ONTARIOPOWER GENERATION

News
from Ontario Power Generation

700 University Avenue Toronto, ON M5G 1X6 **Tel: 416-592-4008 or 1-800-592-4008** Fax: 416-592-2178
www.opg.com

May 14, 2019

OPG REPORTS 2019 FIRST QUARTER FINANCIAL RESULTS

OPG completes Nanticoke Solar Project on time and on budget; completes major milestone on Darlington Refurbishment Project

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) today reported net income attributable to the Shareholder of $213 million for the first quarter of 2019.

"OPG is pleased to report that our first quarter results have once again provided a strong financial return for our shareholder, the Province of Ontario, while continuing to generate at a price approximately 40 per cent less than the average of other generators in the province," said Ken Hartwick, President and CEO of OPG. "Our core generating business remains strong and we continue to drive value from our assets."

Hartwick continued, "In late 2016, OPG began one of the largest and most complex infrastructure projects in Canada, the Darlington Refurbishment Project. The recent completion of the fuel channel installation on our Unit 2 reactor is a historic moment for OPG and Ontario's nuclear industry. Together with our project partners, we are rebuilding second generation CANDU technology, which will generate more than 30 years of safe, low-cost and clean energy for Ontarians."

In March 2019, OPG completed the 44-megawatt Nanticoke solar facility in Haldimand County, Ontario. "Replacing coal with solar generation is fundamental to a healthy environment and a strong, low-carbon economy," commented Hartwick. "In partnership with the Six Nations of the Grand River Development Corporation and the Mississaugas of the Credit First Nation, Nanticoke Solar is a continuation of OPG's rich legacy of generating electricity in this community." The project was completed on schedule and is expected to close under the $107 million approved budget.

Through its wholly-owned subsidiary in the United States, Eagle Creek Renewable Energy, LLC (Eagle Creek), OPG also completed the acquisition of the 9-megawatt Little Quinnesec hydroelectric generating station (GS) located in Niagara, Wisconsin in March 2019. The purchase price was US$16 million, subject to working capital and other customary adjustments. With the completion of the Nanticoke Solar Project and the acquisition of the Little Quinnesec hydroelectric GS, the Company continues to invest in carbon-free generation, aligned with OPG's strategic imperatives.

Net income attributable to the Shareholder was $213 million for the first quarter of 2019 compared to $535 million for the same period in 2018. The decrease in net income is primarily attributable to the one-time after-tax gain on sale of the former Lakeview GS site of $205 million and the reduction in income tax expense due to a refundable tax credit of $86 million upon payment of a dividend to the Shareholder, both recognized in the first quarter of 2018. The decrease was also partially due to the impact of lower generation from the Regulated – Nuclear Generation segment in 2019, in line with the cyclical maintenance schedule of the Darlington GS.

In April 2019, the mediation/arbitration process between OPG and the Power Workers' Union (PWU) concluded with the issuance of the arbitrator's decision. The arbitrator ordered the parties to implement the previously reached tentative renewal agreement that was not ratified by the PWU membership, without any changes. The renewed collective agreement will expire in March 2021.

OPG continues to provide electricity at a price that is approximately 40 per cent less than the average of other generators in Ontario. OPG is the only electricity generator in Ontario that has its prices set through a public hearing process by the Ontario Energy Board.

Generating and Operating Performance

Electricity generated in the first quarter of 2019 was 19.1 terawatt hours (TWh) compared to 18.8 TWh in the same quarter in 2018.

Regulated – Nuclear Generation Segment

Lower nuclear generation of 0.6 TWh in the first quarter of 2019 compared to the same quarter in 2018 was primarily due to a higher number of planned outage days at the Darlington GS, partially offset by fewer planned outage days at the Pickering GS.

At the Darlington GS, the unit capability factor decreased to 72.6 per cent in the first quarter of 2019, compared to 96.5 per cent for the same quarter in 2018. The decrease primarily reflected an increase in planned outage days for the three generating units from five planned outage days in the first quarter of 2018 to 74 in the first quarter of 2019, in line with the station's 36-month cyclical maintenance schedule.

At the Pickering GS, the unit capability factor increased to 86.7 per cent for the first quarter of 2019 compared to 74.5 per cent for first quarter of 2018, primarily reflecting a decrease in planned outage days for the six units from 116 in the first quarter of 2018 to 63 in the first quarter in 2019, in line with the station's 30-month cyclical maintenance schedule.

Regulated – Hydroelectric Segment

Higher generation from the regulated hydroelectric stations of 0.5 TWh during the first quarter of 2019 compared to the same quarter in 2018 was primarily due to lower forgone hydroelectric generation as a result of higher demand for electricity in Ontario.

The availability of 90.1 per cent at these stations in the first quarter of 2019 was higher than 87.3 per cent for the same quarter in 2018. The increase in the availability was primarily due to fewer unplanned outage days at the regulated hydroelectric stations in the eastern and northwestern Ontario regions.

Contracted and Other Generation Segment

Higher generation from the Contracted and Other Generation segment of 0.4 TWh during the first quarter of 2019 compared to the same quarter in 2018 was primarily due to electricity generation from the Eagle Creek facilities acquired in the fourth quarter of 2018.

The availability of the Ontario-based hydroelectric stations within the segment for the first quarter of 2019 was 86.5 per cent, compared to 80.1 per cent for the same quarter in 2018. The increase in the availability was primarily due to decreased planned outage days at the contracted hydroelectric stations in the northeastern Ontario region.

Total Generating Cost

The Enterprise TGC per megawatt-hour (MWh) was $52.12 for the three months ended March 31, 2019, compared to $49.84 for the same quarter in 2018. The increase in Enterprise TGC per MWh was primarily due to higher sustaining capital expenditures, higher outage-related OM&A expenses primarily due to a higher number of planned outage days at the Darlington GS and associated lower electricity generation from the nuclear facilities.

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 2019 were as follows:

Darlington Refurbishment

The Darlington Refurbishment project is expected to extend the operating life of the four-unit Darlington GS by at least 30 years. In April 2019, OPG completed the fuel channel installation series and re-filled the Unit 2 moderator with heavy water which is used for the creation of nuclear energy, readying the unit for restart following refurbishment. The upper and middle feeder installation series has commenced and is expected to be completed in the second quarter of 2019. The lower feeder installation is also underway.

In addition to the execution of refurbishment activities on Unit 2, OPG continues to progress in accordance with the overall project schedule, incorporating experience learned to date from the Unit 2 refurbishment. The Unit 3 refurbishment execution is expected to commence upon the return to service of Unit 2. As of March 31, 2019, $305 million has been invested in planning and prerequisite activities related to the refurbishment of Unit 3, including acquisition of long lead materials and components.

Total life-to-date capital expenditures on the project were approximately $5.8 billion as at March 31, 2019.

The Darlington Refurbishment project, the execution of which began in 2016, continues to track on schedule and to the $12.8 billion budget.

Ranney Falls Hydroelectric GS

OPG continues 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. Primary concrete placement for the new powerhouse, spillway and forebay wall was completed during 2018. In the first quarter of 2019, gate hydraulic systems were commissioned successfully. Turbine and generator unit fabrication has been completed, and installation commenced in the first quarter of 2019. 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.

Changes to the Board of Directors

In keeping with the Board of Directors (Board) succession plan, effective March 31, 2019, there were four planned departures from the Board, namely, directors, William Coley, Lisa DeMarco, George Lewis and Peggy Mulligan. Jeff Lyash also left the organization as President and CEO, to take on another role, as previously announced by the Company in February 2019.

Effective April 1, 2019, Ken Hartwick began his tenure as President and CEO. Ani Hotoyan-Joly was appointed Chair of the Audit and Risk Committee of the Board and Wendy Kei was appointed Chair of the Compensation, Leadership and Governance Committee of the Board. Consistent with leading corporate governance practices, the Board has taken a decision to reduce the Board size to ten independent directors from 13, not including the OPG President and CEO.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

(millions of dollars – except where noted)	Three Months Ended March 31 2019	2018
Revenue	**1,426**	1,407
Fuel expense	**148**	155
Operations, maintenance and administration	**749**	722
Depreciation and amortization	**266**	186
Other net expenses (gains) [1]	**20**	(227)
Income before interest and income taxes	**243**	571
Net interest expense	**18**	19
Income tax expense	**8**	13
Net income	**217**	539
Net income attributable to the Shareholder	**213**	535
Net income attributable to non-controlling interest [2]	**4**	4
Income before interest and income taxes		
Electricity generation business segments	**271**	324
Regulated – Nuclear Waste Management	**(32)**	(33)
Other	**4**	280
Total income before interest and income taxes	**243**	571
Cash flow		
Cash flow provided by operating activities	**575**	226
Electricity generation (TWh)		
Regulated – Nuclear Generation	**9.8**	10.4
Regulated – Hydroelectric	**8.2**	7.7
Contracted and Other Generation [3]	**1.1**	0.7
Total electricity generation	**19.1**	18.8
Nuclear unit capability factor (per cent) [4]		
Darlington Nuclear GS	**72.6**	96.5
Pickering Nuclear GS	**86.7**	74.5
Availability (per cent)		
Regulated – Hydroelectric	**90.1**	87.3
Contracted and Other Generation [5]	**86.5**	80.1
Equivalent forced outage rate		
Contracted and Other Generation – thermal stations [6]	**6.8**	0.3
Enterprise Total Generating Cost (TGC) per MWh for the three months ended March 31, 2019 and March 31, 2018 ($/MWh) [7]	**52.12**	49.84
Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI) for the twelve months ended March 31, 2019 and December 31, 2018 (per cent) [7]	**6.7**	9.5

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

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

3 Includes OPG's share of generation from its 50 per cent ownership interests in the Portlands Energy Centre and Brighton Beach GS. For the three months ended March 31, 2019, also includes generation from Eagle Creek's facilities, including the proportionate share of generation from minority shareholdings in 13 hydroelectric and two solar facilities in the US.

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 Reflects the availability of hydroelectric generating stations in Ontario.

