of the sectional gates and two head gates has been completed, with assembly and site delivery in progress. Turbine and generator unit fabrication is also in progress. The project's expected in-service date is in the fourth quarter of 2019, with a budget of $77 million. The project is tracking on schedule and on budget. The Ranney Falls GS is included in the Regulated – Hydroelectric segment.

Nanticoke Solar Facility

The project encompasses the construction of a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands under a contract with the IESO, through Nanticoke Solar LP, a partnership between OPG and a subsidiary of the Six Nations of Grand River Development Corporation. Significant contracts for equipment and engineering construction services were executed and site preparation commenced in the first quarter of 2018. The facility is expected to be completed in the first quarter of 2019, with a budget of $107 million. The project is included in the Contracted Generation Portfolio segment.

Deep Geologic Repository for Low and Intermediate Level Waste

OPG has proposed a deep geologic repository as the preferred solution for the safe long-term management of the L&ILW produced from the continued operation of OPG-owned nuclear generating stations. Agreement has been reached with local municipalities for OPG to develop the L&ILW DGR on lands adjacent to OPG's Western Waste Management Facility (WWMF) in Kincardine, Ontario.

Before the CNSC can make licensing decisions for the proposal, an EA must be conducted. The environmental effects of the proposed L&ILW DGR were examined by the CNSC and Canadian Environmental Assessment Agency (CEAA)-appointed Joint Review Panel (JRP) to meet the requirements of the *Canadian Environmental Assessment Act* as well as the project specific Environmental Impact Statement Guidelines. The JRP submitted its report on the EA to the federal Minister of Environment in May 2015, concluding that, given mitigation, there is unlikely to be significant environmental impact from the project and recommending that the Minister approve the EA. In December 2016, at the request of the federal Minister of Environment and Climate Change, OPG submitted additional information on certain aspects of the EA, with further information provided in May 2017 at the request of the CEAA. In June 2017, the CEAA notified OPG that it had sufficient and adequate information to proceed with the next step of the EA process and advised that a draft report and updated terms and conditions would be prepared for public review.

In August 2017, the federal Minister of Environment and Climate Change requested OPG to update its analysis of potential cumulative effects of the project on the Saugeen Ojibway Nation's (SON) physical and cultural heritage, including a description of the potential effects of the project on the SON's spiritual and cultural connection to the land, taking into account the results of the SON Community Process. OPG continues its engagement with the SON towards securing support for the project and to formulate a response to the information request.

The L&ILW DGR at the WWMF site remains OPG's preferred solution for the safe long-term management of the L&ILW. The in-service date of the L&ILW DGR is expected to be approximately six to seven years from the start of construction.

Financial Strength

As a commercial enterprise, OPG's financial priority is to achieve a consistent level of strong financial performance that delivers an appropriate level of return on the Shareholder's investment and positions the Company for future expansion.

Increasing Revenue, Reducing Costs and Achieving Appropriate Return

In line with its commercial mandate, OPG is focused on increasing revenue and net income and achieving an appropriate rate of return on the Shareholder's investment, while taking into account the impact on Ontario electricity customers by seeking further efficiencies in the Company's cost structure.

For the regulated operations, achievement of the above objectives is largely dependent on outcomes of applications for regulated prices to the OEB and growth of the asset base earning a return as part of the regulated prices.

The OEB's December 2017 decision and March 2018 payment amounts order establishing new regulated prices effective June 1, 2017 provide substantial price certainty for the regulated business up to 2021. While the OEB set costs for determining the new regulated prices below OPG's forecasted levels, including through the use of stretch factors under incentive ratemaking, the new regulated prices will result in a substantial increase in revenue and net income compared to the previously approved prices.

To further improve the financial strength of the regulated operations, OPG continues to focus on optimizing operational performance and outage plans across the generating fleet and pursue further efficiency improvements in the Company's cost structure and operating model. This includes continuing to progress the multi-year OPG25 initiative, which involves identifying and implementing a coordinated set of plans and targets to ensure the optimization of the Company's longer-term operating model, business strategies and organizational design between now and the planned end of Pickering commercial operation in 2024.

OPG's capital structure currently reflects lower levels of debt than the deemed capital structure of 45 percent equity and 55 percent debt maintained by the OEB's December 2017 decision on new regulated prices. OPG continues to evaluate strategies to enhance Shareholder returns by optimizing the Company's capital structure through better alignment with the deemed capital structure, taking into account the overall financial strength of the Company and the potential impact on the Company's investment grade credit rating.

Consistent with the OEB's December 2017 decision, later in 2018, OPG plans to file an application with the OEB requesting disposition of the Pension & OPEB Cash Versus Accrual Differential Deferral Account balance as at December 31, 2017 and the balances accumulated between December 31, 2015 and December 31, 2017 in other variance and deferral account balances. If approved by the OEB, recovery of these balances would contribute to improved cash flow from operations.

Ensuring Availability of Cost Effective Funding

In April 2018, DBRS Limited (DBRS) re-affirmed the long-term credit rating on OPG's debt at 'A (low)' and OPG's commercial paper rating at 'R-1 (low)'. All ratings from DBRS have a stable outlook.

Social Licence

As the largest electricity generator in Ontario with diverse operations across the province, OPG holds itself accountable to the public and its employees, and continues to focus on maintaining public trust. OPG is committed to maintaining high standards of public safety and corporate citizenship, including environmental stewardship, transparency, community engagement, and Indigenous relations.

OPG is focused on building long-term, mutually beneficial working relationships with Indigenous communities, businesses and organizations across Ontario, and continues to support procurement, employment and educational opportunities with Indigenous communities. OPG seeks to establish these relationships based on a foundation of respect for the languages, customs, and political, social and cultural organizations of Indigenous communities. In the first quarter of 2018, the Dictionary of Moose Cree, an OPG-supported project that preserves the unique language and culture of the Moose Cree First Nation, was recognized by the Lieutenant Governor of Ontario. The language initiative was funded by OPG as a cultural project under the 2010 Amisk-oo-skow Agreement between OPG and the Moose Cree First Nation.

OPG's commitment in the area of Indigenous relations includes pursuing generation-related development partnerships on the basis of long-term commercial arrangements and other joint projects. In addition to the development of the Nanticoke solar facility in partnership with the Six Nations of the Grand River, OPG is currently working with the Kiashke Zaaging Anishinaabek (KZA), also known as the Gull Bay First Nation, to construct a new renewable micro grid that will utilize solar generation, battery storage, and micro grid control technology to reduce the community's reliance on diesel generation. As the lead developer of the project, OPG will work with several collaborators to construct the micro grid on KZA reserve land. Upon completion, the micro grid will be transferred to KZA for ownership and operation. The micro grid project is OPG's fifth development project in partnership with an Indigenous community.

OPG is committed to improving Indigenous access to procurement and employment opportunities, including increasing the profile of the nuclear generation industry in Indigenous communities. In 2018, this includes continuing to track the implementation of the Indigenous Business Engagement Initiative launched in 2017 to increase access to procurement opportunities for Indigenous businesses interested in supplying materials and services to OPG, and continuing to identify ways to increase the Indigenous representation in OPG's workforce. Recruitment initiatives include the launch of the Indigenous Opportunities in Nuclear program in the first quarter of 2018 using the Darlington Refurbishment project as a catalyst, and the continuing development of a dedicated Indigenous recruitment and retention strategy.

Outlook

The financial performance of OPG's regulated operations is driven, in large part, by the outcome of the Company's applications for regulated prices to the OEB.

In 2018, the full-year effect of the new regulated prices established by the OEB's December 2017 decision and March 2018 payment amounts order will contribute to an improvement in net income and ROE Excluding AOCI over the 2017 results. An improvement in cash flow from operating activities during the remainder of 2018, compared to 2017, is also expected, as OPG begins to collect revenue from the IESO based on new regulated prices as of March 1, 2018. The Fair Hydro Trust segment will also modestly improve cash flow from operating activities in 2018. OPG expects to continue to have the necessary financial capacity and sufficient access to cost effective financing sources to continue to fund its capital requirements and other disbursements, including purchases of subordinated debt issued by the Fair Hydro Trust (the Trust) to fund a portion of the Trust's acquisition of Investment Interests from the IESO, being the irrevocable right to recover Global Adjustment costs deferred by the IESO under the *Ontario Fair Hydro Plan Act, 2017* (Fair Hydro Act or the Act) and associated financing and other costs.

Several OEB-authorized regulatory variance and deferral accounts will continue to contribute to reducing the relative variability of the Company's net income and ROE Excluding AOCI. Among others, these accounts include those related to the revenue impact of variability in water flows and forgone production due to SBG conditions at the regulated hydroelectric stations. As there are no variance or deferral accounts in place related to the impact of generation performance of the nuclear stations on revenue from base regulated prices, the Regulated – Hydroelectric segment generally is expected to produce overall more predictable earnings. OPG continues to operate and maintain its nuclear facilities with a view to optimize their performance and availability, while focusing on improving the overall reliability and predictability of the fleet.

Electricity generated from most of OPG's non-regulated assets is subject to ESAs with the IESO or other long-term contracts. Based on these agreements, OPG expects the Contracted Generation Portfolio segment to continue to contribute a generally stable level of earnings and cash flow from operating activities going forward.

Lower nuclear generation due to the Darlington Refurbishment outages will continue, as planned, to negatively impact the Enterprise TGC and Nuclear TGC measures for the duration of the refurbishment project. Lower hydroelectric generation due to outages related to various refurbishment and operational projects may negatively impact Enterprise TGC and Hydroelectric TGC for the duration of these projects. Variability in sustaining capital investment expenditures and nuclear outage profile may also impact TGC measures in future periods.

OPG's total forecast capital expenditures for the 2018 year are approximately $2.1 billion. This includes amounts for the Darlington Refurbishment project, hydroelectric and other development projects including the Ranney Falls GS redevelopment and construction of the Nanticoke solar facility, and sustaining capital investments across the generating fleet. OPG's major projects are discussed in the section, *Project Excellence*.

In addition to the operating and financial performance of the electricity generation business, OPG's results are affected by earnings on the Nuclear Segregated Funds established under the Ontario Nuclear Funds Agreement (ONFA) between OPG and the Province, which are reported in the Regulated – Nuclear Waste Management segment. Variations in rates of return for the funds based on financial market conditions, including changes in the Ontario consumer price index (CPI) that affect earnings on the portion of the Used Fuel Segregated Fund guaranteed by the Province, can be volatile and cause fluctuations in the Company's income in the near term. This volatility is reduced by the impact of the OEB-authorized Bruce Lease Net Revenues Variance Account and during periods when the funds are in a fully funded or overfunded position. As at March 31, 2018, the Decommissioning Segregated Fund was overfunded by approximately 26 percent, and the Used Fuel Segregated Fund was marginally overfunded, by less than one percent, based on the current ONFA reference plan. Variability in asset performance due to volatility inherent in financial markets and changes in Ontario CPI, or changes in funding liability estimates, may result in either or both funds becoming underfunded in the future.

OPG's results include the earnings from the Fair Hydro Trust segment, primarily related to interest income from the Trust. Management expects that these earnings will increase in 2018 as additional Investment Interests are acquired. OPG's involvement as the Financial Services Manager under the Fair Hydro Act is expected to put downward pressure on ROE Excluding AOCI as a result of increases in shareholder's equity through future issuances of Class A shares to partially fund OPG's purchases of the Trust's subordinated debt, partially offset by the impact of incremental earnings from the Trust.

ENVIRONMENTAL, SOCIAL, GOVERNANCE, AND SUSTAINABILITY

OPG's Darlington and Pickering nuclear generating stations and renewable fleet of hydroelectric generating stations produce clean, reliable electricity with virtually no greenhouse gas emissions. However, OPG recognizes that efforts are required to plan for the impacts of climate change and has identified climate change adaptation as a strategic priority for the Company. OPG monitors developments in climate science, adaptation activities, and potential changes to policy and regulatory requirements, and is continuing to work with stakeholders to better define adaptation requirements.

OPG has established an Environmental, Social, Governance (ESG), and Sustainability steering committee consisting of a diverse group of representatives from various disciplines within the Company. The mandate of the committee is to evaluate the potential impact of environmental issues on the Company, oversee the development of a formal climate change strategy, assess and monitor the evolution of climate-related risks, and develop associated financial reporting disclosures.

OPG is in the process of developing its ESG and Sustainability framework to best reflect and disclose information that is meaningful to stakeholders. OPG plans to structure its ESG and Sustainability framework around four core themes:

- **Metrics and targets** to assess and manage relevant climate-related risks and opportunities;
- **Risk management** processes to identify, assess and manage climate-related risks;
- **Strategy** for incorporating climate change impacts into business planning and decision-making; and
- **Governance** for integrating the climate change strategy in the business.