6 For the three months ended March 31, 2018, includes unplanned outage days at the Thunder Bay GS prior to the cessation of operations in July 2018.

7 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, 2019, in the section, *Key Operating Performance Indicators and 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 consolidated financial statements and Management's Discussion and Analysis as at and for the three months ended March 31, 2019 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.

For further information, please contact:

Investor Relations	416-592-6700 investor.relations@opg.com
Media Relations	416-592-4008 1-877-592-4008 media@opg.com

- 30 -

ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2019 FIRST QUARTER REPORT

TABLE OF CONTENTS

ONTARIO POWER GENERATION

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, 2019. 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, Annual Information Form, and MD&A as at and for the year ended December 31, 2018.

As required by *Ontario Regulation 395/11*, as amended, a regulation 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 has also received exemptive relief from the Ontario Securities Commission (OSC) that allows OPG to apply US GAAP instead of International Financial Reporting Standards. 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, *Critical Accounting Policies and Estimates* under the heading, *Exemptive Relief for Reporting under US GAAP* in OPG's 2018 annual MD&A. This MD&A is dated May 14, 2019.

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, defined benefit pension and other post-employment benefit (OPEB) obligations and funds, income taxes, proposed new legislation, the ongoing evolution of electricity industries in Ontario and the United States (US), the continued application and renewal of power purchase agreements for non-regulated facilities, foreign currency exchange rates, environmental and other regulatory requirements, operating licence applications to the Canadian Nuclear Safety Commission (CNSC) and the Federal Energy Regulatory Commission (FERC), health, safety and environmental developments, business continuity events, the weather, financing and liquidity, applications to the Ontario Energy Board (OEB) for regulated prices, the impact of regulatory decisions by the OEB, the *Fixing the Hydro Mess Act, 2019* (Fixing the Hydro Mess Act), the *Ontario Fair Hydro Plan Act, 2017* (Fair Hydro Act), 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 and project expenditures, retention of critical talent, and supplier and third party performance. 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.

Use of Non-GAAP Financial Measures

The Company uses the following non-GAAP financial performance measures in the MD&A:

- "Return on Equity Excluding Accumulated Other Comprehensive Income";
- "Enterprise Total Generating Cost per Megawatt-Hour";
- "Nuclear Total Generating Cost per Megawatt-Hour";
- "Hydroelectric Total Generating Cost per Megawatt-Hour"; and
- "Gross Margin".

For a detailed description of each of the non-GAAP measures used in this MD&A and a detailed reconciliation to the most directly comparable measure under US GAAP, refer to the section, *Key Operating Performance Indicators and Non-GAAP Financial Measures*. The non-GAAP financial performance measures set out in this MD&A are intended to provide additional information to investors and do not have any standardized meaning under US GAAP, and therefore may not be comparable to other issuers, and should not be considered in isolation or as a substitute for measures of performance prepared under US GAAP.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity. OPG was established under the *Business Corporations Act* (Ontario) and is wholly-owned by the Province of Ontario (Province or Shareholder). OPG's electricity generation portfolio had an in-service capacity of 16,344 megawatts (MW) as at March 31, 2019.

As at March 31, 2019, OPG owned and operated two nuclear generating stations, 66 hydroelectric generating stations, two thermal generating stations, one wind power turbine and one solar facility in Ontario, Canada, and 64 hydroelectric generating stations in the US. In addition, OPG and TC Energy Ltd. (formerly 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), both located in Ontario. OPG also has minority shareholdings in certain hydroelectric generating stations and solar facilities in the US. The income from the co-owned and minority-held facilities is accounted for using the equity method of accounting, and OPG's share of income is included within income from investments subject to significant influence in the Contracted and Other Generation segment.

On November 27, 2018, OPG acquired 100 percent ownership interest of Eagle Creek Renewable Energy, LLC (Eagle Creek), an owner and operator of hydroelectric facilities in the US. The operating results related to these acquired facilities are consolidated in the Company's financial results and reported in the Contracted and Other Generation segment.

OPG also owns two other nuclear generating stations in Ontario, the Bruce A GS and the Bruce B GS, which are leased on a long-term basis to Bruce Power L.P. Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. The leased stations are not included in the generation and other operating statistics set out in this report. OPG does not operate PEC, Brighton Beach, the Bruce A GS, the Bruce B GS, and minority-held facilities in the US.

OPG's proportionate share of the in-service capacity and generation volume of the co-owned facilities and the minority shareholdings is included in the generation portfolio statistics set out in this report.

In-Service Generating Capacity

OPG's in-service generating capacity by business segment as at March 31, 2019 and December 31, 2018 was as follows:

(MW)	**As at March 31 2019**	**As at December 31 2018**
Regulated – Nuclear Generation [1]	**5,728**	5,728
Regulated – Hydroelectric	**6,421**	6,426
Contracted and Other Generation [2]	**4,195**	4,141
Total	**16,344**	16,295

[1] The in-service generating capacity as at March 31, 2019 and December 31, 2018 excludes Unit 2 of the Darlington nuclear GS. The unit, which has a generating capacity of 878 MW, was taken offline in October 2016 and is currently undergoing refurbishment.

[2] The in-service generating capacity as at March 31, 2019 and December 31, 2018 includes OPG's share of in-service generating capacity of 275 MW for PEC, 280 MW for Brighton Beach and also includes the in-service generating capacity at the Eagle Creek facilities, including its proportionate share of in-service generating capacity from minority shareholdings in 13 hydroelectric and two solar facilities.

During the three months ended March 31, 2019, the total in-service capacity increased by 49 MW. The increase was primarily due to the completion of the Nanticoke solar facility which was placed in service in March 2019 and Eagle Creek's acquisition of the Little Quinnesec hydroelectric GS (Little Quinnesec GS) in March 2019.

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, 2019, compared to the same period in 2018, 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)	**Three Months Ended March 31** **2019**	**2018**
Revenue	**1,426**	1,407
Fuel expense	**148**	155
Operations, maintenance and administration	**749**	722
Depreciation and amortization	**266**	186
Other net expenses (gains) [1]	**20**	(227)
Income before interest and income taxes	**243**	571
Net interest expense	**18**	19
Income tax expense	**8**	13
Net income	**217**	539
Net income attributable to the Shareholder	**213**	535
Net income attributable to non-controlling interest [2]	**4**	4
Electricity production (TWh) [3]	**19.1**	18.8
Cash flow		
Cash flow provided by operating activities	**575**	226
Segment Results		
Regulated – Nuclear Generation	**20**	75
Regulated – Hydroelectric	**180**	171
Contracted and Other Generation	**71**	78
Total electricity generating business segments	**271**	324
Regulated – Nuclear Waste Management	**(32)**	(33)
Other	**4**	280
Income before interest and income taxes	**243**	571

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

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

3 Includes OPG's share of generation from its 50 percent ownership interests in PEC and Brighton Beach. For three months ended March 31, 2019, also includes generation from Eagle Creek's facilities, including its proportionate share of generation from minority shareholdings in 13 hydroelectric and two solar facilities.

Net income attributable to the Shareholder was $213 million for the first quarter of 2019, representing a decrease of $322 million compared to the same quarter in 2018. Income before interest and income taxes was $243 million for the first quarter of 2019, representing a decrease of $328 million compared to the same quarter in 2018. 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 segment of approximately $7 million, reflecting the impact of nuclear base regulated prices including amounts deferred in the Rate Smoothing Deferral Account, approved under the OEB's December 2017 decision on OPG's application for new regulated prices.
- Higher revenue from the Regulated – Hydroelectric segment of approximately $8 million, reflecting the impact of an increase in the hydroelectric regulated base price approved by the OEB in December 2018 pursuant to an annual formulaic adjustment, and higher revenue under the hydroelectric incentive mechanism.

Significant factors that reduced income before interest and income taxes:

- A one-time 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.
- Lower electricity generation of 0.6 terawatt hours (TWh) from the Regulated – Nuclear Generation segment, resulting in lower revenue of approximately $43 million, and higher OM&A expenses of $18 million. The lower electricity generation and higher OM&A expense from the segment was primarily due to a higher number of planned outage days at the Darlington nuclear GS (Darlington GS), in line with the station's 36-month cyclical maintenance schedule.

The increase in depreciation and amortization expense was primarily due to higher amortization expense related to the recovery of regulatory deferral and variance accounts (regulatory accounts) and was largely offset by an increase in revenue from the rate riders authorized by the OEB for the recovery of these balances.

Net interest expense decreased by $1 million in the first quarter of 2019, compared to the same quarter in 2018. The decrease was primarily due to a higher amount of interest costs capitalized related to the Darlington Refurbishment project expenditures, partially offset by a higher amount of interest costs on net debt issuances.

Income tax expense decreased by $5 million in the first quarter of 2019, compared to the same quarter in 2018. The decrease was primarily due to lower income before taxes and a higher amount of income tax expense deferred as regulatory assets compared with 2018, largely offset by a reduction of income tax expense of $86 million in the first quarter of 2018 due to a refundable tax credit.

Electricity Generation

Electricity generation for the three months ended March 31, 2019 and 2018 was as follows:

	Three Months Ended March 31	
(TWh)	**2019**	**2018**
Regulated – Nuclear Generation	**9.8**	10.4
Regulated – Hydroelectric	**8.2**	7.7
Contracted and Other Generation [1]	**1.1**	0.7
Total OPG electricity generation	**19.1**	18.8
Total electricity generation by other generators in Ontario [2]	**19.5**	19.1

[1] Includes OPG's share of generation from its 50 percent ownership interests in PEC and Brighton Beach. For the three months ended March 31, 2019, also includes generation from Eagle Creek's facilities of 0.3 TWh.
[2] Calculated as Ontario electricity demand plus net exports, as published by the IESO, minus OPG electricity generation in Ontario.

Total OPG electricity generation increased by 0.3 TWh during the first quarter of 2019, compared to the same quarter in 2018. This was mainly due to higher electricity generation from the Regulated – Hydroelectric and the Contracted and Other Generation segments, partially offset by lower electricity generation from the Regulated – Nuclear Generation segment.

The increase in electricity generation of 0.5 TWh from the Regulated – Hydroelectric segment for the first quarter of 2019, compared to the same quarter in 2018, was primarily due to lower forgone hydroelectric generation as a result of higher demand for electricity in Ontario.

The decrease in electricity generation of 0.6 TWh from the Regulated – Nuclear Generation segment for the first quarter of 2019, compared to the same quarter in 2018, was primarily due to a higher number of planned outage days at the Darlington GS, partially offset by fewer planned outage days at the Pickering nuclear GS (Pickering GS).

The electricity generation from the Contracted and Other Generation segment for the first quarter of 2019 increased by 0.4 TWh, compared to the same quarter in 2018, primarily due to electricity generated from the Eagle Creek facilities acquired in the fourth quarter of 2018.

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. For the first quarter of 2019, Ontario's electricity demand as reported by the Independent Electricity System Operator (IESO) was 35.7 TWh compared to 35.0 TWh for the same quarter in 2018, 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 has been lower in the first quarter of 2019 compared to the same period in 2018, resulting in total OPG forgone hydroelectric electricity generation due to SBG conditions in Ontario of 0.3 TWh in the first quarter of 2019, compared to 0.8 TWh in same quarter in 2018. The gross margin impact of production forgone at OPG's regulated hydroelectric stations due to SBG conditions is offset by the impact of a regulatory variance account authorized by the OEB. OPG did not forgo any electricity production at its nuclear stations due to SBG conditions.

Regulated Average Sales Prices

The majority of OPG's generation is from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments. The regulated prices approved by the OEB for electricity generated from these segments are discussed in the section, *Core Business, Strategy and Outlook* under the heading, *Financial Strength – Increasing Revenue, Reducing Costs and Achieving Appropriate Return*.

Average sales prices for the regulated generation business segments for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31	
cents per kilowatt hour (¢/kWh)	**2019**	**2018**
Regulated – Nuclear Generation	**8.1**	7.2
Regulated – Hydroelectric	**4.6**	4.2

For the Regulated – Nuclear Generation segment, the higher average sales price in 2019 was primarily due to the a partial reversal of the regulatory asset for the June 1, 2017 to December 31, 2017 interim period revenue shortfall initially recorded in the fourth quarter of 2017 to reflect management's best estimate of the impact of the OEB's December 2017 decision, based on OPG's submission of a draft payment amounts order to the OEB in January 2018. The partial reversal was recorded in the first quarter of 2018 to reflect the issuance of the final payment amounts order in March 2018, which made certain adjustments to OPG's draft payment amounts order. These adjustments did not have a material impact on the results of operations in 2018 as the revenue and income impact of the partial reversal of the interim period revenue shortfall regulatory asset was largely offset by the reversal of the regulatory liability for the Rate Smoothing Deferral Account initially recorded in the fourth quarter of 2017 based on the draft payment amounts order. Pursuant to the final payment amounts order, no amounts were recorded in the Rate Smoothing Deferral Account for 2017 or 2018, with $102 million to be deferred for future collection in 2019 and $391 million in 2020. During the first quarter of 2019, $26 million was deferred for future collection in the Rate Smoothing Deferral Account and recorded as revenue in the Regulated – Nuclear Generation segment.

Amounts deferred in the Rate Smoothing Deferral Account are not included in the calculation of the average sales price until the period they are settled with ratepayers. The OEB is required to authorize recovery of the deferred amounts, together with interest at a long-term debt rate reflecting OPG's cost of long-term borrowing approved by the OEB, over a period not to exceed ten years following the end of the Darlington Refurbishment project.

Higher rate riders in effect during the first quarter of 2019 related to the recovery of regulatory account balances approved by the OEB, including those authorized pursuant to the OEB's decision and order issued in February 2019 and discussed in the section, *Core Business, Strategy and Outlook* under the heading, *Financial Strength – Increasing Revenue, Reducing Costs and Achieving Appropriate Return*, also contributed to the increase in the average sales price for the Regulated – Nuclear Generation segment.

For the Regulated – Hydroelectric segment, the higher average sales price in 2019 was due to a higher hydroelectric base regulated price in effect during the first quarter of 2019, as approved by the OEB in 2018 pursuant to an annual formulaic adjustment, and higher rate riders in effect during the first quarter of 2019 related to the recovery of regulatory account balances approved by the OEB.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2019 was $575 million, compared to $226 million for the same period in 2018. The increase in cash flow provided by operating activities was primarily due to higher cash receipts from generation revenue reflecting a full period of collection of regulated prices under the OEB's December 2017 decision that were implemented following the issuance of the OEB's payment amounts order in March 2018 and higher rate riders in effect during the first quarter of 2019, partially offset by higher fuel purchases and lower non-generation revenue.

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, 2019 was 6.7 percent, compared to 9.5 percent for the twelve months ended December 31, 2018. The decrease in ROE Excluding AOCI was due to higher net income attributable to the Shareholder for the twelve months ended December 31, 2018, primarily as a result of the gain on sale of the former Lakeview GS site and a reduction in income tax expense due to a refundable tax credit in March 2018. The impact of the gain on the sale of the former Lakeview GS site and the refundable tax credit contributed approximately 2.2 percent to ROE Excluding AOCI for the twelve months ended December 31, 2018.

Enterprise Total Generating Cost per Megawatt-Hour

The Enterprise TGC per megawatt-hour (MWh) was $52.12 for the three months ended March 31, 2019, compared to $49.84 for the same period in 2018. The increase in Enterprise TGC per MWh was primarily due to higher sustaining capital expenditures, higher outage-related OM&A expenses primarily due to a higher number of planned outage days at the Darlington GS, and associated lower electricity generation from the nuclear facilities.

Nuclear Total Generating Cost per Megawatt-Hour

The Nuclear TGC per MWh was $74.36 for the three months ended March 31, 2019, compared to $70.90 for the same period in 2018. The increase in Nuclear TGC per MWh was primarily due to lower nuclear electricity generation as a result of a higher number of planned outage days at the Darlington GS, higher sustaining capital expenditures and higher outage-related OM&A expenses. The increase was partially offset by higher nuclear electricity generation as a result of fewer planned outage days at the Pickering GS and lower nuclear fuel expense due to lower overall nuclear electricity generation.

Hydroelectric Total Generating Cost per Megawatt-Hour

The Hydroelectric TGC per MWh was $22.97 for the three months ended March 31, 2019, compared to $20.42 for the same period in 2018. The increase in the Hydroelectric TGC per MWh was primarily due to higher sustaining capital expenditures.

Recent Developments

<u>Power Workers' Union Collective Agreement</u>

The Power Workers' Union (PWU) represents approximately 4,600 regular employees at OPG, or approximately 52 percent, of OPG's regular workforce in Ontario as at March 31, 2019. The governing collective agreement between OPG and the PWU expired in March 2018. In December 2018, the Government of Ontario directed the collective agreement to be concluded through a mediation/arbitration process. The mediation/arbitration process concluded on April 3, 2019 with the issuance of the arbitrator's decision. The arbitrator ordered the parties to implement the previously reached tentative renewal agreement that was not ratified by the PWU membership, without any changes. The renewed collective agreement expires on March 31, 2021.

<u>Nanticoke Solar Facility</u>

In March 2019, the 44 MW Nanticoke solar facility, located in Ontario at the former Nanticoke GS site and adjacent lands, was placed in service and confirmation of commencement of commercial operations was received from the IESO, with an effective date of March 1, 2019. The facility will operate under a Large Renewable Procurement I (LRP I) contract with the IESO through Nanticoke Solar LP, a partnership between OPG, Six Nations of Grand River Development Corporation, and the Mississaugas of the Credit First Nation. The project was placed in-service on schedule and is expected to close below the approved budget of $107 million.

<u>Acquisition of Little Quinnesec Hydroelectric Generating Station</u>

On March 27, 2019, the Company acquired the Little Quinnesec GS located in Niagara, Wisconsin, through its wholly-owned subsidiary Eagle Creek. The purchase price was US$16 million, subject to working capital and other customary adjustments. The acquisition of Little Quinnesec GS adds approximately 9 MW of renewable generating capacity to the Company's fleet, increasing the in-service generating capacity of Eagle Creek's portfolio to approximately 235 MW.

Amendments to Ontario's Fair Hydro Plan Act

In March 2019, the Government of Ontario tabled Bill 87, Fixing the Hydro Mess Act, proposed legislation designed to amend various statutes related to energy, including the Fair Hydro Act. On May 9, 2019, the Fixing the Hydro Mess Act received Royal Assent and will come into force in November 2019. Under the legislation, the Province will be responsible for paying existing funding obligations administered by the Fair Hydro Trust (the Trust), while OPG will be responsible for paying the operating costs of the Trust. As there will be no new Global Adjustment refinancings, and the Province will be responsible for the existing funding obligations, including principal repayments, administered by the Trust, the Trust will be prohibited from issuing any new funding obligations. The IESO will no longer provide for the administration or servicing of the associated financing and other costs associated with the Trust's financing receivable balances from Specified Consumers (Investment Interest) on behalf of the Trust. As currently worded, the amendments to the Fair Hydro Act would result in the Trust no longer being consolidated into OPG's consolidated financial statements subsequent to the date the amendment was passed into law.

OEB's Decision on OPG's Application to Recover Deferral and Variance Accounts

On February 21, 2019, the OEB issued a decision and order that approved a full settlement agreement reached by OPG and intervenors on OPG's requested disposition of deferral and variance accounts in an application filed in August 2018, which resulted in the approval to recover a total of $1.3 billion recorded in the Pension & OPEB Cash to Accrual Differential Deferral Account and other balances accumulated in regulatory accounts between January 1, 2016 and December 31, 2017 as well as associated income tax impacts, without adjustments. The OEB's decision and order authorized OPG to collect $535 million of the approved balances through incremental nuclear and regulated hydroelectric rate riders for the period from January 1, 2019 to December 31, 2021. The remaining approved balances will be collected after 2021.