In developing its ESG and Sustainability framework, OPG expects to leverage industry-specific and other emerging guidance on best practices related to ESG and Sustainability reporting and continues to monitor the Canadian Securities Administrators' project to review the disclosures of risks and financial impacts associated with climate change.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

(millions of dollars) (unaudited)	Three Months Ended March 31 2018	2017
Revenue	**880**	652
Fuel expense	**73**	68
Gross margin	**807**	584
Operations, maintenance and administration	**604**	589
Depreciation and amortization	**121**	107
Property taxes	**7**	6
Income (loss) before interest and income taxes	**75**	(118)

Income before income interest and income taxes from the segment increased by $193 million during the first quarter of 2018, compared to the same quarter in 2017. The increase in earnings was primarily due to an increase in revenue of $228 million, reflecting the impact of new regulated prices approved by the OEB in its December 2017 decision and March 2018 payment amounts order on OPG's application for new regulated prices, effective June 1, 2017. The higher earnings were also partially due to an increase in electricity generation of 0.4 TWh during the first quarter of 2018, compared to the same quarter in 2017, which contributed approximately $25 million to the year-over-year increase in revenue.

The increase in OM&A expenses of $15 million in the first quarter of 2018, compared to the same quarter in 2017, partially offset the increase in segment earnings. The increase in OM&A expenses was primarily due to higher services and materials costs associated with major planned outages.

Higher depreciation and amortization expenses of $14 million in the first quarter of 2018 were mainly due to new assets in service.

In the fourth quarter of 2017, OPG revised the accounting end-of-life assumptions for the Pickering GS from December 31, 2020 to December 31, 2022 for Units 1 and 4 and to December 31, 2024 for Units 5 to 8, and recorded a corresponding change in the nuclear asset retirement obligation and associated asset retirement costs capitalized as part of the carrying value of property, plant and equipment, effective December 31, 2017. The change in these end-of-life assumptions took into account technical assessments completed to date as part of OPG's plan to extend the commercial operation of the Pickering GS to 2024 and the safety case reflected in the Pickering GS licence renewal application submitted to the CNSC in 2017. The decrease in depreciation expense associated with the change in these end-of-life assumptions in the first quarter of 2018 was offset by the impact of regulatory variance and deferral accounts, including a new deferral account proposed by OPG in its December 2017 accounting order application to the OEB and subsequently authorized by the OEB on an interim basis pending a final decision on the application.

The Unit Capability Factors for the Darlington GS and Pickering GS were as follows:

	Three Months Ended March 31	
	2018	**2017**
Unit Capability Factor *(%)* [1]		
Darlington GS	**96.5**	85.3
Pickering GS	**74.5**	78.5

[1] The nuclear Unit Capability Factor excludes unit(s) during the period in which they are undergoing refurbishment. Accordingly, Unit 2 of the Darlington GS was excluded from the measure effective October 15, 2016, when the unit was taken offline for refurbishment.

The Unit Capability Factor at the Darlington GS increased in the first quarter of 2018, compared to the same quarter in 2017, primarily due to a lower number of planned outage days at the station in the first quarter of 2018.

The decrease in the Unit Capability Factor at the Pickering GS in the first quarter of 2018, compared to the same quarter in 2017, was primarily due to a higher number of planned outage days in the cyclical maintenance schedule at the station in the first quarter of 2018.

Regulated – Nuclear Waste Management Segment

	Three Months Ended March 31	
(millions of dollars) (unaudited)	**2018**	**2017**
Revenue	**33**	27
Operations, maintenance and administration	**33**	29
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**243**	234
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(210)**	(189)
Loss before interest and income taxes	**(33)**	(47)

Earnings from the segment improved by $14 million in the first quarter of 2018, compared to the same quarter in 2017. The improvement was primarily due to higher earnings from the Nuclear Segregated Funds, partially offset by an increase in accretion expense on the Nuclear Liabilities.

The year-over-year increase in earnings from the Nuclear Segregated Funds was primarily due to the growth rate in the present value of the underlying funding liabilities per the current approved ONFA reference plan in effect since January 1, 2017, as both the Decommissioning Segregated Fund and the Used Fuel Fund were in an overfunded position since the beginning of 2017 and were not impacted by market returns and the rate of return guaranteed by the Province for a portion of the Used Fuel Segregated Fund. When both funds are in an overfunded position, OPG limits the amount of Nuclear Segregated Funds assets reported on the balance sheet to the present value of the underlying life cycle funding liabilities per the most recently approved ONFA reference plan. Further details on the accounting for the Nuclear Segregated Funds can be found in OPG's 2017 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds*.

The year-over-year increase in accretion expense on the Nuclear Liabilities was mainly due to a higher amount of accretion expense deferred in regulatory variance and deferral accounts in the first quarter of 2017, due to costs not included in the nuclear base regulated price in effect prior to the OEB's December 2017 decision.

Regulated – Hydroelectric Segment

(millions of dollars) (unaudited)	Three Months Ended March 31 2018	2017
Revenue	**356**	363
Fuel expense	**65**	73
Gross margin	**291**	290
Operations, maintenance and administration	**80**	76
Depreciation and amortization	**36**	34
Other losses	**4**	-
Income before interest and income taxes	**171**	180

[1] During the three months ended March 31, 2018 and 2017, the Regulated – Hydroelectric segment revenue reflected incentive payments of $1 million and $8 million, respectively, related to the OEB-approved hydroelectric incentive mechanism. The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers. The incentive payments are reduced to remove incentive revenues arising in connection with SBG conditions.

Income before interest and income taxes from the segment decreased by $9 million during the first quarter of 2018, compared to the same quarter in 2017. The decrease in earnings was primarily due to lower hydroelectric incentive mechanism payments, higher OM&A expenses as a result of increased maintenance work programs, and retirement of replaced equipment.

The above factors were partially offset by the increase in revenue of approximately $5 million in the first quarter of 2018 to reflect the impact of new regulated prices approved by the OEB in its December 2017 decision and March 2018 payment amounts order, effective June 1, 2017.

The Hydroelectric Availability for the stations included in the Regulated – Hydroelectric segment was as follows:

	Three Months Ended March 31 2018	2017
Hydroelectric Availability *(%)*	**87.3**	89.5

The Hydroelectric Availability decreased in the first quarter of 2018, compared to the same period in 2017, primarily due to a higher number of unplanned outage days at the eastern and northeastern Ontario regions' regulated hydroelectric stations.

Contracted Generation Portfolio Segment

(millions of dollars) (unaudited)	Three Months Ended March 31 2018	2017
Revenue	**149**	143
Fuel expense	**17**	14
Gross margin	**132**	129
Operations, maintenance and administration	**41**	39
Depreciation and amortization	**20**	19
Accretion on fixed asset removal liabilities	**2**	2
Property taxes	**1**	2
Income from investments subject to significant influence	**(10)**	(10)
Income before interest and income taxes	**78**	77

Income before interest and income taxes from the segment in the first quarter of 2018 was comparable to the same quarter in 2017.

The increase in gross margin of $3 million in the first quarter of 2018 was primarily due to revenue from the Peter Sutherland Sr. GS that was placed in-service at the end of the first quarter of 2017. The increase in OM&A expenses of $2 million in the first quarter of 2018 reflected higher station expenditures at the Lennox GS.

The Hydroelectric Availability and the Thermal Equivalent Forced Outage Rate (EFOR) for the Contracted Generation Portfolio segment were as follows:

	Three Months Ended March 31 2018	2017
Hydroelectric Availability *(%)*	**80.1**	83.6
Thermal EFOR *(%)*	**0.3**	12.6

The Hydroelectric Availability decreased in the first quarter of 2018, compared to the same quarter in 2017, primarily due to a higher number of planned outage days as a result of the overhaul and upgrade of Unit 2 of the Little Long GS on the Lower Mattagami River.

The lower Thermal EFOR in the first quarter of 2018, compared to the same quarter in 2017, was primarily due to a higher number of unplanned outage days at a Lennox GS unit as a result of a transmission outage in the first quarter of 2017.

Fair Hydro Trust Segment

(millions of dollars) (unaudited)	Three Months Ended March 31 2018	2017
Earnings from Fair Hydro Trust	**4**	-
Income before interest and income taxes	**4**	-

The Fair Hydro Trust was established in December 2017 as the financing entity contemplated by the Fair Hydro Act, for the purpose of acquiring Investment Interests from the IESO. In order for the Trust to finance such acquisitions, it incurs senior debt from capital markets and subordinated debt from OPG. The Company consolidates the financial results of the Trust in accordance with US GAAP.

In March 2018 and April 2018, the Trust purchased Investment Interests from the IESO in the amount of $460 million and $149 million, respectively. Fifty-one percent of the funding requirements for each acquisition totalling approximately $311 million was financed by the Trust through a revolving warehouse facility ranked as senior notes, and the remaining 49 percent totalling approximately $298 million was funded through the following sources:

- the Province provided 44 percent of the funding requirements for each acquisition, or a total of $268 million, through equity injections in OPG in exchange for approximately 6.1 million non-voting Class A shares at a price of $43.74 per share; and
- OPG provided five percent of the funding requirements, or $30 million.

Earnings from Fair Hydro Trust were $4 million during the first quarter of 2018, primarily due to net interest income for the period.

Refer to the section, *Liquidity and Capital Resources* under the heading, *Financing Activities* for further details on the Trust's financing arrangements.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the Ontario Electricity Financial Corporation (OEFC), long-term corporate debt, including public debt offerings and notes payable to the OEFC, private placement project financing, and equity issuances. These sources are used for multiple purposes including: to invest in plants and technologies, to undertake major projects, to fund long-term obligations such as contributions to the pension fund and the Nuclear Segregated Funds, to make payments under the OPEB plans, to fund expenditures on Nuclear Liabilities not eligible for reimbursement from the Nuclear Segregated Funds, to service and repay long-term debt, to provide general working capital, and to fund a portion of OPG's purchases of subordinated debt issued by the Fair Hydro Trust.

Changes in cash, cash equivalents and restricted cash for the three months ended March 31, 2018 and 2017 were as follows:

	Three Months Ended March 31	
(millions of dollars) (unaudited)	**2018**	**2017**
Cash, cash equivalents and restricted cash, beginning of period	**234**	186
Cash flow provided by operating activities	**226**	168
Cash flow used in investing activities	**(604)**	(413)
Cash flow provided by financing activities	**472**	279
Net increase in cash, cash equivalents and restricted cash	**94**	34
Cash, cash equivalents and restricted cash, end of period	**328**	220

For a discussion of cash flow provided by operating activities, refer to the details in the section, *Highlights* under the heading, *Overview of Results*.

Investing Activities

Electricity generation is a capital-intensive business. It requires continued investment in plants and technologies to maintain and improve operating performance including asset reliability, safety and environmental performance, to increase the generating capacity of existing stations, and to invest in the development of new generating stations, emerging technologies and other business growth opportunities.

Cash flow used in investing activities during the first quarter of 2018 increased by $191 million compared to the same quarter in 2017. The increase in cash flow used in investing activities was primarily due to the Trust's acquisition of Investment Interest from the IESO in March 2018, partially offset by the receipt of proceeds from the sale of the former Lakeview GS site in March 2018.

Financing Activities

As at March 31, 2018, short-term debt outstanding was $260 million, consisting of $100 million of commercial paper outstanding under OPG's commercial paper program and $160 million of commercial paper outstanding under Lower Mattagami Energy Limited Partnership's commercial paper program.

As at March 31, 2018, long-term debt outstanding was $6,896 million, including $263 million due within one year and including the Fair Hydro Trust's senior debt reported on OPG's interim consolidated balance sheets. This included $1,400 million outstanding under OPG's $2,350 million general corporate credit facility agreement with the OEFC that expires on December 31, 2018. The Fair Hydro Trust's senior debt outstanding was $836 million as at March 31, 2018.

During the first quarter of 2018, OPG issued a total of $600 million senior notes payable to OEFC maturing in 2048. The effective and coupon interest rates on these notes ranged from 3.87 percent to 4.00 percent.

In December 2017, the Fair Hydro Trust entered into an $800 million two-year revolving senior warehouse facility agreement expiring in December 2019. As at March 31, 2018, there were outstanding senior notes of $336 million under this credit facility, $235 million of which was used to finance 51 percent of the Trust's funding requirement for the acquisition of the Investment Interest from the IESO in March 2018. An additional $76 million was issued under the credit facility in April 2018 to finance fifty-one percent of the Trust's funding requirement for the acquisition of the Investment Interest from the IESO in April 2018.

In February 2018, the Fair Hydro Trust issued $500 million of senior notes payable with a coupon interest rate of 3.36 percent and an effective interest rate of 3.44 percent, payable semi-annually until maturity in May 2033. The proceeds were used to repay the majority of the outstanding balance of the revolving warehouse facility issued by the Trust to provide a portion of the funding requirement for its first purchase of Investment Interest from the IESO in December 2017.

In April 2018, the Trust issued $400 million of senior notes payable with a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent, payable semi-annually until maturity in May 2038. The proceeds were used to repay the majority of the outstanding balance of the revolving warehouse facility after the Investment Interest acquisition in April 2018.