The currently approved base regulated prices and rate riders are found in the section, *Core Business, Strategy and Outlook* under the heading, *Financial Strength – Increasing Revenue, Reducing Costs and Achieving Appropriate Return*.

Green Bond Offerings

In January 2019, OPG issued a second green bond offering under its existing Medium Term Note Program. The $500 million 30-year bonds were priced with a coupon interest rate of 4.25 percent. The net proceeds from the January 2019 issuance are to be used to finance eligible projects as defined in OPG's Green Bond Framework, including the November 2018 acquisition of Eagle Creek. Further details on the use of proceeds from the green bond issuances can be found in the section, *Environmental, Social, Governance and Sustainability* under the heading, *Climate Change – Performance and Key Climate-Related Metrics*.

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 expansion opportunities to the benefit of the Shareholder.

The following sections provide an update to OPG's disclosures in the 2018 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 2018 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.

Electricity Generation Production and Reliability

The status updates for OPG's electricity generation portfolio as of March 31, 2019 are summarized below:

- In December 2017, the Province approved the updated Provincial Nuclear Emergency Response Plan (PNERP) Master Plan. The changes included a new 20-kilometre Contingency Planning Zone around the Pickering and Darlington nuclear generating stations, which will improve protective actions for the public. The updated Implementing Plan for the Darlington GS was approved by the Province on January 31, 2019 and is expected to be published by mid-2019. OPG will be updating its nuclear emergency preparedness plan to conform with the updated Implementing Plan for the Darlington GS once it has been published.
- In 2017, the CNSC approved regulatory document *REGDOC 2.2.4 – Fitness for Duty – Managing Alcohol and Drug Use* for use at Canadian nuclear power plants. This document sets out requirements for managing fitness for duty of workers in relation to alcohol and drug use at high-security sites, including for-cause alcohol and drug testing for workers in positions identified as safety-sensitive or safety-critical, and random alcohol and drug testing for workers holding safety-critical positions. In April 2019, the CNSC advised that it will consider industry proposed amendments to the regulatory document and that its review process will result in a change to the previously established implementation dates.

Project Excellence

OPG is pursuing a number of generation development and other projects in line with Ontario's electricity planning initiatives and expected to provide incremental value in the future. The status updates for OPG's major projects as at March 31, 2019 are outlined below.

Project *(millions of dollars)*	**Capital expenditures** Year-to-date	**Capital expenditures** Life-to-date	**Approved budget**	**Expected in-service date**	**Current status**
Darlington Refurbishment	294	5,807	12,800 [1]	First unit - 2020 Last unit - 2026	The reassembly of Unit 2 reactor components is in progress, with the fuel channel installation series completed in April 2019. The upper, middle and lower feeder installation series are currently underway. 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	7	64	77	2019	In the first quarter of 2019, gate hydraulic systems were commissioned successfully, and installation of turbine and generator units commenced. The project's expected in-service date is in the fourth quarter of 2019. The project is tracking on schedule and on budget.
Deep Geologic Repository for Low and Intermediate Level Radioactive Waste	2 [2]	215 [2]			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. OPG continues its engagement with the SON, working towards securing support for the project and to formulate a response to the information request. This includes the launch of a series of provincial-wide SON community engagement sessions scheduled throughout 2019.

1 The total project budget of $12.8 billion is for the refurbishment of all four units at the Darlington GS.
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 at least 30 years. The approved budget for the four-unit refurbishment is $12.8 billion, which includes the costs of the pre-requisite 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.

The Unit 2 refurbishment is currently in the third major segment, the installation and reassembly of reactor components, including new feeder tubes and fuel channel assemblies. The third segment is progressing as planned, with the fuel channel installation series completed in April 2019. The upper and middle feeder installation series has commenced and is expected to be completed in the second quarter of 2019. The lower feeder installation series is also underway. Also in April 2019, the Unit 2 moderator was re-filled with heavy water used for the creation of nuclear energy, representing a milestone towards readying the unit for restart following refurbishment. OPG completed all of the work committed to as of the end of 2018 to support the requirements set out in the CNSC-approved Integrated Implementation Plan (IIP) for the station. The work committed for 2019 to support the IIP has been established and is progressing.

The planning and prerequisite activities for the refurbishment of the second unit, Unit 3, continue to progress in accordance with the overall project schedule, incorporating experience learned to date from the Unit 2 refurbishment. In March 2019, OPG's Board of Directors approved the final funding for the refurbishment of Unit 3. Commissioning has begun on the Full Scale Maintenance Simulator for the turbine generator, and procurement is continuing for major components that require long lead times. Receipt of long lead materials for the Re-tube and Feeder Replacement of Unit 3 continues. The Unit 3 refurbishment execution is expected to commence upon the return to service of Unit 2. As of March 31, 2019, $305 million has been invested in planning and prerequisite activities related to the Unit 3 refurbishment.

Upgrade and Rehabilitation of Hydroelectric Generating Stations

OPG continues to make investments in its existing hydroelectric generating fleet. During the first quarter of 2019, OPG continued to execute a number of major projects, including:

- Continued execution of the automatic sluicegates system replacement at the Whitedog Falls GS
- Commenced execution phase work on the rehabilitation of Caribou Falls Block Dam No. 2
- Commenced construction activities on a new, minimum flow unit at Eagle Creek's Swinging Bridge GS
- Continued definition phase work on the overhaul and upgrade of the R.H. Saunders GS units

Decommissioning of Thermal Generating Stations

Decommissioning activities for the Nanticoke GS continue with the demolition of the powerhouse and associated structures in the first quarter of 2019. Demolition activities are expected to be completed in 2020. The demolition work continues to track on schedule and on budget.

As part of the process to decommission the Lambton GS, removal of saleable equipment, asbestos abatement and demolition of structures and equipment continued in the first quarter of 2019. Demolition of the main structures is expected to commence in mid-2019, with completion of demolition activities expected in 2020.

The costs of the decommissioning activities are charged to a previously established decommissioning provision.

Financial Strength

As a commercial enterprise, OPG's financial priority is to ensure a consistent level of strong financial performance that delivers an appropriate level of return on the Shareholder's investment and supports expansion of the business.

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 electricity customers by seeking further efficiencies in the Company's cost structure.

For 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. OPG's revenues from regulated operations include recovery of amounts deferred in OEB-authorized deferral and variance accounts.

On February 21, 2019, the OEB issued a decision and order on OPG's August 2018 application requesting disposition of deferral and variance accounts that approved a full settlement agreement reached by OPG and intervenors on OPG's request. The decision and order resulted in the approval to recover a total of $1.3 billion recorded in these accounts and associated income tax impacts, including $433 million that was previously approved but not yet authorized for collection by the OEB. The OEB authorized OPG to collect $535 million of the approved balances through incremental nuclear and hydroelectric rate riders over the January 1, 2019 to December 31, 2021 period. Amounts recovered from the Pension & OPEB Cash Versus Accrual Differential Deferral Account will be subject to carrying charges in favour of ratepayers at a prescribed interest rate set quarterly by the OEB based on the quarterly return of a mid-term corporate bond index yield.

The new rate riders will contribute to improved cash flow from operating activities but will not have a material impact on net income, as revenue received from the recovery of regulatory balances is largely offset by amortization expense related to these balances.

The following table presents the OEB-authorized regulated prices in effect for electricity generated from regulated facilities for the period from January 1, 2018 to December 31, 2021:

($/MWh)	**2018**	**2019**	**2020**	**2021**
Regulated – Nuclear Generation				
Base regulated price [1]	78.64	**77.00**	85.00	89.70
Interim period shortfall rider [2]	2.88	**7.71**	5.64	-
Deferral and variance account rate riders [3]	1.05	**4.99**	4.32	6.13
	82.57	**89.70**	94.96	95.83
Regulated – Hydroelectric				
Base regulated price [4]	42.05	**42.51**	n/a	n/a
Interim period shortfall rider [2]	0.13	**0.35**	0.24	-
Deferral and variance account rate riders [3]	0.52	**2.60**	2.26	2.05
	42.70	**45.46**	n/a	n/a

1 Base regulated prices for nuclear facilities presented do not include amounts deferred in the Rate Smoothing Deferral Account. These prices were established by the payment amounts order issued by the OEB in March 2018 using a rate smoothing approach that defers a portion of each year's approved nuclear revenue requirement for future collection in the Rate Smoothing Deferral Account. Amounts deferred in the Rate Smoothing Deferral Account for future collection are recorded as revenue in the period to which the underlying approved revenue requirement relates.

2 In its payment amounts order issued in March 2018, the OEB authorized separate rate riders to allow for the recovery of the revenue shortfall between the new base regulated prices approved with an effective date of June 1, 2017 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 portion of the interim period revenue shortfall amount to be collected in the future is recognized as a regulatory asset.

3 Beginning in 2018, deferral and variance account riders reflect the OEB's March 2018 payment amounts order that authorized recovery of balances recorded in deferral and variance accounts as at December 31, 2015. Beginning in 2019, these riders also reflect the OEB's February 21, 2019 decision and order that authorized recovery of balances recorded in deferral and variance accounts as at December 31, 2017.

4 Base regulated prices for regulated hydroelectric facilities for 2020 and 2021 will be determined annually through a formulaic adjustment using the OEB-approved incentive regulation formula and OEB-published inflation indices.

Ensuring Availability of Cost Effective Funding

In April 2019, 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

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's Social Licence initiatives and activities are discussed in the section, *Environmental, Social, Governance and Sustainability*.

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 and the generation performance of the nuclear and hydroelectric fleet.

Based on the OEB-approved regulated prices and anticipated generation performance and outage plans for the generation fleet, OPG expects its existing operations to provide a largely consistent level of net income and ROE Excluding AOCI in 2019, compared to 2018, excluding the impact of the sale of the former Lakeview GS site and the refundable tax credit in 2018. The increase in the regulated prices in 2019, as set out under the heading above, *Financial Strength – Increasing Revenue, Reducing Costs and Achieving Appropriate Return*, is expected to contribute to an improvement in cash flow from operating activities during 2019, compared to 2018.