BALANCE SHEET HIGHLIGHTS

The following section provides other highlights of OPG's unaudited interim consolidated financial position using selected balance sheet data:

(millions of dollars) (unaudited)	As At March 31 2018	 December 31 2017
Property, plant and equipment – net	**21,515**	21,322
The increase was primarily due to capital expenditures on the Darlington Refurbishment and other projects, partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds *(current and non-current portions)*	**16,909**	16,724
The increase was primarily due to earnings on the Nuclear Segregated Funds, partially offset by reimbursement of eligible expenditures on nuclear fixed asset removal and nuclear waste management activities.		
Regulatory assets and liabilities – net *(current and non-current portions)*	**6,773**	6,637
The increase was primarily due to the recognition of the interim period revenue shortfall for January and February 2018 reflecting the OEB's December 2017 decision and March 2018 payment amounts order on new regulated prices, and an increase in the regulatory asset for deferred income taxes.		
Long-term debt *(current and non-current portions)*	**6,876**	6,319
The increase was primarily due to the issuance of senior notes payable to the OEFC of $600 million and the issuance of senior notes payable by the Fair Hydro Trust of $732 million. The increase was partially offset by debt repayments totalling $775 million.		
Fixed asset removal and nuclear waste management liabilities	**20,639**	20,421
The increase was primarily a result of accretion expense representing the increase in the present value liabilities due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities		

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities for OPG include guarantees and long-term contracts.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited consolidated financial statements as at and for the year ended December 31, 2017. A discussion of new accounting policies resulting from the adoption of new accounting standards effective January 1, 2018, recent accounting pronouncements, and changes in accounting estimates are included in Note 2 to OPG's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2018 under the heading, *Significant Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2017 annual MD&A.

Exemptive Relief for Reporting under US GAAP

In April 2018, OPG received an extension to its exemptive relief from the OSC requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP, rather than IFRS, without becoming a Securities and Exchange Commission registrant. This exemption replaces the exemptive relief received by OPG from the OSC in February 2014. The exemption will terminate on the earliest of the following:

- January 1, 2024;
- the financial year that commences after OPG ceases to have activities subject to rate regulation; and
- the effective date prescribed by the International Accounting Standards Board (IASB) for the mandatory application of a standard within IFRS specific to entities with rate-regulated activities.

As a result of adopting US GAAP in 2011 as required by the FAA regulation, OPG's plan to convert to IFRS, effective January 1, 2012, was discontinued. OPG had substantively completed the IFRS conversion project when it suspended the project. If a future transition to IFRS for the purposes of OPG's consolidated financial statements is required, conversion work can be effectively restarted with sufficient lead time to evaluate and conclude on changes that occurred subsequent to the decision to suspend the project. OPG continues to monitor the IASB's current standard-setting project related to entities with rate-regulated activities.

RISK MANAGEMENT

The following provides an update to the discussion of the Company's risks and risk management activities included in OPG's 2017 annual MD&A. As such, the disclosure in this section should be read in conjunction with the *Risk Management* section included in the annual MD&A.

Risks to Achieving Operational Excellence

Proposed Asbestos Regulations

The Government of Canada is in the final stages of developing new regulations to prohibit the use of asbestos and products containing asbestos. The proposed *Prohibition of Asbestos and Asbestos Products Regulations* are expected to come into effect in 2018. The proposed regulations would prohibit the import, sale and use of asbestos and the manufacture, import, sale and use of products containing asbestos, with a limited number of exclusions. The use of asbestos and products containing asbestos that were installed prior to the proposed regulations coming into force would not be prohibited.

OPG is assessing the impact of the proposed regulations, particularly affecting the use of certain critical spare parts and existing inventory within the nuclear fleet which contain asbestos. These spare parts may be required to address an emergent condition or to complete a maintenance outage to return a unit to operation. OPG has provided submissions to Environment and Climate Change Canada and to the CNSC outlining the impacts of the proposed regulations on the Company's nuclear operations.

Risks to Maintaining Financial Strength

Commodity Markets

Changes in the market price of fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations.

To manage the risk of unpredictable increases in the price of fuels, the Company has fuel hedging programs, which include using fixed price and indexed contracts.

The percentages hedged of OPG's fuel requirements are shown in the following table. These amounts are based on yearly forecasts of generation and supply mix and, as such, are subject to change as these forecasts are updated.

	2018 [1]	2019	2020
Estimated fuel requirements hedged [2]	79%	75%	77%

[1] Based on actual fuel requirements hedged for the three months ended March 31, 2018 and forecast for the remainder of the year.

[2] Represents the approximate portion of megawatt hours of expected generation production (and year-end inventory targets) from each type of OPG-operated facility (nuclear, hydroelectric and thermal) for which the Company has entered into contractual arrangements or obligations in order to secure the price of fuel, or which is subject to rate regulation. In the case of hydroelectric generation, this represents the gross revenue charge and water rental charges. Excess fuel inventories (nuclear and thermal) in a given year are attributed to the next year for the purpose of measuring hedge ratios.

Foreign Exchange

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are primarily denominated in or tied to US dollars. To manage this risk, OPG periodically employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at March 31, 2018, OPG had no foreign exchange contracts outstanding.

Trading

OPG's financial performance can be affected by its trading activities. OPG's electricity trading operations are closely monitored, with total exposures measured and reported to senior management on a daily basis. The main metric used to measure the financial risk of trading activity is Value at Risk (VaR). VaR is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For the first quarter of 2018, the VaR utilization ranged between nil and $1 million.

Credit

The Company's credit risk exposure is a function of its electricity sales, trading and hedging activities, treasury activities including investing and commercial transactions with various suppliers of goods and services. OPG's credit exposure relating to energy markets transactions as at March 31, 2018 was $449 million, including $436 million to the IESO. OPG's credit risk exposure relating to electricity sales is considered low as the majority of sales are through the IESO-administered spot market. The IESO oversees the credit worthiness of all market participants. In accordance with the IESO's prudential support requirements, market participants are required to provide collateral to cover funds that they might owe to the market. Of the $13 million remaining exposure as at March 31, 2018, over 95 percent was with investment grade counterparties. Other major components of OPG's credit risk exposure include those associated with vendors that are contracted to provide services or products. OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that the Company holds appropriate collateral or other forms of security.

RELATED PARTY TRANSACTIONS

Given that the Province owns all of the outstanding common shares and Class A shares of OPG, related parties include the Province and other entities controlled by the Province.

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One Limited (Hydro One), the IESO, and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As a wholly owned government business enterprise of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions are summarized below:

	Three Months Ended March 31			
	2018		**2017**	
(millions of dollars) (unaudited)	**Income**	**Expense**	**Income**	**Expense**
Hydro One				
Electricity sales	**4**	**-**	4	-
Services	**-**	**5**	1	5
Dividends	**2**	**-**	2	-
Province of Ontario				
Change in Decommissioning Segregated Fund amount due to Province [1]	**-**	**(2)**	-	163
Change in Used Fuel Segregated Fund amount due to Province [1]	**-**	**(21)**	-	217
Hydroelectric gross revenue charge	**-**	**28**	-	28
ONFA guarantee fee	**-**	**-**	-	2
OEFC				
Hydroelectric gross revenue charge	**-**	**38**	-	38
Interest expense on long-term notes	**-**	**37**	-	41
Income taxes, net of investment tax credits	**-**	**53**	-	12
IESO				
Electricity related revenue	**1,232**	**-**	1,067	-
Fair Hydro Trust	**11**	**-**	-	-
	1,249	**138**	1,074	506

[1] The Nuclear Segregated Funds are reported on the consolidated balance sheets net of amounts recognized as due to the Province in respect of excess funding and, for the Used Fuel Segregated Fund, the Province's rate of return guarantee. As at March 31, 2018 and December 31, 2017, the Nuclear Segregated Funds were reported net of amounts due to the Province of $4,439 million and $4,462 million, respectively.

The receivables, financing receivables, equity securities, payable and long-term debt balances between OPG and its related parties are summarized below:

(millions of dollars) (unaudited)	**March 31 2018**	**December 31 2017**
Receivables from related parties		
Hydro One	**1**	1
IESO – Electricity related receivables	**436**	354
IESO – Fair Hydro Trust [1]	**7**	7
OEFC	**2**	-
PEC	**4**	4
Province of Ontario	**2**	3
Financing receivables		
IESO – Fair Hydro Trust	**1,639**	1,179
Equity securities		
Hydro One shares	**170**	188
Accounts payable and accrued charges		
Hydro One	**-**	1
OEFC	**35**	52
Province of Ontario	**11**	9
IESO − Electricity related payables	**1**	5
IESO – Fair Hydro Trust	**1**	3
Long-term debt (including current portion)		
Notes payable to OEFC	**3,520**	3,195

[1] Balance consists of unbilled cost recovery revenue.

OPG may hold Province of Ontario bonds and treasury bills in the Nuclear Segregated Funds and the OPG registered pension fund. As at March 31, 2018, the Nuclear Segregated Funds held $1,319 million of Province of Ontario bonds (December 31, 2017 – $1,502 million) and $1 million of Province of Ontario treasury bills (December 31, 2017 – $9 million). As at March 31, 2018, the registered pension fund did not hold Province of Ontario bonds or treasury bills (December 31, 2017 – $1 million of Province of Ontario treasury bills). These Province of Ontario bonds and treasury bills are publicly traded securities and are measured at fair value. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

In March and April 2018, the Fair Hydro Trust purchased Investment Interests from the IESO for an exchange amount of $460 million and $149 million, respectively, which have been classified as financing receivables on OPG's unaudited interim consolidated balance sheets. The transactions were settled in cash using proceeds from the Trust's issuance of senior debt to third parties and subordinated debt to OPG. Pursuant to the general regulation of the Fair Hydro Act, the IESO is required to pay and remit carrying costs of the Trust, excluding repayment of principal on any debt obligations, up to July 31, 2021. Commencing May 1, 2021, residential, farm, small businesses and other eligible customers will be invoiced by their local distribution company for the Clean Energy Adjustment to pay the carrying costs of the Trust and principal on debt. These funds will be remitted to the Trust through the IESO and will be used to settle all funding and other related expenses of the Trust that underlie the financing receivables. The three-month overlap in 2021 is intended to cover the billing and collections lag from the introduction of the Clean Energy Adjustment.

As at March 31, 2018, OPG's unaudited interim consolidated balance sheets included approximately $7 million of unbilled cost recovery revenue from the IESO (December 31, 2017 – $7 million), primarily for OPG's general fee for 2017 as the Financial Services Manager under the Act relating to incurred third-party and certain direct labour costs.

The Province has provided a limited guarantee to specified creditors of the Fair Hydro Trust. The limited guarantee would be triggered in the event that the Trust's ability to receive amounts in respect of its Investment Interests to pay for certain funding obligations is adversely affected due to one or more of the following: the Province changes the Fair Hydro Act or any other legislation or regulation; a significant change in Ontario's electricity market undertaken by the Province; or a court declares that the Act is invalid or unconstitutional.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

The Company maintains a comprehensive system of policies, procedures, and processes that represents its framework for internal controls over financial reporting and for its disclosure controls and procedures (together, ICOFR). There were no changes in the Company's internal control system during the current interim period that has or is reasonably likely to have a material impact to the ICOFR.

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected annual financial from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

(millions of dollars – except where noted) *(unaudited)*	**March 31 2018**	**December 31 2017**	**September 30 2017**	**June 30 2017**
Revenue	**1,407**	**1,619**	**1,217**	**1,146**
Net income	**539**	**366**	**140**	**307**
Less: Net income attributable to non-controlling interest	**4**	**4**	**9**	**4**
Net income attributable to the Shareholder	**535**	**362**	**131**	**303**
Earnings per share, attributable to the Shareholder *(dollars)*	**$1.99**	**$1.41**	**$0.51**	**$1.18**

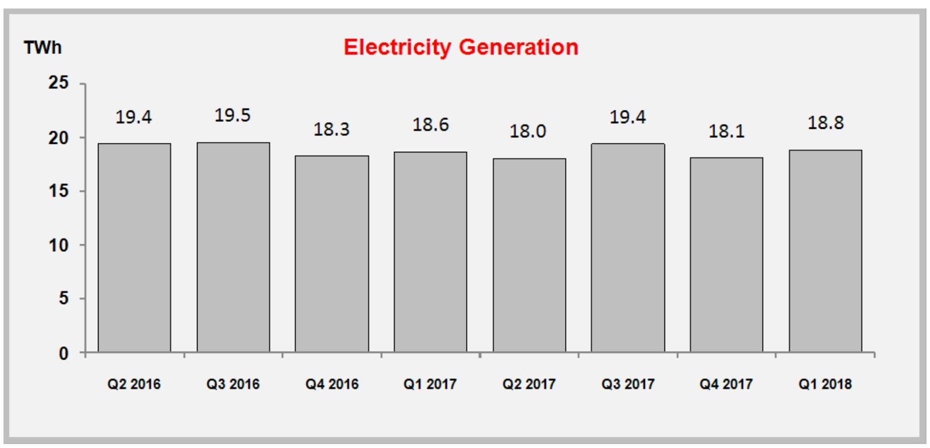
(millions of dollars – except where noted) *(unaudited)*	**March 31 2017**	**December 31 2016**	**September 30 2016**	**June 30 2016**
Revenue	1,176	1,388	1,400	1,387
Net income (loss)	68	(8)	198	135
Less: Net income attributable to non-controlling interest	4	5	4	3
Net income (loss) attributable to the Shareholder	64	(13)	194	132
Earnings per share, attributable to the Shareholder *(dollars)*	$0.25	($0.05)	$0.76	$0.51

Trends

OPG's quarterly results are affected by changes in grid-supplied electricity demand, primarily resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the province. Weather conditions affect water flows, electricity demand, and prevalence of SBG conditions. Historically, OPG's revenues have been higher in the first quarter of a fiscal year as a result of winter heating demands and in the third quarter due to air conditioning and cooling demands. The financial impact of forgone production due to SBG conditions at the regulated hydroelectric stations and the financial impact of differences between forecast water flows reflected in OEB-approved regulated prices and the actual water flows are mitigated by OEB-authorized regulatory variance and deferral accounts (regulatory accounts).

The outage cycle at each of OPG's nuclear generating stations determines the number and frequency of planned outages in a particular year. The outage cycle is designed to ensure the continued safe and reliable long-term operations of the plant and its compliance with CNSC regulatory requirements. The frequency of planned outages under the outage cycle may result in year-over-year variability in OPG's operating results, including the impact on revenue and OM&A expenses. In addition, the timing of planned outages at a nuclear generating station during the year can cause variability in year-over-year operating results for partial periods of a fiscal year but is not a significant driver of variability for full fiscal year results. The Unit 2 refurbishment outage at the Darlington GS, which began in October 2016 and is continuing, has reduced electricity generation starting in the fourth quarter of 2016.

OPG's financial results are also affected by earnings on the Nuclear Segregated Funds, net of the impact of the Bruce Lease Net Revenues Variance Account. The volatility of earnings on the Nuclear Segregated Funds is mitigated by their funded status.



SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income and other financial information in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP, and therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A would utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present measures consistent with the Company's strategies to provide value to the Shareholder, improve cost performance, and ensure availability of cost effective funding. These non-GAAP financial measures have not been presented as an alternative to net income or any other measure in accordance with US GAAP, but as indicators of operating performance.

The definitions of the non-GAAP financial measures are as follows:

(1) ROE Excluding AOCI is defined as net income attributable to the Shareholder divided by average equity attributable to the Shareholder excluding AOCI, for the period.

ROE Excluding AOCI is measured over a 12-month period and is calculated as follows:

	Twelve Months Ended	
(millions of dollars – except where noted) (unaudited)	**March 31 2018**	**December 31 2017**
ROE Excluding AOCI		
Net income attributable to the Shareholder	**1,331**	860
Divided by: Average equity attributable to the Shareholder, excluding AOCI	**11,602**	11,351
ROE Excluding AOCI *(percent)*	**11.5**	7.6

(2) Enterprise Total Generating Cost per MWh is used to measure OPG's overall organizational cost performance. Enterprise TGC per MWh is defined as OM&A expenses (excluding the Darlington Refurbishment project and other generation development project costs, the impact of regulatory accounts, the Fair Hydro Trust segment, and expenses ancillary to OPG's electricity generation business), fuel expense for OPG-operated stations including hydroelectric gross revenue charge and water rental payments (excluding the impact of regulatory accounts), and capital expenditures (excluding the Darlington Refurbishment project and other generation development projects) incurred during the period, divided by total electricity generation from OPG-operated generating stations plus electricity generation forgone due to SBG conditions during the period.

	Three Months Ended March 31	
(millions of dollars – except where noted) (unaudited)	**2018**	**2017**
Enterprise TGC		
Total OM&A expenses	**722**	708
Total fuel expense	**155**	155
Total capital expenditures	**359**	408
Less: Darlington Refurbishment capital and OM&A costs	**(259)**	(309)
Less: Other generation development project capital and OM&A costs	**(17)**	(17)
Add (Less): OM&A and fuel expenses deferred in (refundable through) regulatory accounts	**26**	(11)
Less: Nuclear fuel expense for non OPG-operated stations	**(15)**	(13)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	**6**	11
Less: OM&A expenses ancillary to electricity generation business	**(4)**	(5)
Other adjustments	**-**	(2)
	973	925
Adjusted electricity generation *(TWh)*		
Total OPG electricity generation	**18.8**	18.6
Adjust for electricity generation forgone due to SBG conditions and OPG's share of electricity generation from co-owned facilities	**0.7**	0.7
	19.5	19.3
Enterprise TGC per MWh *($/MWh)* [1]	**49.84**	**47.86**

[1] Amounts may not calculate due to rounding.

(3) Nuclear Total Generating Cost per MWh is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as OM&A expenses of the Regulated – Nuclear Generation segment (excluding the Darlington Refurbishment project costs, the impact of regulatory accounts, and expenses ancillary to the nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding the Darlington Refurbishment project costs) incurred during the period, divided by nuclear electricity generation for the period.

	Three Months Ended March 31	
(millions of dollars – except where noted) (unaudited)	**2018**	**2017**
Nuclear TGC		
Regulated – Nuclear Generation OM&A expenses	**604**	589
Regulated – Nuclear Generation fuel expense	**73**	68
Regulated – Nuclear Generation capital expenditures	**313**	366
Less: Darlington Refurbishment capital and OM&A costs	**(259)**	(309)
Add (Less): Regulated – Nuclear Generation OM&A and fuel expenses deferred in (refundable through) regulatory accounts	**24**	(2)
Less: Nuclear fuel expense for non OPG-operated stations	**(15)**	(13)
Less: Regulated – Nuclear Generation OM&A expenses ancillary to electricity generation business	**(2)**	(1)
Other adjustments	**(1)**	-
	737	698
Nuclear electricity generation *(TWh)*	**10.4**	10.0
Nuclear TGC per MWh *($/MWh)* [1]	**70.90**	69.87

[1] Amounts may not calculate due to rounding.

(4) Hydroelectric Total Generating Cost per MWh is used to measure the cost performance of OPG's hydroelectric generating assets. Hydroelectric TGC per MWh is defined as OM&A expenses of the Regulated – Hydroelectric segment and the hydroelectric facilities included in the Contracted Generation Portfolio segment (excluding generation development project costs, the impact of regulatory accounts, and expenses ancillary to the hydroelectric electricity generation business), hydroelectric gross revenue charge and water rental payments (excluding the impact of regulatory accounts), and capital expenditures of the Regulated – Hydroelectric segment and the hydroelectric facilities included in the Contracted Generation Portfolio segment (excluding expenditures related to the Ranney Falls GS and other hydroelectric generation development projects) incurred during the period, divided by total hydroelectric electricity generation plus hydroelectric electricity generation forgone due to SBG conditions during the period. OPG reports hydroelectric gross revenue charge and water rental payments as fuel expense.

	Three Months Ended March 31	
(millions of dollars – except where noted) (unaudited)	**2018**	**2017**
Hydroelectric TGC		
Regulated – Hydroelectric OM&A expenses	**80**	76
Regulated – Hydroelectric fuel expense	**65**	73
Contracted Generation Portfolio OM&A expenses	**41**	39
Contracted Generation Portfolio fuel expense	**17**	14
Regulated – Hydroelectric and Contracted Generation Portfolio capital expenditures	**36**	37
Less: Regulated – Hydroelectric and Contracted Generation Portfolio generation development project capital and OM&A costs	**(18)**	(16)
Less: Thermal OM&A and fuel expenses and capital expenditures in the Contracted Generation Portfolio	**(44)**	(39)
Add (Less): Regulated – Hydroelectric OM&A and fuel expenses deferred in (refundable through) regulatory accounts	**2**	(9)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	**6**	11
Other adjustments	**-**	(1)
	185	185
Adjusted hydroelectric electricity generation *(TWh)*		
Regulated – Hydroelectric electricity generation	**7.7**	8.0
Contracted Generation Portfolio electricity generation	**0.7**	0.6
Adjust for hydroelectric electricity generation forgone due to SBG conditions and non-hydroelectric electricity generation of the Contracted Generation Portfolio, including OPG's share of electricity generation from co-owned facilities	**0.7**	0.7
	9.1	9.3
Hydroelectric TGC per MWh *($/MWh)* [1]	**20.42**	19.79

[1] Amounts may not calculate due to rounding.

(5) Gross margin is defined as revenue less fuel expense.

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ONTARIO POWER GENERATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

MARCH 31, 2018

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2018**	**2017**
Revenue	**1,407**	1,176
Fuel expense	**155**	155
Gross margin	**1,252**	1,021
Operations, maintenance and administration	**722**	708
Depreciation and amortization	**186**	167
Accretion on fixed asset removal and nuclear waste management liabilities	**247**	238
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(210)**	(189)
Earnings from Fair Hydro Trust *(Note 16)*	**(4)**	-
Income from investments subject to significant influence	**(10)**	(10)
Property taxes	**9**	11
	940	925
Income before other gains, interest and income taxes	**312**	96
Other gains *(Note 19)*	**259**	3
Income before interest and income taxes	**571**	99
Net interest expense *(Note 5)*	**19**	19
Income before income taxes	**552**	80
Income tax expense *(Note 8)*	**13**	12
Net income	**539**	68
Net income attributable to the Shareholder	**535**	64
Net income attributable to non-controlling interest	**4**	4
Basic and diluted earnings per share *(dollars) (Note 14)*	**1.99**	0.25

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2018**	**2017**
Net income	**539**	68
Other comprehensive income, net of income taxes *(Note 9)*		
Reclassification to income of amounts related to pension and other post-employment benefits [1]	**3**	3
Reclassification to income of losses on derivatives designated as cash flow hedges [2]	**4**	4
Unrealized gain on equity securities [3]	**-**	5
Other comprehensive income for the period	**7**	12
Comprehensive income	**546**	80
Comprehensive income attributable to the Shareholder	**542**	76
Comprehensive income attributable to non-controlling interest	**4**	4

[1] Net of income tax expenses of $1 million for each of the three months ended March 31, 2018 and 2017.
[2] Net of income tax expenses of $1 million for each of the three months ended March 31, 2018 and 2017.
[3] Net of income tax expense of nil and $1 million for the three months ended March 31, 2018 and 2017, respectively.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2018**	**2017**
Operating activities		
Net income	**539**	68
Adjust for non-cash items:		
Depreciation and amortization	**186**	167
Accretion on fixed asset removal and nuclear waste management liabilities	**247**	238
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(210)**	(189)
Pension and other post-employment benefit costs *(Note 10)*	**99**	113
Deferred income taxes	**(6)**	11
Regulatory assets and regulatory liabilities	**(141)**	(28)
Other gains *(Note 19)*	**(257)**	(1)
Other	**(13)**	(4)
Expenditures on fixed asset removal and nuclear waste management	**(63)**	(76)
Reimbursement of eligible expenditures on nuclear fixed asset removal and nuclear waste management	**23**	22
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	**(79)**	(88)
Distributions received from investments subject to significant influence	**12**	14
Net changes to other long-term assets and long-term liabilities	**43**	38
Net changes to non-cash working capital balances *(Note 17)*	**(154)**	(117)
Cash flow provided by operating activities	**226**	168
Investing activities		
Acquisition of Fair Hydro Trust financing receivables	**(460)**	-
Proceeds from deposit note	**-**	45
Net proceeds from sale of property, plant and equipment	**273**	-
Investment in property, plant and equipment and intangible assets	**(417)**	(458)
Cash flow used in investing activities	**(604)**	(413)
Financing activities		
Issuance of Class A shares *(Note 13)*	**202**	-
Issuance of OPG long-term debt *(Note 5)*	**600**	200
Repayment of OPG long-term debt	**(275)**	(50)
Issuance of Fair Hydro Trust long-term debt *(Note 5)*	**732**	-
Repayment of Fair Hydro Trust long-term debt	**(500)**	-
Distribution to non-controlling interest	**(4)**	(4)
Dividend to the Province's Consolidated Revenue Fund *(Note 18)*	**(283)**	-
Issuance of short-term debt	**1,295**	589
Repayment of short-term debt	**(1,295)**	(456)
Cash flow provided by financing activities	**472**	279
Net increase in cash, cash equivalents and restricted cash	**94**	34
Cash, cash equivalents and restricted cash, beginning of period	**234**	186
Cash, cash equivalents and restricted cash, end of period	**328**	220

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2018**	**December 31 2017**
Assets		
Current assets		
Cash, cash equivalents and restricted cash *(Note 3)*	**328**	234
Equity securities	**170**	188
Receivables from related parties	**452**	369
Nuclear fixed asset removal and nuclear waste management funds	**23**	23
Fuel inventory	**299**	309
Materials and supplies	**96**	103
Regulatory assets *(Note 4)*	**259**	-
Prepaid expenses	**196**	192
Income taxes recoverable	**10**	-
Other current assets	**98**	146
	1,931	1,564
Property, plant and equipment	**30,292**	29,950
Less: accumulated depreciation	**8,777**	8,628
	21,515	21,322
Intangible assets	**576**	565
Less: accumulated amortization	**440**	432
	136	133
Other assets		
Nuclear fixed asset removal and nuclear waste management funds	**16,886**	16,701
Financing receivables	**1,639**	1,179
Long-term materials and supplies	**352**	355
Regulatory assets *(Note 4)*	**7,107**	7,231
Investments subject to significant influence	**307**	309
Other long-term assets	**32**	28
	26,323	25,803
	49,905	48,822