Several regulatory accounts will continue to reduce the relative variability of the regulated operations' contribution to the Company's net income, particularly for the Regulated – Hydroelectric Generation segment. 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 such, earnings from the Regulated – Hydroelectric segment are expected to continue to be generally stable on a year-over-year basis.

There are no regulatory accounts in place related to the impact of variability in the nuclear stations' generation performance on revenue from base regulated prices. OPG continues to operate and maintain its nuclear facilities with a view to optimize their performance and availability, building on recent initiatives to improve the overall reliability and predictability of the fleet. Taking into account the stations' cyclical maintenance schedule, earnings from the Regulated – Nuclear segment during 2019 are expected to be comparable to 2018.

Energy and capacity provided by most of OPG's non-regulated assets is subject to Energy Supply Agreements with the IESO or other long-term power purchase agreements. Based on these agreements, OPG expects existing operations of the Contracted and Other Generation segment to contribute a generally stable level of earnings and cash flow from operating activities in 2019, taking into account the acquisition of Eagle Creek and the closure of the Thunder Bay GS in 2018, and the commencement of the Nanticoke solar facility's operations in March 2019.

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, nuclear outage profile and water flows may also impact TGC measures in future periods.

OPG's total forecast capital expenditures for the 2019 year are approximately $2.1 billion. This includes amounts for the Darlington Refurbishment project, hydroelectric and other development projects, and sustaining capital investments across the generating fleet. OPG's major projects are discussed in the section, *Core Business, Strategy and Outlook* under the heading, *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 fixed asset removal and nuclear waste management segregated funds (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. While the Nuclear Segregated Funds are managed to achieve, in the long term, the target rate of return based on the discount specified in the ONFA, the rates of return earned in a given period can be subject to volatility due to 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, and can cause fluctuations in the Company's income in the short term. This volatility is partially 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, 2019, the Decommissioning Segregated Fund was overfunded by approximately 27 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. No overall contributions to the Nuclear Segregated Funds are currently expected until the end of 2021 when the next update of the ONFA reference plan is scheduled. At that time, the value of the funds will be compared to the respective underlying funding liabilities to determine any required future contributions.

OPG's current results also include the earnings from the Fair Hydro Trust, primarily related to interest income from the Trust. As discussed in the section, *Recent Developments*, the amendments to the Fair Hydro Act as outlined in the Fixing the Hydro Mess Act, including those eliminating the need for and ability of the Trust to acquire additional Investment Interests or issue additional funding obligations, are not expected to have a material impact to OPG's consolidated net income.

ENVIRONMENTAL, SOCIAL, GOVERNANCE AND SUSTAINABILITY

Environmental and Sustainability

Under the federal *Greenhouse Gas Pollution Pricing Act* (GGPPA), an Output-Based Pricing System (OBPS) for industrial facilities took effect on January 1, 2019 and a fuel charge came into effect on April 1, 2019 in Ontario. OPG has implemented processes to comply with the federal requirements and recover associated carbon costs to the extent possible. The federal pricing system is not expected to have a material financial impact on the Company. A proposed fuel-specific output-based standard for the electricity sector is expected to be finalized by mid-2019 and applied retroactively to January 1, 2019.

In 2018, the Government of Ontario launched a legal challenge over the constitutionality of the federal GGPPA. In February 2019, the Government of Ontario proposed an industrial Emissions Performance Standard (EPS) to provide flexibility for Ontario circumstances as an alternative to the OBPS portion of the federal GGPPA while Ontario's constitutional reference regarding the GGPPA is pending. The Government of Ontario announced that it intends to have the EPS program in place by summer of 2019 and applicable to emissions as of January 1, 2019. OPG continues to monitor developments of this program.

Climate Change

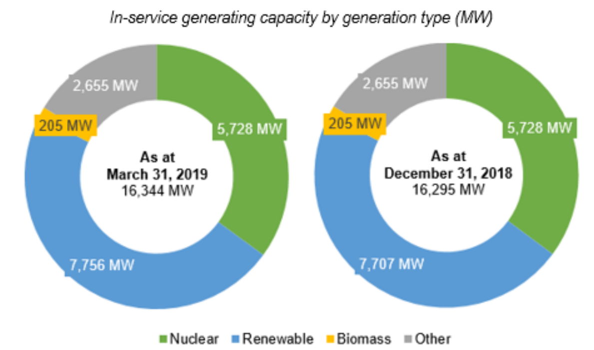
During the three months ended March 31, 2019, OPG undertook the following actions to advance its strategy of investing in the generation of clean and sustainable energy:

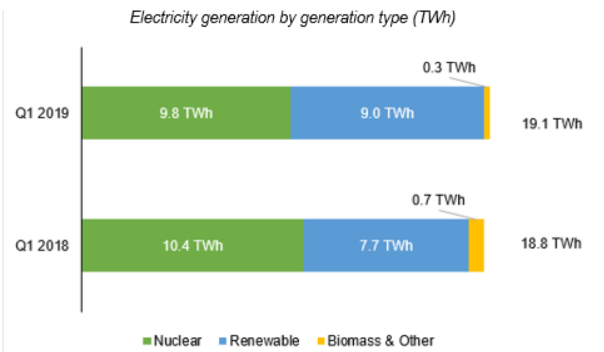
- In March 2019, the 44 MW Nanticoke solar facility was placed into service. Built on the former lands of the coal-fuelled Nanticoke GS, the facility represents the first solar facility operated by OPG, through the Nanticoke Solar LP.
- In March 2019, the Company acquired the 9 MW Little Quinnesec GS in Niagara, Wisconsin, through its wholly-owned subsidiary, Eagle Creek.
- In January 2019, OPG issued its second green bond offering under the existing Medium Term Note Program, raising $500 million. The proceeds raised from green bonds must be used to finance or refinance eligible projects under OPG's Green Bond Framework, which adheres to the Green Bond Principles issued by the International Capital Markets Association. OPG's Green Bond Framework requires that the proceeds be utilized for investments that supply energy from renewable sources (i.e. hydroelectric, solar or wind), help to reduce energy consumption, or manage and store energy.

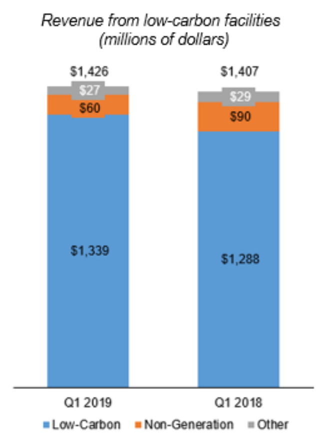
Performance and Key Climate-Related Metrics

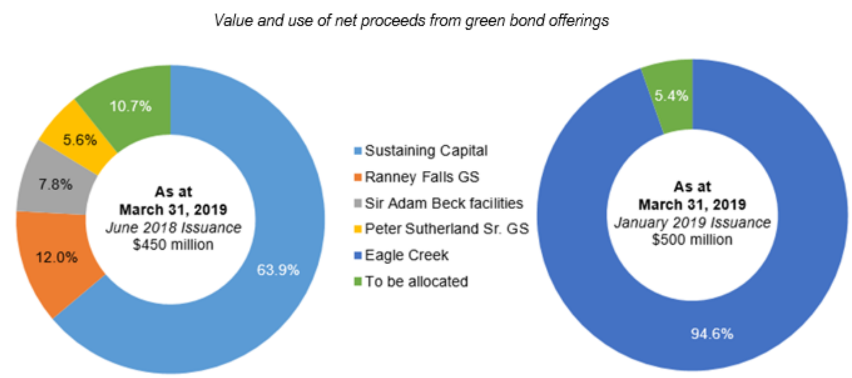
Pending development of longer-term metrics and targets for climate change adaptation, OPG has identified certain initial current metrics that it considers relevant to stakeholders. These are outlined below.

Climate change metrics









In-service generating capacity [1] *by generation type (MW)*	In-service generating capacity from renewable sources increased during the first quarter of 2019 with the commencement of commercial operations of the Nanticoke solar facility and the acquisition of the Little Quinnesec GS.
Electricity generation by generation type (TWh)	Over 98 percent of OPG's electricity generation continues to be supplied by low-carbon sources, comprised of Nuclear, Renewable and Biomass generation.
Revenue from low-carbon facilities (millions of dollars)	Approximately 98 percent of OPG's revenue from operations continues to be derived from low-carbon facilities. Revenue from low-carbon generation increased in the first quarter of 2019, compared to the same quarter in 2018, mainly due to revenue from Eagle Creek's operations acquired in November 2018.
Value and use of net proceeds from green bond offerings	OPG issued its second green bond offering in January 2019. The net proceeds from this $500 million issuance have been allocated primarily toward the Eagle Creek acquisition. The Company plans to issue its first annual Green Bond Impact Report in the second quarter of 2019. It will be available on the Company's website at www.opg.com.

[1] The in-service generating capacity at March 31, 2019 and December 31, 2018 includes OPG's share of in-service generating capacity of 275 MW for PEC and 280 MW for Brighton Beach, within Other.

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.

Annual public dose	2018		2017	
	µSv	**% of annual legal limit** [1]	**µSv**	**% of annual legal limit**
Darlington GS	**0.8**	**0.1%**	0.7	0.1%
Pickering GS	**2.1**	**0.2%**	1.8	0.2%

[1] The annual legal limit is 1,000 µSv for each nuclear generating station.

Indigenous Relations

OPG believes in 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, transparency and mutual responsibility. OPG's commitment in this area includes pursuing generation-related development partnerships on the basis of long-term commercial arrangements and other joint projects.

As at March 31, 2019, OPG's in-service generation capacity of facilities constructed in partnership with Indigenous communities was 522 MW (December 31, 2018 – 478 MW). For the quarter ended March 31, 2019, revenues earned from facilities in partnership with Indigenous communities were $60 million (March 31, 2018 – $61 million).
In March 2019, the 44 MW Nanticoke solar facility was placed in-service. The facility will operate under a LRP I contract with the IESO through Nanticoke Solar LP, a partnership between OPG, Six Nations of Grand River Development Corporation, and the Mississaugas of the Credit First Nation.