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	**March 31 2018**	**December 31 2017**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**1,119**	1,228
Short-term debt *(Note 6)*	**260**	260
Deferred revenue due within one year	**9**	12
Long-term debt due within one year *(Note 5)*	**263**	398
Income taxes payable	**-**	80
Regulatory liabilities *(Note 4)*	**19**	-
	1,670	1,978
Long-term debt *(Note 5)*	**6,613**	5,921
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Note 7)*	**20,639**	20,421
Pension liabilities	**3,389**	3,423
Other post-employment benefit liabilities	**3,118**	3,092
Long-term accounts payable and accrued charges	**252**	252
Deferred revenue	**368**	351
Deferred income taxes	**917**	879
Regulatory liabilities *(Note 4)*	**574**	594
	29,257	29,012
Equity		
Common shares *(Note 13)*	**5,126**	5,126
Class A shares *(Note 13)*	**721**	519
Retained earnings	**6,632**	6,396
Accumulated other comprehensive loss *(Note 9)*	**(279)**	(295)
Equity attributable to the Shareholder	**12,200**	11,746
Equity attributable to non-controlling interest	**165**	165
Total equity	**12,365**	11,911
	49,905	48,822

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2018**	**2017**
Common shares *(Note 13)*	**5,126**	5,126
Class A shares *(Note 13)*		
Balance at beginning of period	**519**	-
Issuance of Class A shares	**202**	-
Balance at end of period	**721**	-
Retained earnings		
Balance at beginning of period	**6,396**	5,534
Reclassification of cumulative unrealized losses on equity securities to opening retained earnings *(Note 2)*	**(9)**	-
Adjustment to recognize income tax effects of intercompany transfer of assets to opening retained earnings *(Note 2)*	**(7)**	-
	6,380	5,534
Net income attributable to the Shareholder	**535**	64
Dividend to the Province's Consolidated Revenue Fund *(Note 18)*	**(283)**	-
Balance at end of period	**6,632**	5,598
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	**(295)**	(295)
Reclassification of cumulative unrealized losses on equity securities to opening retained earnings *(Note 2)*	**9**	-
	(286)	(295)
Other comprehensive income	**7**	12
Balance at end of period	**(279)**	(283)
Equity attributable to the Shareholder	**12,200**	10,441
Equity attributable to non-controlling interest		
Balance at beginning of period	**165**	143
Distribution to non-controlling interest	**(4)**	(4)
Income attributable to non-controlling interest	**4**	4
Balance at end of period	**165**	143
Total equity	**12,365**	10,584

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three months ended March 31, 2018 and 2017 include the accounts of Ontario Power Generation Inc. (OPG or the Company) and its subsidiaries. The Company consolidates its interest in entities over which it is able to exercise control and attributes the results to its sole shareholder, the Province of Ontario (Province). Interests owned by other parties are reflected as non-controlling interest. These interim consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP). These interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of the Company as at and for the year ended December 31, 2017. All dollar amounts are presented in Canadian dollars.

As required by *Ontario Regulation 395/11,* as amended, under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. Since January 1, 2012, OPG also has received exemptive relief from the Ontario Securities Commission (OSC) from the requirements of section 3.2 of National Instrument 52-107, *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP, rather than International Financial Reporting Standards (IFRS), without becoming a US Securities and Exchange Commission registrant.

In April 2018, OPG received an extension to its previous exemptive relief from the OSC. The exemptive relief will now terminate on the earliest of the following:

- January 1, 2024
- The financial year that commences after OPG ceases to have activities subject to rate regulation
- The effective date prescribed by the International Accounting Standards Board for the mandatory application of a standard within IFRS specific to entities with rate regulated activities.

All dollar amounts are presented in Canadian dollars, unless otherwise noted. Certain 2017 comparative amounts have been reclassified from financial statements previously presented to conform to the 2018 interim consolidated financial statement presentation.

Use of Management Estimates

The preparation of interim consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the interim consolidated financial statements, and the reported amounts of revenues and expenses for the reporting periods. Management evaluates these estimates on an ongoing basis based upon historical experience, current conditions, and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefit (OPEB) balances, asset retirement obligations and associated asset retirement costs capitalized as part of property, plant and equipment, income taxes (including deferred income taxes), contingencies, regulatory assets and regulatory liabilities, valuation of derivative instruments and investments in segregated funds, depreciation and amortization expenses, and inventories. Actual results may differ significantly from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

New Accounting Standards Effective in 2018

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes nearly all existing revenue recognition guidance, including industry-specific guidance, under US GAAP. The core principle of Topic 606 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services.

Effective January 1, 2018, OPG adopted Topic 606, including relevant practical expedients, utilizing the modified retrospective approach to implement the transition. No differences in the timing or amount of revenue recognition were identified as a result of the adoption of the new standard. The adoption of Topic 606 has required OPG to amend its accounting policy with respect to revenue recognition, as described below.

Revenue from Contracts with Customers – Regulated Generation

Energy revenue generated from OPG's regulated facilities is based on regulated prices determined by the Ontario Energy Board (OEB) that include base regulated prices and, as applicable, rate riders for the recovery or repayment of approved variance and deferral account balances. The revenues from the regulated hydroelectric facilities are also subject to the OEB-approved hydroelectric incentive mechanism. This mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers.

All of OPG's electricity generation is offered into the real-time energy spot market administered by the Independent Electrical System Operator (IESO). For electricity generated from its regulated nuclear and regulated hydroelectric facilities, OPG receives payment from the IESO on a monthly basis based on regulated prices authorized by the OEB. OPG's performance obligation with respect to regulated generation is to supply electricity generated from its regulated nuclear and regulated hydroelectric facilities to the wholesale electricity market in Ontario. The Company has determined that this performance obligation is satisfied over time; OPG utilizes the output method under Topic 606 to recognize revenue by applying the relevant base regulated price and rate riders as applicable to each unit of electricity generated and metered to the IESO. This methodology reflects the real-time nature of electricity generation and the underlying performance obligation, of which no portion remains unsatisfied at the end of the applicable reporting period. During interim rate periods authorized by the OEB, revenue is recognized on the basis of interim regulated prices set by the OEB. In instances where a subsequent OEB decision results in a difference between final regulated prices retroactively effective for the interim period and the interim regulated prices, OPG records the resulting adjustment to revenue in connection with that period based on the OEB's decision. Any resulting revenue shortfall in connection with the interim rate period is collected prospectively from the IESO in the manner authorized by the OEB. OPG's receivables in connection with electricity generated from its regulated nuclear and regulated hydroelectric facilities are part of the Company's electricity related receivables from the IESO, representing OPG's unconditional right to payment for satisfying its performance obligation wherein only the passage of time is required before payment is received. For further discussion, refer to Note 11.

Regulated prices currently in effect for OPG's regulated nuclear and regulated hydroelectric generation were established by the OEB's December 2017 decision and March 2018 payment amounts order on OPG's 2016 application for new regulated prices for the 2017-2021 period. In the decision, the OEB set an effective date for the new base regulated prices of June 1, 2017. Pursuant to the decision, the new base regulated prices are determined on an incentive ratemaking methodology for the hydroelectric facilities and under a custom incentive regulation framework for the nuclear facilities. For the hydroelectric facilities, the new base regulated prices are determined using a formula that annually escalates the previously approved regulated prices, subject to some adjustments, based on an industry-specific weighted inflation factor reflecting indices published annually by the OEB, less a stretch factor adjustment. For the nuclear facilities, the new base regulated prices are determined under a rate smoothing approach that defers a portion of the approved nuclear revenue requirement for future collection in the Rate Smoothing Deferral Account authorized by the OEB pursuant to *Ontario Regulation 53/05*, with the objective of making changes in OPG's production-weighted average nuclear and hydroelectric regulated price more stable year over year. The nuclear revenue requirement for each of the years is based on the OEB-allowed level of operating costs including depreciation and amortization expenses and a return on rate base, less a stretch factor adjustment. Rate base is a regulatory construct that, for OPG, represents the average net level of investment in regulated fixed and intangible assets in-service and an allowance for working capital. The difference between the non-deferred portion of the nuclear revenue requirement, calculated by multiplying the nuclear base regulated price determined under rate smoothing and the OEB-approved forecast of OPG's nuclear electricity production for the year, and the total approved nuclear revenue requirement for that year determines the portion of the revenue requirement deferred for future collection in the Rate Smoothing Deferral Account. See Note 4 for further information on the March 2018 payment amounts order and the Rate Smoothing Deferral Account.

Base regulated prices in effect during the period January 1, 2017 to May 31, 2017 were established by the OEB's November 2014 decision and December 2014 order, using a forecast cost-of-service rate-setting methodology based on the OEB-approved revenue requirements, taking into account the OEB-approved forecasts of production and operating costs (including depreciation and amortization expenses) for the regulated facilities for 2014 and 2015 and a return on rate base.

Revenue from Contracts with Customers – Non-regulated Generation and Other Contract Revenue

The electricity generation from OPG's non-regulated assets receives the Ontario electricity spot market price, except where an energy supply agreement (ESA) with the IESO or another contractual agreement is in place. The IESO is the counterparty to all ESAs and other contractual arrangements that are currently in effect. As at December 31, 2017, most of OPG's operating non-regulated generating assets are subject to an ESA. As permitted by the practical expedient within Topic 606, revenue from the generating stations subject to an ESA is recognized in the amount that OPG has a right to invoice on a monthly basis to the IESO as the Company satisfies its performance obligation in accordance with the terms of the agreement to supply energy and capacity from the applicable facilities to Ontario's wholesale energy market. No portion of OPG's performance obligation remains unsatisfied at the end of any applicable reporting period. OPG estimates revenues for variable or conditional amounts under each ESA using a most likely amount approach on a contract-by-contract basis. Variable consideration under each ESA is included in revenue only to the extent that it is probable that the amount will not be subject to significant reversal when the underlying uncertainty is resolved. OPG's receivables in connection with electricity generated from its non-regulated assets are part of the Company's electricity related receivables from the IESO, representing OPG's unconditional right to payment for satisfying its performance obligation wherein only the passage of time is required before payment is received. For further discussion, refer to Note 11.

OPG also sells into, and purchases from, interconnected markets of other provinces and the northeast and mid-west regions of the United States. Under these arrangements, OPG's performance obligation is to either physically supply energy or provide capacity, depending on the contract, to a counterparty in a control area outside of Ontario. All contracts that are not designated as hedges are recorded on the consolidated balance sheets at market value, with gains or losses recorded in the consolidated statements of income. Gains and losses on energy trading contracts (including those to be physically settled) are recorded on a net basis in the consolidated statements of income.

OPG also derives non-energy revenue under the terms of a lease arrangement and associated, non-lease agreements with Bruce Power L.P. (Bruce Power) related to the Bruce nuclear generating stations. The associated agreements include revenue from heavy water sales, detritiation services and nuclear waste management services. Revenues under these associated agreements are recognized as services are provided or when products are delivered, therein satisfying OPG's performance obligation.

In addition, non-energy revenue includes isotope sales and other service revenues. Revenues from these activities are recognized as the respective performance obligations are satisfied, in accordance with the terms stipulated in the respective contracts.

Revenue Recognition – Leasing Revenue

The minimum lease payments stemming from OPG's lease arrangement with Bruce Power related to the Bruce nuclear generating stations are recognized in revenue on a straight-line basis over the term of the lease. Similarly, revenue from real estate rentals is recognized over the term of the lease as the Company renders the requisite services outlined in the respective contracts.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. Under the updated guidance, entities are required to measure equity investments at fair value and recognize any changes in fair value in net income. The update is effective for OPG's 2018 fiscal year, including interim periods. As a result of this update, effective January 1, 2018, the available-for-sale (AFS) classification for securities is no longer available. Effective January 1, 2018, any unrealized gains and losses related to equity securities are recognized in net income instead of other comprehensive income.

As a result of the adoption of the new guidance, the unrealized cumulative after-tax loss of $9 million on AFS securities reported by OPG in Accumulated Other Comprehensive Income as at December 31, 2017 was reclassified to opening retained earnings as of January 1, 2018. There were no other impacts on OPG's consolidated financial statements upon adoption of the new guidance, other than to replace the accounting policy for AFS securities with a new policy for holdings of equity securities as described below.

Equity Securities

Equity securities held by OPG are measured at fair value, with gains and losses due to changes in fair value recognized within other gains and losses in the consolidated statement of income. Related transaction costs are expensed as incurred, and dividend income is included in net income in the period in which dividends are declared. Equity securities are initially measured at the transaction price.