OPG's Indigenous Opportunities in Nuclear (ION) program has entered its second year. The program, which is a collaboration between OPG, Electrical Power Systems Construction Association (EPSCA), Kagita Mikam Aboriginal Employment and Training, partnering unions and vendors utilizing the Darlington Refurbishment as a catalyst, continues to place Indigenous candidates in the building trades, such as carpenters, boilermakers and millwrights. OPG is assessing possible expansion of the ION model to other parts of the Company.

In February 2019, OPG joined the Canadian Electricity Association in appearing before the House of Commons Standing Committee for Natural Resources related to the committee's current study of international best practices for engaging with Indigenous communities on major energy projects. The appearance provided an opportunity to share information about OPG's proactive approach to working in collaboration and partnership with Indigenous communities in the context of major project development, including in the areas of engagement and consultation, capacity building, employment and training, procurement and economic participation.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

(millions of dollars)	Three Months Ended March 31 2019	2018
Revenue	**885**	880
Fuel expense	**70**	73
Gross margin	**815**	807
Operations, maintenance and administration	**622**	604
Depreciation and amortization	**167**	121
Property taxes	**6**	7
Income before interest and income taxes	**20**	75

Income before interest and income taxes from the segment decreased by $55 million during the first quarter of 2019, compared to the same quarter in 2018.

Lower electricity generation of 0.6 TWh during the first quarter of 2019, as a result of higher planned outage days compared to the same quarter in 2018, decreased segment revenue by approximately $43 million. The increase in planned outage days also resulted in higher associated OM&A costs for the quarter.

The higher rate riders for the recovery of deferral and variance accounts in effect during the first quarter of 2019 contributed to an increase in revenue compared to the same period in 2018. This increase in revenue was largely offset by a corresponding increase in the amortization expense related to these balances.

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

	Three Months Ended March 31 2019	2018
Unit Capability Factor *(%)*		
Darlington GS	**72.6**	96.5
Pickering GS	**86.7**	74.5

The lower Unit Capability Factor at the Darlington GS in the first quarter of 2019, compared to the same quarter in 2018, primarily reflected an increase in planned outage days from five planned outage days in the first quarter of 2018 to 74 in the first quarter of 2019, in line with the station's 36-month cyclical maintenance schedule.

The higher Unit Capability Factor at the Pickering GS in the first quarter of 2019, compared to the same quarter in 2018, primarily reflected a decrease in planned outage days from 116 in the first quarter of 2018 to 63 in the first quarter of 2019, in line with the station's 30-month cyclical maintenance schedule.

Regulated – Nuclear Waste Management Segment

(millions of dollars)	Three Months Ended March 31 2019	2018
Revenue	**31**	33
Operations, maintenance and administration	**31**	33
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**252**	243
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(220)**	(210)
Loss before interest and income taxes	**(32)**	(33)

The segment loss before interest and income taxes was $32 million in the first quarter of 2019, which is comparable to the same quarter of 2018.

The higher earnings from the Nuclear Segregated Funds, net of the impact of the Bruce Lease Net Revenue Variance Account, was primarily due to the growth 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 Segregated Fund were in an overfunded position during the three months ended March 31, 2019 and March 31, 2018, they 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 2018 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds*.

The higher accretion expense in the nuclear fixed asset removal and nuclear waste management liabilities (Nuclear Liabilities) was mainly due to the increase in the present value of the underlying obligation to reflect the passage of time.

Regulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended March 31 2019	2018
Revenue [1]	**381**	356
Fuel expense	**66**	65
Gross margin	**315**	291
Operations, maintenance and administration	**77**	80
Depreciation and amortization	**57**	36
Income before other losses, interest and income taxes	**181**	175
Other losses	**1**	4
Income before interest and income taxes	**180**	171

[1] During three months ended March 31, 2019 and 2018, the segment revenue included incentive payments of $5 million and $1 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 increased by $9 million during the first quarter of 2019, compared to the same quarter in 2018. The increase in earnings was primarily a result of an increase in revenue of approximately $4 million reflecting an increase in the base regulated price approved by the OEB in December 2018 pursuant to an annual formulaic adjustment, effective from January 1, 2019 to December 31, 2019, and higher revenue of $4 million under the hydroelectric incentive mechanism.

The higher rate riders for the recovery of deferral and variance accounts in effect during the first quarter of 2019 contributed to an increase in revenue compared to the same period in 2018. This increase in revenue was largely offset by a corresponding increase in amortization expense related to these balances.

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

	Three Months Ended March 31	
	2019	**2018**
Hydroelectric Availability *(%)*	**90.1**	87.3

The Hydroelectric Availability increased in first quarter of 2019, compared to the same quarter in 2018, primarily due to fewer unplanned outage days at regulated hydroelectric stations in the eastern and northwestern Ontario regions.

Contracted and Other Generation Segment

	Three Months Ended March 31	
(millions of dollars)	**2019**	**2018**
Revenue	**155**	149
Fuel expense	**12**	17
Gross margin	**143**	132
Operations, maintenance and administration	**50**	41
Depreciation and amortization	**30**	20
Accretion on fixed asset removal liabilities	**2**	2
Property taxes	**3**	1
Income from investments subject to significant influence	**(13)**	(10)
Income before interest and income taxes	**71**	78

Income before interest and income taxes from the segment decreased by $7 million during the first quarter of 2019, compared to the same quarter in 2018. The decrease in earnings primarily reflected higher OM&A expenditures at the Lower Mattagami and Lennox generating stations for increased overhaul activities in the first quarter of 2019.

The Hydroelectric Availability and the Thermal Equivalent Forced Outage Rate (EFOR) for the assets operated by OPG within the Contracted and Other Generation segment in Ontario were as follows:

	Three Months Ended March 31	
	2019	**2018**
Hydroelectric Availability *(%)*	**86.5**	80.1
Thermal EFOR *(%)*	**6.8**	0.3

The Hydroelectric Availability increased in the first quarter of 2019, compared to the same quarter in 2018, primarily due to fewer planned outages at the contracted hydroelectric stations in the northeastern Ontario region.

The Thermal EFOR increased in the first quarter of 2019, compared to the same quarter in 2018, primarily due to a higher number of planned and unplanned outage days at the Lennox GS for overhaul activities.

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, undertake major projects and business acquisitions, fund long-term obligations such as contributions to the pension fund and the Nuclear Segregated Funds, make payments under the OPEB plans, fund expenditures on Nuclear Liabilities not eligible for reimbursement from the Nuclear Segregated Funds, service and repay long-term debt, and provide general working capital.

Changes in cash and cash equivalents for the three months ended March 31, 2019 and 2018 were as follows:

	Three Months Ended March 31	
(millions of dollars)	**2019**	**2018**
Cash, cash equivalents and restricted cash, beginning of period	**313**	234
Cash flow provided by operating activities	**575**	226
Cash flow used in investing activities	**(553)**	(604)
Cash flow provided by financing activities	**177**	472
Effect of exchange rate changes on cash, cash equivalents and restricted cash	**(1)**	-
Net increase in cash, cash equivalents and restricted cash	**198**	94
Cash and cash equivalents and restricted cash, end of period	**511**	328

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

Cash flow used in investing activities during the first quarter of 2019 decreased by $51 million compared to the same quarter in 2018. The decrease in cash flow used in investing activities was primarily due to the purchases of Investment Interest from the IESO by the Fair Hydro Trust in March 2018, largely offset by higher investments in fixed assets in the first quarter of 2019 and the one-time receipt of proceeds from the sale of the former Lakeview GS site in March 2018.

Financing Activities

Cash flow provided by financing activities during the first quarter of 2019 was $177 million primarily reflecting the issuance of senior notes under OPG's Medium Term Note Program as a green bond offering, partially offset by the repayments of senior notes to the OEFC and short-term debt.

Cash flow provided by financing activities in the first quarter of 2019 decreased by $295 million compared to the same quarter in 2018. The decrease was primarily due to higher net repayments of short-term debt in the first three months of 2019, proceeds received from the March 2018 issuance of Class A shares to the Province and net issuances of debt by the Fair Hydro Trust in the first three months of 2018. These factors were partially offset by the special dividend paid to the Shareholder in March 2018.

BALANCE SHEET HIGHLIGHTS

Highlights of OPG's interim consolidated financial position are noted below:

	As At	
(millions of dollars)	**March 31 2019**	**December 31 2018**
Property, plant and equipment – net	**23,329**	22,987
The increase was primarily due to capital expenditures on the Darlington Refurbishment and other projects. The increase was partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds *(current and non-current portions)*	**17,692**	17,483
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.		
Long-term debt *(current and non-current portions)*	**7,920**	7,556
The increase was primarily due to the issuance of senior notes payable under the Company's Medium Term Note Program. The increase was partially offset by debt repayments.		
Fixed asset removal and nuclear waste management liabilities	**21,445**	21,225
The increase was primarily a result of accretion expense, partially offset by expenditures on nuclear fixed asset removal and nuclear 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 consolidated financial statements or are recorded in the Company's 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 OPG's audited consolidated financial statements as at and for the year ended December 31, 2018. A discussion of recent accounting pronouncements and changes in accounting estimate are included in Note 2 to OPG's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2019. OPG's critical accounting policies are consistent with those noted in OPG's 2018 annual MD&A.

RISK MANAGEMENT

The following provides an update to the discussion of the Company's risks and risk management activities included in OPG's 2018 annual MD&A.

Risks to Achieving Operational Excellence

Labour Relations

In April 2019, the labour arbitration concluded the renewal process for the collective agreement with the PWU, as per legislation passed by the Government of Ontario in December 2018. This has reduced the Company's labour relations risk for the three-year term of the arbitrated agreement.

The process for the renewal of the collective agreement with the Society of United Professionals (Society) has commenced. Under the current collective agreement, Society-represented employees do not have the right to strike or lock-out. If the parties are unable to reach a renewal collective agreement, the terms of the renewal collective agreement would be decided through mediation/arbitration. There is a risk that renewal of the collective agreement with the Society may include terms that will unfavourably impact OPG's costs.