Restricted Cash Disclosures

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted* Cash (a consensus of the FASB Emerging Issues Task Force), which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for OPG's 2018 fiscal year, including interim periods, and is applied retrospectively. The changes in disclosures required under this update are reflected in the interim consolidated statements of cash flows and Note 3.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

In March 2017, the FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits* (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Under the new guidance, employers that sponsor defined benefit plans for pensions and/or other postretirement benefits are required to present the service cost component of net periodic benefit cost in the same statement of income line item as other employee compensation costs arising from services rendered during the period. The other components of the net periodic benefit cost are to be presented separately from the line item that includes the service cost and outside of any subtotal of income from operations, if such a subtotal is presented. In addition, the new guidance requires that only the service cost component of net benefit cost be eligible for capitalization.

Effective January 1, 2018, OPG adopted the new provisions of Topic 715. Adoption of these provisions did not impact OPG's consolidated financial statements, as OPG capitalized only the service cost component of postretirement benefits costs prior to the adoption of the new guidance. Additionally, OPG previously included the service cost component of postretirement benefit costs with other compensation costs within Operating, maintenance and administration expenses in the consolidated statements of income, and did not show a subtotal of income from operations prior to the adoption of the new guidance. As such, the new guidance did not affect the presentation of OPG's consolidated financial statements nor result in changes in OPG's accounting policies.

Intra-entity Transfers of Assets Other than Inventory

In October 2016, the FASB issued ASU 2016-16, *Income Taxes* (Topic 740): *Intra-Entity Transfers of Assets Other than Inventory*, to amend existing guidance with respect to accounting for the income tax effects of intra-entity asset transfers within the consolidated group. Effective January 1, 2018, entities are required to recognize the income tax effects of all intra-entity asset transfers, with the exception of inventory, as soon as the transfer occurs. Previously, entities were required to defer recognition of such income tax effects until the asset was sold to a third party.

The update is effective for OPG beginning January 1, 2018 and is required to be applied on a modified retrospective basis. On adoption of the update, the Company recorded an adjustment reducing opening retained earnings by $7 million to reflect the associated deferred income tax liability resulting from the cumulative effect of OPG's transfer of assets, other than inventory, to the UMH Energy Limited Partnership (UMH) and the Lower Mattagami Energy Limited Partnership (LME) in prior years. Adoption of this update did not otherwise impact the Company's consolidated financial statements, other than through an addition to OPG's accounting policy for income taxes as described below.

Income Taxes – Intra-entity Transfers of Non-inventory Assets

The income tax impact of any intra-entity transfers of non-inventory assets is recognized upon the occurrence of the transfer.

Recent Accounting Pronouncements Not Yet Adopted

Lease Accounting

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) to replace existing lease accounting guidance under *Leases* (Topic 840). The update includes comprehensive changes to existing guidance, particularly for lessees, and aims to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet. The standard is effective for annual periods beginning after December 15, 2018, including interim periods within that year.

Under the current guidance related to the new leasing standard, entities are required to use a modified retrospective approach for leases that exist, or are entered into, after the beginning of the earliest comparative period presented in the financial statements of the period of adoption. Under this method, Topic 842 would effectively be implemented by recognizing any adjustments stemming from the transition as of the beginning of the earliest comparative period presented in the entity's financial statements. Full retrospective application is prohibited. In January 2018, the FASB issued a proposed ASU (ASU No. 2018-200) wherein entities would be able to utilize an additional optional transition method of recording the cumulative impact of adopting the new lease standard as an adjustment to opening balances in the initial period of adoption, with comparative periods continuing to be presented in accordance with Topic 840, including disclosures. The Company continues to monitor the status of this proposed ASU.

The FASB also issued ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842* in January 2018. The amendments therein allow an entity to choose not to evaluate under Topic 842 land easements that exist or have expired before the entity's adoption of the new leasing standard and that were not previously accounted for as leases under Topic 840.

The Company has implemented a comprehensive project governance framework to oversee the transition to the new leasing guidance, comprised of a Steering Committee, Implementation and Stakeholder Committee, Project Management Office, and various working groups in order to evaluate and implement the new standard. The working groups are represented by cross functional finance and non-finance stakeholders and will support the financial and operational implementation of the standard. Management has commenced procedures to provide assurance over the completeness of the population of leasing arrangements identified for assessment against the new guidance. The Company continues to evaluate the impact of the new leasing standard on its consolidated financial statements.

3. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash, cash equivalents and restricted cash include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. All other money market securities with a maturity on the date of purchase that is greater than 90 days, but less than one year, are recorded as short-term investments and classified as current assets. These securities are valued at the lower of cost and market.

Cash, cash equivalents, and restricted cash consist of the following:

As at *(millions of dollars)*	**March 31 2018**	**December 31 2017**
Cash and cash equivalents	**315**	230
Restricted cash	**13**	4
Total cash, cash equivalents and restricted cash	**328**	234

Restricted cash represents the Fair Hydro Trust's (the Trust) cash on deposit that is subject to contractual restrictions of the Trust's Master Trust Indenture. All of the Trust's bank accounts are under the name and exclusive control of its indenture trustee. Amounts on deposit are restricted in purpose and the distribution of use is subject to the order of payment priority outlined in the Trust's Master Trust Indenture.

4. REGULATORY ASSETS AND REGULATORY LIABILITIES

Through its March 2017 approval of a partial settlement agreement reached by OPG and interveners on a limited set of issues in OPG's May 2016 application for new regulated prices for the 2017-2021 period and its December 2017 decision on the application, the OEB approved OPG's request to recover amounts totalling $305 million related to previously recorded variance and deferral account balances, without adjustments. These approved amounts relate to the December 31, 2015 balances in all of the Company's OEB-authorized regulatory variance and deferral accounts (regulatory accounts), with the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, less amounts previously approved for recovery or repayment for these accounts in 2016. In January 2018, OPG submitted a draft payment amounts order to the OEB to reflect the December 2017 decision's findings.

In March 2018, the OEB issued the final payment amounts order on OPG's application for new regulated prices. With respect to variance and deferral accounts, the payment amounts order authorized OPG to collect, through rate riders on nuclear and regulated hydroelectric production, the approved amount of $305 million over the period March 1, 2018 to December 31, 2020, with 15 percent of the balance to be recovered between March 1, 2018 and December 31, 2018, 50 percent between January 1, 2019 and December 31, 2019, and 35 percent between January 1, 2020 and December 31, 2020. Any shortfall or over-recovery of the approved balance due to differences between actual and forecast production is to be recorded in the Nuclear Deferral and Variance Over/Under Recovery Variance Account and the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account authorized by the OEB.

Amortization of regulatory assets and regulatory liabilities for variance and deferral account balances approved for disposition in the OEB's March 2018 payment amounts order is recorded on a straight-line basis, effective March 1, 2018, based on the portion of the balances authorized to be collected during the applicable period.

The payment amount order set a rate smoothing approach and resulting nuclear base regulated prices effective June 1, 2017 such that no amounts are to be deferred in the Rate Smoothing Deferral Account for 2017 or 2018. Pursuant to the payment amounts order, approximately $500 million is to be deferred in the Rate Smoothing Deferral Account over the 2019-2021 period.

The approved rate smoothing approach and resulting nuclear base regulated prices represented an adjustment to the proposal in OPG's draft payment amounts order, which was the basis for management's best estimate of the increase in net revenue and corresponding increase in net regulatory assets recorded in the fourth quarter of 2017 related to the impact of the new regulated prices on the June 1, 2017 to December 31, 2017 period. To reflect the adjustment arising from the final payment amounts order, in the first quarter of 2018, OPG recorded a reduction of $67 million in the Interim Period Revenue Shortfall regulatory asset previously recognized as of December 31, 2017 and a reversal of the $63 million regulatory liability for the Rate Smoothing Deferral Account regulatory liability previously recognized as of December 31, 2017.

For the regulated hydroelectric facilities, the payment amounts order set base regulated prices for the June 1, 2017 to December 31, 2017 period and for the January 1, 2018 to December 31, 2018 period as calculated by OPG in the draft payment amounts order, based on the incentive regulation formula approved in the December 2017 decision and inflation indices published by the OEB. For the 2019-2021 period, the base regulated prices for the regulated hydroelectric facilities will be determined annually before the beginning of each year using the approved formula and published indices.

The payment amounts order authorized separate rate riders on nuclear and regulated hydroelectric production for the collection of the June 1, 2017 to February 28, 2018 interim period revenue shortfall over the period March 1, 2018 to December 31, 2020, with 15 percent of the balance to be recovered between March 1, 2018 and December 31, 2018, 50 percent between January 1, 2019 and December 31, 2019, and 35 percent between January 1, 2020 and December 31, 2020. The Interim Period Revenue Shortfall regulatory asset is reversed as these riders are collected.

The regulatory assets and regulatory liabilities recorded as at March 31, 2018 and December 31, 2017 are as follows:

(millions of dollars)	**March 31 2018**	**December 31 2017**
Regulatory assets		
Variance and deferral accounts authorized by the OEB		
Pension and OPEB Cost Variance Account	**712**	716
Pension & OPEB Cash Versus Accrual Differential Deferral Account	**655**	614
Hydroelectric Surplus Baseload Generation Variance Account	**387**	360
Bruce Lease Net Revenues Variance Account	**127**	121
Other variance and deferral accounts	**124**	124
	2,005	1,935
Interim Period Revenue Shortfall	**612**	544
Pension and OPEB Regulatory Asset *(Note 10)*	**3,806**	3,855
Deferred Income Taxes	**943**	897
Total regulatory assets	**7,366**	7,231
Less: current portion	**259**	-
Non-current regulatory assets	**7,107**	7,231
Regulatory liabilities		
Variance and deferral accounts authorized by the OEB		
Hydroelectric Water Conditions Variance Account	**167**	150
Pension & OPEB Cash Payment Variance Account	**157**	140
Changes in Station End-of-Life Dates Deferral Account	**103**	103
Other variance and deferral accounts	**166**	201
Total regulatory liabilities	**593**	594
Less: current portion	**19**	-
Non-current regulatory liabilities	**574**	594

As at March 31, 2018 and December 31, 2017, regulatory assets for other variance and deferral accounts included amounts for the Nuclear Deferral and Variance Over/Under Recovery Variance Account, the Nuclear Liability Deferral Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account, the Nuclear Development Variance Account, and the Fitness for Duty Deferral Account. As at March 31, 2018 and December 31, 2017, regulatory liabilities for other variance and deferral accounts included the amounts for the Capacity Refurbishment Variance Account, the Ancillary Services Net Revenue Variance Account, the Hydroelectric Incentive Mechanism Variance Account, the Income and Other Taxes Variance Account, and the SR&ED ITC Variance Account.

As at December 31, 2017, regulatory assets for other variance and deferral accounts also included amounts for the Rate Smoothing Deferral Account, which were reversed in the first quarter of 2018.

In January 2018, pursuant to an accounting order application filed by OPG in December 2017, the OEB authorized the establishment of a new Impact Resulting from Changes to Pickering Station End-of-Life Dates (December 31, 2017) Deferral Account, effective January 1, 2018, on an interim basis, pending a final decision on the application. The purpose of the account is to record the revenue requirement impact of the changes to nuclear fixed asset removal and nuclear waste management liabilities and depreciation and amortization expenses resulting from the changes to the accounting end-of-life assumptions for OPG's Pickering nuclear generating stations implemented effective December 31, 2017. As of March 31, 2018, OPG recognized a regulatory liability of $31 million related to the balance in the deferral account, which is included in other variance and deferral accounts.

5. LONG-TERM DEBT AND NET INTEREST EXPENSE

Long-term debt consists of the following:

(millions of dollars)	March 31 2018	December 31 2017
Senior notes payable to the Ontario Electricity Financial Corporation	**3,520**	3,195
Medium Term Notes	**500**	500
UMH Energy Partnership project debt	**181**	181
PSS Generating Station Limited Partnership project debt	**245**	245
Lower Mattagami Energy Limited Partnership project debt	**1,595**	1,595
Fair Hydro Trust senior debt	**836**	601
Other	**19**	19
	6,896	6,336
Less: unamortized bond issuance fees	**(20)**	(17)
Less: amounts due within one year	**(263)**	(398)
Long-term debt	**6,613**	5,921

In the first quarter of 2018, OPG issued a total of $600 million senior notes payable to the Ontario Electricity Financial Corporation maturing in 2048. The effective and coupon interest rates on these notes ranged from 3.87 percent to 4.00 percent.

In December 2017, the Fair Hydro Trust entered into an $800 million two-year revolving warehouse facility agreement with an expiry date of December 2019. In February 2018, the Fair Hydro Trust issued $500 million of senior notes payable with a coupon interest rate of 3.36 percent and an effective interest rate of 3.44 percent, payable semi-annually until maturity in May 2033. The proceeds were used to repay the majority of the outstanding balance of the revolving warehouse facility issued to provide a portion of the funding requirement for the Trust’s purchase of Investment Interest from the IESO in December 2017.

In March 2018, the Trust purchased an Investment Interest from the IESO in the amount of $460 million. Fifty-one percent of the funding requirement or approximately $235 million was financed by the Trust through the revolving warehouse facility, and the remaining 49 percent was funded through the issuance of subordinated debt to OPG. The outstanding balance of the revolving warehouse credit facility of $336 million has been classified as long-term debt as at March 31, 2018 reflecting the contractual terms of the facility agreement.

In April 2018, the Trust issued $400 million of senior notes payable with a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent, payable semi-annually until maturity in May 2038. The proceeds were used to repay the majority of the balance of the revolving warehouse facility outstanding after the April 2018 Investment Interest acquisition from the IESO of $149 million, of which $76 million was funded through this facility.

During the first quarter of 2018, $275 million of OPG long-term debt and $500 million of Fair Hydro Trust long-term debt were repaid.

The following table summarizes the net interest expense for the three months ended March 31 :

(millions of dollars)	**2018**	**2017**
Interest on long-term debt [1]	**70**	70
Interest income	**(1)**	-
Interest capitalized to property, plant and equipment and intangible assets	**(44)**	(42)
Interest related to regulatory assets and liabilities [2]	**(6)**	(9)
Net interest expense	**19**	19

[1] Excludes interest on Fair Hydro Trust senior debt and interest on OPG's debt attributed to funding a portion of OPG's purchase of the Trust's subordinated debt. These interest costs have been included in earnings from Fair Hydro Trust in the interim consolidated statements of income. Refer to Note 16 for further details.

[2] Includes interest to recognize the cost of financing related to regulatory accounts, as authorized by the OEB, and interest deferred in the Bruce Lease Net Revenues Variance Account, the Capacity Refurbishment Variance Account, the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account and, in 2018, the Impact Resulting from Changes to Pickering Station End-of life Dates (December 31, 2017) Deferral Account.

6. SHORT-TERM DEBT

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches expiring in May 2022. There were no amounts outstanding under the bank credit facility as at March 31, 2018 and December 31, 2017. There was $100 million of commercial paper outstanding under OPG's commercial paper program as at March 31, 2018 (December 31, 2017 – $100 million). The commercial paper program is used to provide short-term funding for the Company, at interest rates of approximately one percent and for less than one year in duration.

As at March 31, 2018, LME maintained a $400 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for LME's commercial paper program. The facility consists of a $300 million tranche maturing in August 2022 and a $100 million tranche maturing in August 2018. As at March 31, 2018, there was $160 million of commercial paper outstanding under LME's commercial paper program (December 31, 2017 − $160 million). A letter of credit of $55 million was issued in July 2017 and remains outstanding as at March 31, 2018 under the first tranche of LME's credit facility.

As at March 31, 2018, OPG maintained $25 million of short-term, uncommitted overdraft facilities and $464 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at March 31, 2018, a total of $390 million of Letters of Credit had been issued under these facilities. This included $353 million for the supplementary pension plans, $36 million for general corporate purposes, and $1 million related to the operation of the Portland Energy Centre.

The Company's short-term, uncommitted credit facilities include an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is $150 million, expiring on November 30, 2018. As at March 31, 2018, there were Letters of Credit outstanding under this agreement of $150 million, which were issued in support of OPG's supplementary pension plans.

UMH has entered into an $8 million short-term, uncommitted overdraft facility and $16 million of irrevocable, standby Letters of Credit facilities in support of its operations. As at March 31, 2018, total Letters of Credit of $15 million had been issued under these facilities.

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at March 31, 2018 and December 31, 2017 consist of the following:

As at *(millions of dollars)*	**March 31 2018**	**December 31 2017**
Liability for nuclear used fuel management	**12,112**	11,970
Liability for nuclear decommissioning and nuclear low and intermediate level waste management	**8,185**	8,107
Liability for non-nuclear fixed asset removal	**342**	344
Fixed asset removal and nuclear waste management liabilities	**20,639**	20,421

8. INCOME TAXES

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

Income tax expense in the first quarter of 2018 was reduced as a result of a refundable tax credit of $86 million arising on payment of the dividend during the quarter (see note 18), and a higher amount of deferred income tax expense recorded as a regulatory asset.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in the balance of each component of accumulated other comprehensive loss (AOCL), net of income taxes, are as follows:

	Three Months Ended March 31, 2018			
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and OPEB**	**Equity Securities**	**Total**
AOCL, beginning of period	**(66)**	**(220)**	**(9)**	**(295)**
Reclassification of cumulative unrealized losses on equity securities to opening retained earnings *(Note 2)*	**-**	**-**	**9**	**9**
	(66)	**(220)**	**-**	**(286)**
Amounts reclassified from AOCL	**4**	**3**	**-**	**7**
Other comprehensive income for the period	**4**	**3**	**-**	**7**
AOCL, end of period	**(62)**	**(217)**	**-**	**(279)**

(millions of dollars)	Three Months Ended March 31, 2017 Unrealized Gains and Losses on Cash Flow Hedges	Pension and OPEB	Equity Securities	Total
AOCL, beginning of period	(87)	(207)	(1)	(295)
Unrealized gain on equity securities	-	-	5	5
Amounts reclassified from AOCL	4	3	-	7
Other comprehensive income for the period	4	3	5	12
AOCL, end of period	(83)	(204)	4	(283)

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three months ended March 31, 2018 and 2017 are as follows:

(millions of dollars)	Amount Reclassified from AOCL 2018	2017	Statement of Income Line Item
Amortization of losses from cash flow hedges			
Losses	**5**	5	Net interest expense
Income tax recovery	**(1)**	(1)	Income tax expense
	4	4	
Amortization of amounts related to pension and OPEB			
Actuarial losses	**4**	4	See (1) below
Income tax recovery	**(1)**	(1)	Income tax expense
	3	3	
Total reclassifications for the period	**7**	7	

1 These AOCL components are included in the computation of pension and OPEB costs (see Note 10 for additional details).

10. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG's pension and OPEB costs for the three months ended March 31, 2018 and 2017 are as follows:

(millions of dollars)	Registered Pension Plans 2018	2017	Supplementary Pension Plans 2018	2017	Other Post-Employment Benefits 2018	2017
Components of Cost Recognized for the Period						
Current service costs	**83**	68	**2**	1	**20**	17
Interest on projected benefit obligation	**142**	137	**3**	3	**26**	27
Expected return on plan assets, net of expenses	**(205)**	(191)	**-**	-	**-**	-
Amortization of net actuarial loss [1]	**49**	46	**2**	2	**2**	-
Costs recognized [2]	**69**	60	**7**	6	**48**	44

1 The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase for the three months ended March 31, 2018 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of $49 million (three months ended March 31, 2017 − $44 million).

2 These pension and OPEB costs for the three months ended March 31, 2018 exclude the net reduction of costs of $25 million from the recognition of changes in the regulatory assets for the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Pension & OPEB Cash Payment Variance Account (three months ended March 31, 2017 − net addition of costs of $3 million).

11. RISK MANAGEMENT AND DERIVATIVES

OPG is exposed to risks related to changes in market interest rates on debt expected to be issued in the future and movements in foreign currency that affect the Company's assets, liabilities, and forecasted transactions. Select derivative instruments are used to manage such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Interest rate risk is the risk that the value of assets and liabilities can change due to movements in related interest rates. Interest rate risk for OPG arises with the need to refinance existing debt and/or undertake new financing. The management of these risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are denominated in, or tied to, US dollars. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when appropriate, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the IESO administered spot market. Market participants in the IESO spot market provide collateral in accordance with the IESO prudential support requirements to cover funds that they might owe to the market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. OPG's electricity related accounts receivable from the IESO constituted of $436 million as at March 31, 2018 (December 31, 2017 − $354 million). The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at March 31, 2018 was less than $1 million.

The fair value of the outstanding derivatives totalled a net liability of $14 million as at March 31, 2018 (December 31, 2017 − $20 million).

Existing pre-tax net losses of $19 million deferred in AOCL as at March 31, 2018 are expected to be reclassified to net income within the next 12 months.

12. FAIR VALUE MEASUREMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices as at the interim 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. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments. The fair value hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing as at the interim consolidated balance sheet dates. 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. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques are used to value these instruments. Significant Level 3 inputs include: recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors. The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for these investments. The values may also differ from the prices at which the investments may be sold.

Transfers into, out of, or between fair value hierarchy levels are deemed to occur on the date of the event or change in circumstances that causes the transfer to occur.

The fair value of the investments within the Nuclear Segregated Funds' real assets portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, references to current fair values of other investments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value. Pooled funds are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices.

Certain investments within the Nuclear Segregated Funds' real assets portfolio are measured at fair value by their investment managers using net asset value (NAV). Investments measured at NAV as a practical expedient for determining their fair value are excluded from the fair value hierarchy.

The following is a summary of OPG's financial instruments and their fair value as at March 31, 2018 and December 31, 2017:

	Fair Value		Carrying Value [1]		
(millions of dollars)	**2018**	**2017**	**2018**	**2017**	**Balance Sheet Line Item**
Nuclear Segregated Funds (includes current portion) [2]	**16,909**	16,724	**16,909**	16,724	Nuclear fixed asset removal and nuclear waste management funds
Financing receivables	**1,655**	1,179	**1,639**	1,179	Financing receivables
Investment in Hydro One shares	**170**	188	**170**	188	Equity securities
Payable related to cash flow hedges	**(38)**	(40)	**(38)**	(40)	Long-term accounts payable and accrued charges
Long-term debt – OPG (includes current portion)	**(6,539)**	(6,234)	**(6,060)**	(5,735)	Long-term debt
Long-term debt – Fair Hydro Trust	**(847)**	(601)	**(836)**	(601)	Long-term debt
Other financial instruments	**(5)**	(16)	**(5)**	(16)	Various

[1] The carrying values of other financial instruments included in cash, cash equivalents and restricted cash, receivables from related parties, other current assets, short-term debt, and accounts payable and accrued charges approximate their fair values due to the immediate or short-term maturity of these financial instruments.

[2] The Nuclear Segregated Funds are comprised of the Decommissioning Segregated Fund and the Used Fuel Segregated Fund. OPG's fair value of the Nuclear Segregated Funds is set not to exceed an amount equal to the funding liability pursuant to the Ontario Nuclear Funds Agreement when the Nuclear Segregated Funds are in a surplus position.

The fair value of the Fair Hydro Trust long-term senior debt including the warehouse credit facility and OPG's long-term debt issued under the Medium Term Note Program is based on indicative pricing from the market. The fair value of these debt instruments is based on Level 2 inputs. The fair value of all other long-term debt instruments is determined based on a conventional pricing model, which is a function of future cash flows, the current market yield curve and term to maturity. These inputs are considered Level 2 inputs.

For the financing receivables related to the Investment Interests acquired from the IESO, fair value is based on projected cash flows and expected returns on the financing receivables. Therefore, the fair value of the financing receivables is based on Level 3 inputs.

The following tables present financial assets and financial liabilities measured at fair value in accordance with the fair value hierarchy as at March 31, 2018 and December 31, 2017:

	March 31, 2018			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Used Fuel Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**6,096**	**4,693**	**-**	**10,789**
Investments measured at NAV [1]				**1,378**
				12,167
Due to Province				**(2,508)**
Used Fuel Segregated Fund, net				**9,659**
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**4,567**	**3,482**	**-**	**8,049**
Investments measured at NAV [1]				**1,132**
				9,181
Due to Province				**(1,931)**
Decommissioning Segregated Fund, net				**7,250**
Equity securities	**170**	**-**	**-**	**170**
Other financial assets	**5**	**-**	**10**	**15**
Liabilities				
Other financial liabilities	**(20)**	**-**	**-**	**(20)**

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the interim consolidated balance sheets.

(millions of dollars)	December 31, 2017 Level 1	Level 2	Level 3	Total
Assets				
Used Fuel Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	6,090	4,705	-	10,795
Investments measured at NAV [1]				1,292
				12,087
Due to Province				(2,529)
Used Fuel Segregated Fund, net				9,558
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	4,547	3,487	-	8,034
Investments measured at NAV [1]				1,065
				9,099
Due to Province				(1,933)
Decommissioning Segregated Fund, net				7,166
Equity securities	188	-	-	188
Other financial assets	5	3	6	14
Liabilities				
Other financial liabilities	(28)	(2)	-	(30)

[1] Represents investments measured at fair value using NAV as a practical expedient, which have not been classified in the fair value hierarchy. The fair value amounts for these investments presented in this table are intended to permit the reconciliation of the fair value hierarchy to amounts presented on the interim consolidated balance sheets.

During the period ended March 31, 2018, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into or out of Level 3.

The following table presents the changes in OPG's net assets measured at fair value that are classified as Level 3 financial instruments.

(millions of dollars)	Other financial instruments
Opening balance, January 1, 2018	**6**
Realized losses included in revenue	**(5)**
Purchases	**9**
Closing balance, March 31, 2018	**10**

Investments Measured at Net Asset Value

The following are the classes of investments within the Nuclear Segregated Funds that are reported on the basis of NAV as at March 31, 2018:

(millions of dollars except where noted)	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Real Assets				
Infrastructure	**1,412**	**805**	**n/a**	**n/a**
Real Estate	**994**	**487**	**n/a**	**n/a**
Agriculture	**104**	**91**	**n/a**	**n/a**
Pooled Funds				
Short-term Investments	**33**	**n/a**	**Daily**	**1-5 days**
Fixed Income	**461**	**n/a**	**Daily**	**1-5 days**
Equity	**972**	**n/a**	**Daily**	**1-5 days**
Total	**3,976**	**1,383**		

The fair value of the pooled funds is classified as Level 2. Infrastructure, real estate and agriculture investments are measured using NAV as a practical expedient for determining their fair value.