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.

	2019 [1]	2020	2021
Estimated fuel requirements hedged [2]	78%	76%	75%

[1] Based on actual fuel requirements hedged for the three months ended March 31, 2019 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 in Ontario, 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. In addition, volatility in the Canadian/US foreign exchange rate also impacts OPG's financial results from its Eagle Creek subsidiary, whose operations are based exclusively in the US.

Credit

The Company's credit risk exposure is a function of its electricity sales, trading, hedging activities, and 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, 2019 was $455 million, including $436 million with 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 in Ontario. 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.

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 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, the IESO and the OEFC. 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 one of several wholly-owned government business enterprises 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.

Related party transactions are summarized below:

	Three Months Ended March 31			
	2019		**2018**	
(millions of dollars)	**Income**	**Expense**	**Income**	**Expense**
Hydro One				
Electricity sales	**3**	**-**	4	-
Services	**-**	**2**	-	5
Dividends	**2**	**-**	2	-
Province of Ontario				
Change in Decommissioning Segregated Fund amount due to Province [1]	**-**	**530**	2	-
Change in Used Fuel Segregated Fund amount due to Province [1]	**-**	**657**	21	-
Hydroelectric gross revenue charge	**-**	**29**	-	28
OEFC				
Hydroelectric gross revenue charge	**-**	**41**	-	38
Interest expense on long-term notes	**-**	**36**	-	37
Income taxes	**-**	**57**	-	53
IESO				
Electricity related revenue	**1,323**	**-**	1,232	-
Earnings from Fair Hydro Trust	**17**	**-**	11	-
	1,345	**1,352**	1,272	161

[1] The Nuclear Segregated Funds are reported on the consolidated balance sheets net of amounts recognized as due to the Province in respect of any excess funding and, for the Used Fuel Segregated Fund, the Province's rate of return guarantee. As at March 31, 2019 and December 31, 2018, the Nuclear Segregated Funds were reported net of amounts due to the Province of $4,683 million and $3,496 million, respectively.

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

(millions of dollars)	**March 31 2019**	**December 31 2018**
Receivables from related parties		
Hydro One	**1**	1
IESO – Electricity related receivables	**436**	478
IESO – Fair Hydro Trust [1]	**2**	2
OEFC	**7**	-
PEC	**1**	2
Province of Ontario	**5**	-
Financing receivables		
IESO – Fair Hydro Trust	**1,788**	1,788
Equity Securities		
Hydro One shares	**151**	153
Accounts payable and accrued charges		
Hydro One	**2**	4
OEFC	**37**	50
Province of Ontario	**9**	8
IESO − Electricity related payables	**4**	8
IESO – Fair Hydro Trust	**15**	13
Long-term debt (including current portion)		
Notes payable to OEFC	**3,260**	3,400

[1] Balance consists of unbilled 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, 2019, the Nuclear Segregated Funds held $1,414 million of Province of Ontario bonds (December 31, 2018 − $1,399 million) and $1 million of Province of Ontario treasury bills (December 31, 2018 − $2 million). As of March 31, 2019, the registered pension fund held $49 million of Province of Ontario bonds (December 31, 2018 − $41 million) and no Province of Ontario treasury bills (December 31, 2018 − nil). 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.

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 (1) the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected due to either of the following events: a) the Province changes the Fair Hydro Act or any other legislation or regulation; or b) the Province undertakes a significant change in Ontario's electricity market; or (2) a court declares that the Fair Hydro Act is invalid or unconstitutional.

On May 9, 2019, the Fixing the Hydro Mess Act received Royal Assent and will come into force in November 2019. The Fixing the Hydro Mess Act is discussed further in the section, *Recent Developments* under the heading, *Amendments to Ontario's Fair Hydro Plan Act*.

INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

The Company maintains a comprehensive system of policies, procedures, and processes that represents its framework for internal control 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 financial statements.

QUARTERLY FINANCIAL HIGHLIGHTS

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

(millions of dollars – except where noted)	**March 31 2019**	**December 31 2018**	**September 30 2018**	**June 30 2018**
Revenue	**1,426**	**1,475**	**1,373**	**1,282**
Net income	**217**	**265**	**283**	**126**
Less: Net income attributable to non-controlling interest	**4**	**5**	**4**	**5**
Net income attributable to the Shareholder	**213**	**260**	**279**	**121**
Earnings per share, attributable to the Shareholder *(dollars)*	**$0.78**	**$0.95**	**$1.02**	**$0.44**

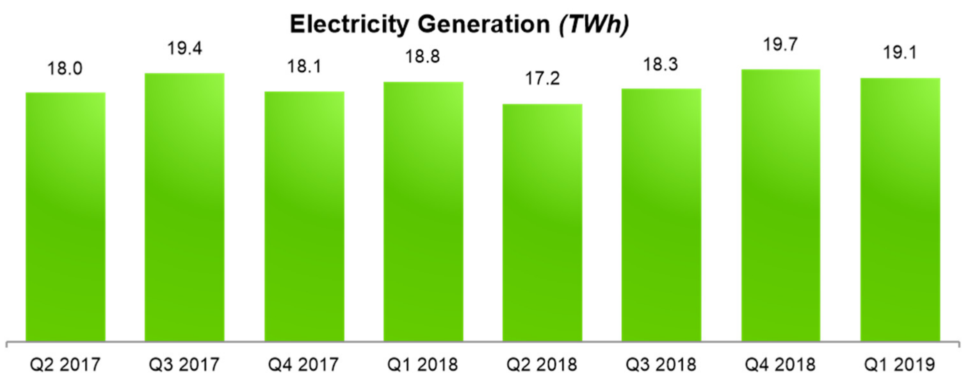
(millions of dollars – except where noted)	**March 31 2018**	**December 31 2017**	**September 30 2017**	**June 30 2017**
Revenue	1,407	1,619	1,217	1,146
Net income	539	366	140	307
Less: Net income attributable to non-controlling interest	4	4	9	4
Net income attributable to the Shareholder	535	362	131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

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. 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 the OEB-authorized 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. The Unit 2 refurbishment outage at the Darlington GS, which began in October 2016, has reduced electricity generation from 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 as discussed in the 2018 annual MD&A in the section, *Risk Management* under the heading, *Risks to Maintaining Financial Strength – Nuclear Liabilities and Nuclear Segregated Funds.*



KEY OPERATING PERFORMANCE INDICATORS AND NON-GAAP FINANCIAL MEASURES

Key Operating Performance Measures

OPG evaluates the performance of its generating stations in Ontario using a number of key indicators. Key operating performance indicators aligned with corporate strategic imperatives are measures of production reliability, cost effectiveness, environmental performance and safety performance. Certain of the measures used vary depending on the generating technology.

Nuclear Unit Capability Factor

OPG's nuclear stations are baseload facilities that are not designed for fluctuating production levels to meet peaking demand. The nuclear Unit Capability Factor is a key measure of nuclear station performance. It measures the amount of energy that the unit(s) generated over a period of time, adjusted for externally imposed constraints such as transmission or demand limitations, as a percentage of the amount of energy that would have been produced over the same period had the unit(s) produced maximum generation. Capability factors are primarily affected by planned and unplanned outages. An outage day represents a single unit being offline or derated for an amount of time equivalent to one day. By industry definition, capability factors exclude production losses beyond plant management's control, such as grid-related unavailability. The nuclear Unit Capability Factor also excludes unit(s) during the period in which they are undergoing refurbishment. Accordingly, Unit 2 of the Darlington GS has been excluded from the measure since October 2016, when the unit was taken offline as part of the Darlington Refurbishment project. As at March 31, 2019, the Darlington GS had three units in service and the Pickering GS had six units in service.

Hydroelectric Availability

OPG's hydroelectric stations operate as baseload, intermediate or peaking stations. Hydroelectric Availability represents the percentage of time the generating unit is capable of providing service, whether or not it is actually generating electricity, compared to the total time for the respective period, weighted by unit capacity.

Thermal Equivalent Forced Outage Rate

EFOR is an index of the reliability of a generating unit at OPG's thermal stations. It is measured by the ratio of time a generating unit is forced out of service by unplanned events, including any forced deratings, compared to the amount of time the generating unit was available to operate.

Other Key Indicators

In addition to production reliability, cost effectiveness and financial performance indicators, OPG has identified certain environmental and safety performance measures. These measures are discussed in the section, *Environmental, Social, Governance and Sustainability*.

Non-GAAP Financial Performance 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, cash flow provided by operating activities 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 an indicator of OPG's financial performance consistent with its objective to deliver value to the Shareholder. It 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)	**March 31 2019**	**December 31 2018**
ROE Excluding AOCI		
Net income attributable to the Shareholder	**873**	1,195
Divided by: Average equity attributable to the Shareholder, excluding AOCI	**12,949**	12,623
ROE Excluding AOCI *(percent)*	**6.7**	9.5

(2) Enterprise Total Generating Cost per MWh is used to measure the overall cost performance of OPG's generating operations in Ontario. Enterprise TGC per MWh is defined as OM&A expenses (excluding the Darlington Refurbishment project, other generation development project and business development costs, Eagle Creek, the impact of regulatory accounts, the Fair Hydro Trust 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, other generation development projects and Eagle Creek) incurred during the period, divided by total electricity generation from OPG-operated generating stations in Ontario plus electricity generation forgone due to SBG conditions in Ontario during the period.

Enterprise TGC per MWh is calculated as follows for the three month periods ended March 31:

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2019**	**2018**
Enterprise TGC		
Total OM&A expenses	**749**	722
Total fuel expense	**148**	155
Total capital expenditures	**474**	359
Less: Darlington Refurbishment capital and OM&A costs	**(295)**	(259)
Less: Other generation development project and business development capital and OM&A costs	**(25)**	(17)
(Less) Add: OM&A and fuel expenses (refundable through) deferred in regulatory accounts	**(15)**	26
Less: Nuclear fuel expense for non OPG-operated stations	**(15)**	(15)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	**3**	6
Less: OM&A expenses ancillary to electricity generation business	**(5)**	(4)
Less: OM&A expenses and capital expenditures related to Eagle Creek	**(32)**	-
Other adjustments	**(5)**	-
	982	973
Adjusted electricity generation *(TWh)*		
Total OPG electricity generation	**19.1**	18.8
Adjust for electricity generation forgone due to SBG conditions, OPG's share of electricity generation from co-owned facilities and Eagle Creek	**(0.3)**	0.7
	18.8	19.5
Enterprise TGC per MWh *($/MWh)* [1]	**52.12**	**49.84**

[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 in Ontario. 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.