<u>Infrastructure</u>

This asset class includes investments in funds and assets with an objective to generate a combination of long-term capital appreciation and current income, generally through private investments in sectors such as energy, transportation, communication and utilities. The fair values of investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments in the respective funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments are liquidated. It is not possible to estimate when the underlying assets in this asset class will be liquidated.

<u>Real Estate</u>

This asset class includes investments in funds and assets with an objective to generate a combination of long-term capital appreciation and current income, generally through investments in institutional-grade real estate property. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments in the respective funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each real estate fund will be received based on the operations of the underlying investments and/or as the underlying investments are liquidated. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this asset class will be liquidated.

<u>Agriculture</u>

This asset class includes investments in funds and assets with an objective to provide a differentiated return source, income yield, and inflation protection, generally through private investments in global farmland and timberland. The fair values of the investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in these investments. The investments in the respective funds are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each agriculture fund will be received based on the operations of the underlying investments and/or as the underlying investments are liquidated. It is not possible to estimate when the underlying assets in this asset class will be liquidated.

Pooled Funds

This asset class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations, and diversified portfolios of Emerging Market listed equity. The investment objective of the pooled funds is to achieve capital appreciation and income through professionally managed portfolios. The fair value of the investments in this class has been estimated using NAV per share of the investments. There are no significant restrictions on the ability to sell the investments in this class.

13. SHARE CAPITAL

Common Shares

As at March 31, 2018 and December 31, 2017, OPG had 256,300,010 common shares issued and outstanding at a stated value of $5,126 million. OPG is authorized to issue an unlimited number of common shares without nominal or par value. Any issue of new shares is subject to the consent of OPG's shareholder, the Province.

Class A Shares

The Company's Articles of Amalgamation were amended effective December 1, 2017 to allow for the creation and issuance of non-voting Class A shares to the Province in exchange for equity injections in OPG. All of the outstanding shares are owned directly by the Province and OPG is authorized to issue an unlimited number of Class A shares without nominal or par value. The Class A and common shares rank equally as to entitlement to dividends, and all dividends declared by OPG must be declared in equal amounts per share on all outstanding shares without preference or distinction. Upon the liquidation, dissolution or wind-up of OPG, whether voluntary or involuntary, the holders of Class A shares and common shares are entitled to share equally, on a share for share basis, in all distributions of property and assets without preference or distinction. Any issue of new class of shares is subject to the consent of the Province. OPG is entitled to redeem outstanding Class A shares as may be approved by OPG's Board of Directors.

In March 2018 and December 2017, OPG issued 4,627,343 Class A shares at a price of $43.74 per share and 12,217,616 Class A shares at a price of $42.46 per share to the Province for its equity injections in OPG, generating proceeds of $202 million and $519 million, respectively. The proceeds were used by OPG to purchase the Fair Hydro Trust's subordinated debt representing 44 percent of the total funding requirements for the Fair Hydro Trust's acquisitions of Investment Interests from the IESO in March 2018 and December 2017 of $460 million and $1.18 billion, respectively.

As at March 31, 2018, OPG had 16,844,959 Class A shares issued and outstanding at a stated value of $721 million. (December 31, 2017 − 12,217,616 Class A shares issued and outstanding at a stated value of $519 million).

In April 2018, OPG issued 1,498,856 Class A shares at a price of $43.74 per share to the Province for its equity injection in OPG, generating proceeds of $66 million. The proceeds were used by OPG to purchase the Fair Hydro Trust's subordinated debt representing 44 percent of the total funding requirements for the Trust's acquisition of Investment Interest from the IESO in April 2018 of $149 million.

14. EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing net income attributable to the Shareholder by the weighted average number of shares outstanding.

Class A shares are included in the weighted average number of shares outstanding. The weighted average number of shares outstanding as at March 31, 2018 was 269.0 million (year ended December 31, 2017 – 256.7 million). There were no dilutive securities as at March 31, 2018 and December 31, 2017.

15. COMMITMENTS AND CONTINGENCIES

Litigation

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 against OPG and Bruce Power by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

In 2012, the arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The final settlement amount was valued by British Energy at $71 million. In September 2014, British Energy amended its Statement of Claim (Amended Claim) to reduce the claim amount to $100 million to reflect that the purchasers of British Energy's interest in Bruce Power did not receive the full damages they originally claimed in the Arbitration. British Energy also added an allegation to its Amended Claim that OPG breached a covenant to maintain the steam generator between the time of the initial agreement to lease and the effective date of the lease in accordance with "Good Utility Practices".

In November 2016, British Energy obtained consent from the Ontario Superior Court of Justice to a timetable for the remaining steps in the litigation, pursuant to which the matter must be set down for trial by December 31, 2018. OPG has delivered a statement of defence in accordance with an extension of the original June 30, 2017 delivery deadline set up in the timetable.

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

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.

Guarantees

The Company and its joint venture partners have jointly guaranteed the financial performance of jointly owned entities related primarily to the payment of liabilities. As at March 31, 2018, the total amount of guarantees OPG provided to these entities was $83 million (December 31, 2017 − $82 million). OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time. Other guarantees have terms ending between 2019 and 2029. As at March 31, 2018, the potential impact of the fair value of these guarantees to income has been estimated to be negligible and OPG does not expect to make any payments associated with these guarantees.

Contractual Obligations

OPG's contractual obligations as at March 31, 2018 are as follows:

(millions of dollars)	**2018** [1]	**2019**	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Fuel supply agreements	141	125	115	88	67	67	603
Contributions to the OPG registered pension plan [2]	161	219	-	-	-	-	380
OPG long-term debt repayment	123	368	663	413	172	4,321	6,060
Interest on OPG long-term debt	189	249	227	199	185	3,612	4,661
Fair Hydro Trust senior debt repayment	-	336	-	-	-	500	836
Interest on Fair Hydro Trust senior debt	19	25	17	17	17	177	272
Commitments related to Darlington Refurbishment project [3]	450	-	-	-	-	-	450
Commitments related to Ranney Falls GS project	22	4	-	-	-	-	26
Operating licences	30	41	24	28	28	87	238
Operating lease obligations	21	25	24	22	22	79	193
Unconditional purchase obligations	41	54	52	4	-	-	151
Accounts payable and accrued charges	859	8	-	-	-	16	883
Other	69	33	7	1	1	63	174
Total	2,125	1,487	1,129	772	492	8,922	14,927

[1] Represents amounts for the remainder of the year.

[2] The pension contributions include ongoing funding requirements and additional funding requirements towards the deficit, in accordance with the actuarial valuation of the OPG registered pension plan as at January 1, 2017. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2020. The pension contributions are affected by various factors including market performance, changes in actuarial assumptions, plan experience, changes in the pension regulatory environment, and the timing of funding valuations. Funding requirements after 2019 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional voluntary contribution, if any, is revisited from time to time.

[3] Represents estimated currently committed costs to close the project, including accruals for completed work, demobilization of project staff and cancellation of existing contracts and material orders.

Contractual and commercial commitments as noted exclude certain purchase orders, as they represent purchase authorizations rather than legally binding contracts, and are subject to change without significant penalties.

16. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended March 31, 2018 *(millions of dollars)*	Regulated Nuclear Generation	Regulated Nuclear Waste Management	Regulated Hydro-Electric	Unregulated Contracted Generation Portfolio	Unregulated Fair Hydro Trust	Other	Elimination	Total
Revenue from contracts with customers	**871**	**-**	**356**	**149**	**-**	**10**	**-**	**1,386**
Leasing revenue	**9**	**-**	**-**	**-**	**-**	**4**	**-**	**13**
Other revenue	**-**	**33**	**-**	**-**	**-**	**19**	**(44)**	**8**
Total revenue	**880**	**33**	**356**	**149**	**-**	**33**	**(44)**	**1,407**
Fuel expense	**73**	**-**	**65**	**17**	**-**	**-**	**-**	**155**
Gross margin	**807**	**33**	**291**	**132**	**-**	**33**	**(44)**	**1,252**
Operations, maintenance and administration	**604**	**33**	**80**	**41**	**-**	**8**	**(44)**	**722**
Depreciation and amortization	**121**	**-**	**36**	**20**	**-**	**9**	**-**	**186**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**243**	**-**	**2**	**-**	**2**	**-**	**247**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(210)**	**-**	**-**	**-**	**-**	**-**	**(210)**
Earnings from Fair Hydro Trust	**-**	**-**	**-**	**-**	**(4)**	**-**	**-**	**(4)**
Income from investments subject to significant influence	**-**	**-**	**-**	**(10)**	**-**	**-**	**-**	**(10)**
Property taxes	**7**	**-**	**-**	**1**	**-**	**1**	**-**	**9**
Other losses (gains)	**-**	**-**	**4**	**-**	**-**	**(263)**	**-**	**(259)**
Income (loss) before interest and income taxes	**75**	**(33)**	**171**	**78**	**4**	**276**	**-**	**571**
Net interest expense								**19**
Income before income taxes								**552**
Income tax expense								**13**
Net income								**539**

Segment (Loss) Income for the Three Months Ended March 31, 2017 *(millions of dollars)*	Nuclear Gene-ration	Regulated Nuclear Waste Manage-ment	Unregulated Hydro-electric	Contracted Generation Portfolio	Other	Elimi-nation	Total
Revenue from contracts with customers	643	-	363	143	2	-	1,151
Leasing revenue	9	-	-	-	14	-	23
Other revenue	-	27	-	-	13	(38)	2
Total revenue	652	27	363	143	29	(38)	1,176
Fuel expense	68	-	73	14	-	-	155
Gross margin	584	27	290	129	29	(38)	1,021
Operations, maintenance and administration	589	29	76	39	13	(38)	708
Depreciation and amortization	107	-	34	19	7	-	167
Accretion on fixed asset removal and nuclear waste management liabilities	-	234	-	2	2	-	238
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(189)	-	-	-	-	(189)
Income from investments subject to significant influence	-	-	-	(10)	-	-	(10)
Property taxes	6	-	-	2	3	-	11
Other gains	-	-	-	-	(3)	-	(3)
(Loss) income before interest and income taxes	(118)	(47)	180	77	7	-	99
Net interest expense							19
Income before income taxes							80
Income tax expense							12
Net income							68

The earnings from Fair Hydro Trust are comprised of the following for the three months period ended March 31:

(millions of dollars)	**2018**	**2017**
Revenue	**(1)**	-
Operating expenses	**1**	-
Interest income	**(10)**	-
Interest expense	**6**	-
Earnings from Fair Hydro Trust	**(4)**	-

In December 2017, the Fair Hydro Trust was established as a separate entity to be the financing entity contemplated by the *Ontario Fair Hydro Plan Act, 2017*. The majority unitholder and beneficiary of the Trust is a wholly owned subsidiary of OPG, and the Trust's financial position and results are consolidated into OPG's financial results. As a legal matter, the assets and liabilities of the Trust do not form part of the assets and liabilities of OPG, and vice versa, pursuant to section 53.1(1.4) of the *Electricity Act, 1998 (Ontario).*

17. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	Three Months Ended March 31	
(millions of dollars)	**2018**	**2017**
Receivables from related parties	**(83)**	67
Fuel inventory	**10**	13
Materials and supplies	**12**	9
Prepaid expenses	**(2)**	(10)
Other current assets [1]	**44**	34
Income taxes payable	**(90)**	(117)
Accounts payable and accrued charges	**(45)**	(113)
	(154)	(117)

[1] Represents other accounts receivable.

18. PAYMENT OF DIVIDEND TO SHAREHOLDER

In April 2017, OPG completed the sale of its head office premises and associated parking facility located at 700 University Avenue and 40 Murray Street in Toronto, Ontario. The sale was undertaken pursuant to a Shareholder Declaration and a Shareholder Resolution received by OPG in December 2015. Pursuant to the Shareholder Declaration and the Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014* (Trillium Trust Act), OPG was required to transfer the proceeds from this disposition, net of prescribed deductions under the Trillium Trust Act, into the Province's Consolidated Revenue Fund. In accordance with these requirements, a special dividend of $283 million was authorized by OPG's Board of Directors and transferred into the Consolidated Revenue Fund in March 2018.

19. SALE OF LAKEVIEW SITE

In March 2018, OPG completed the sale of its former Lakeview GS site property located in Mississauga, Ontario, with an after-tax gain on sale of $205 million, which is net of income tax effects of $68 million, recognized in net income in the first quarter of 2018. The sale was undertaken pursuant to a Shareholder Declaration and a Shareholder Resolution received by OPG in June 2016. Pursuant to the Shareholder Declaration and the Shareholder Resolution, and as prescribed in the Trillium Trust Act, OPG is required to transfer the proceeds from this disposition, net of prescribed deductions under the Trillium Trust Act, into the Province's Consolidated Revenue Fund.