Nuclear TGC per MWh is calculated as follows for the three month periods ended March 31:

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2019**	**2018**
Nuclear TGC		
Regulated – Nuclear Generation OM&A expenses	**622**	604
Regulated – Nuclear Generation fuel expense	**70**	73
Regulated – Nuclear Generation capital expenditures	**370**	313
Less: Darlington Refurbishment capital and OM&A costs	**(295)**	(259)
(Less) Add: Regulated – Nuclear Generation OM&A and fuel expenses (refundable through) deferred in regulatory accounts	**(19)**	24
Less: Nuclear fuel expense for non OPG-operated stations	**(15)**	(15)
Less: Regulated – Nuclear Generation OM&A expenses ancillary to electricity generation business	**(1)**	(2)
Other adjustments	**(2)**	(1)
	730	737
Nuclear electricity generation *(TWh)*	**9.8**	10.4
Nuclear TGC per MWh *($/MWh)* [1]	**74.36**	70.90

[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 in Ontario. Hydroelectric TGC per MWh is defined as OM&A expenses of the Regulated – Hydroelectric segment and the hydroelectric facilities included in the Contracted and Other Generation segment (excluding Eagle Creek and 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 and Other Generation segment (excluding expenditures related to Eagle Creek and generation development projects) incurred during the period, divided by OPG's total hydroelectric electricity generation in Ontario plus hydroelectric electricity generation forgone due to SBG conditions in Ontario during the period. OPG reports hydroelectric gross revenue charge and water rental payments as fuel expense.

Hydroelectric TGC per MWh is calculated as follows for the three month periods ended March 31:

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2019**	**2018**
Hydroelectric TGC		
Regulated – Hydroelectric OM&A expenses	**77**	80
Regulated – Hydroelectric fuel expense	**66**	65
Contracted and Other Generation OM&A expenses	**50**	41
Contracted and Other Generation fuel expense	**12**	17
Regulated – Hydroelectric and Contracted and Other Generation capital expenditures	**86**	36
Less: Regulated – Hydroelectric and Contracted and Other Generation generation development project capital and OM&A costs (excluding Eagle Creek)	**(24)**	(18)
Less: Thermal OM&A and fuel expenses and capital expenditures in the Contracted and Other Generation segment	**(34)**	(44)
Add: Regulated – Hydroelectric OM&A and fuel expenses deferred in regulatory accounts	**4**	2
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	**3**	6
Less: OM&A expenses and capital expenditures related to Eagle Creek	**(32)**	-
	208	185
Adjusted hydroelectric electricity generation *(TWh)*		
Regulated – Hydroelectric electricity generation	**8.2**	7.7
Contracted and Other Generation electricity generation	**1.1**	0.7
Adjust for hydroelectric electricity generation forgone due to SBG conditions, and Eagle Creek and non-hydroelectric electricity generation of Contracted and Other Generation segment, including OPG's share of generation from co-owned facilities	**(0.3)**	0.7
	9.0	9.1
Hydroelectric TGC per MWh *($/MWh)* [1]	**22.97**	20.42

[1] Amounts may not calculate due to rounding.

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

For further information, please contact:	Investor Relations	416-592-6700
		investor.relations@opg.com
	Media Relations	416-592-4008
		1-877-592-4008
		media@opg.com

www.opg.com

www.sedar.com

ONTARIO POWER GENERATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

MARCH 31, 2019

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2019**	**2018**
Revenue	**1,426**	1,407
Fuel expense	**148**	155
Gross margin	**1,278**	1,252
Operations, maintenance and administration	**749**	722
Depreciation and amortization	**266**	186
Accretion on fixed asset removal and nuclear waste management liabilities	**255**	247
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(220)**	(210)
Property taxes	**10**	9
Income from investments subject to significant influence	**(13)**	(10)
	1,047	944
Income before other gains, interest and income taxes	**231**	308
Other gains *(Note 19)*	**(12)**	(263)
Income before interest and income taxes	**243**	571
Net interest expense *(Note 7)*	**18**	19
Income before income taxes	**225**	552
Income tax expense	**8**	13
Net income	**217**	539
Net income attributable to the Shareholder	**213**	535
Net income attributable to non-controlling interest	**4**	4
Basic and diluted earnings per share *(dollars) (Note 15)*	**0.78**	1.99

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2019**	**2018**
Net income	**217**	539
Other comprehensive (loss) income, net of income taxes *(Note 10)*		
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
Currency translation adjustment [3]	**(10)**	-
Other comprehensive (loss) income for the period	**(3)**	7
Comprehensive income	**214**	546
Comprehensive income attributable to the Shareholder	**210**	542
Comprehensive income attributable to non-controlling interest	**4**	4

1 Net of income tax expenses of $1 million each for the three months ended March 31, 2019 and 2018.

2 Net of income tax expenses of $1 million each for the three months ended March 31, 2019 and 2018.

3 Net of income tax expenses of nil each for the three months ended March 31, 2019 and 2018.

See accompanying notes to the interim consolidated financial statements.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2019**	**2018**
Operating activities		
Net income	**217**	539
Adjust for non-cash items:		
Depreciation and amortization	**266**	186
Accretion on fixed asset removal and nuclear waste management liabilities	**255**	247
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(220)**	(210)
Pension and other post-employment benefit costs *(Note 11)*	**110**	99
Deferred income taxes	**(41)**	(6)
Regulatory assets and regulatory liabilities	**77**	(141)
Other gains	**(2)**	(257)
Other	**(9)**	(13)
Expenditures on fixed asset removal and nuclear waste management	**(76)**	(63)
Reimbursement of eligible expenditures on nuclear fixed asset removal and nuclear waste management	**14**	23
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	**(77)**	(79)
Distributions received from investments subject to significant influence	**15**	12
Net changes to other long-term assets and long-term liabilities	**6**	43
Net change in non-cash working capital balances *(Note 18)*	**40**	(154)
Cash flow provided by operating activities	**575**	226
Investing activities		
Investment in property, plant and equipment and intangible assets	**(553)**	(417)
Net proceeds from sale of property, plant and equipment	**-**	273
Acquisition of Fair Hydro Trust financing receivables	**-**	(460)
Cash flow used in investing activities	**(553)**	(604)
Financing activities		
Issuance of Class A shares	**-**	202
Net proceeds from issuance of OPG long-term debt *(Note 7)*	**497**	600
Repayment of OPG long-term debt	**(140)**	(275)
Net proceeds from issuance of Fair Hydro Trust long-term debt	**-**	732
Repayment of Fair Hydro Trust revolving warehouse debt	**-**	(500)
Distribution to non-controlling interest	**(4)**	(4)
Dividend to the Province's Consolidated Revenue Fund	**-**	(283)
Issuance of short-term debt	**692**	1,295
Repayment of short-term debt	**(868)**	(1,295)
Cash flow provided by financing activities	**177**	472
Effect of exchange rate changes on cash, cash equivalents and restricted cash	**(1)**	-
Net increase in cash, cash equivalents and restricted cash	**198**	94
Cash, cash equivalents and restricted cash, beginning of period	**313**	234
Cash, cash equivalents and restricted cash, end of period	**511**	328

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2019**	**December 31 2018**
Assets		
Current assets		
Cash, cash equivalents and restricted cash *(Note 4)*	**511**	313
Equity securities *(Note 13)*	**151**	153
Receivables from related parties	**452**	483
Nuclear fixed asset removal and nuclear waste management funds *(Note 13)*	**29**	19
Inventory	**399**	397
Regulatory assets *(Note 6)*	**632**	490
Prepaid expenses	**120**	116
Other current assets	**144**	167
	2,438	2,138
Property, plant and equipment	**32,708**	32,209
Less: accumulated depreciation	**9,379**	9,222
	23,329	22,987
Intangible assets	**469**	467
Less: accumulated amortization	**221**	211
	248	256
Goodwill	**105**	107
Other non-current assets		
Nuclear fixed asset removal and nuclear waste management funds *(Note 13)*	**17,663**	17,464
Financing receivables *(Note 13)*	**1,788**	1,788
Inventory	**370**	347
Regulatory assets *(Note 6)*	**6,550**	6,769
Investments subject to significant influence	**335**	339
Other long-term assets	**57**	57
	26,763	26,764
	52,883	52,252

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31** **2019**	**December 31** **2018**
Liabilities		
Current liabilities		
Accounts payable, accrued charges and other payables	**1,099**	1,207
Short-term debt *(Note 8)*	**134**	322
Long-term debt due within one year *(Notes 7 and 13)*	**508**	368
Regulatory liabilities *(Note 6)*	**108**	36
	1,849	1,933
Long-term debt *(Notes 7 and 13)*	**7,412**	7,188
Other non-current liabilities		
Fixed asset removal and nuclear waste management liabilities *(Note 9)*	**21,445**	21,225
Pension liabilities	**3,616**	3,642
Other post-employment benefit liabilities	**2,718**	2,697
Long-term accounts payable and accrued charges *(Note 13)*	**306**	250
Deferred revenue	**407**	410
Deferred income taxes	**1,030**	1,018
Regulatory liabilities *(Note 6)*	**763**	762
	30,285	30,004
Equity		
Common shares *(Note 14)*	**5,126**	5,126
Class A shares *(Note 14)*	**787**	787
Retained earnings	**7,505**	7,292
Accumulated other comprehensive loss *(Note 10)*	**(246)**	(243)
Equity attributable to the Shareholder	**13,172**	12,962
Equity attributable to non-controlling interest	**165**	165
Total equity	**13,337**	13,127
	52,883	52,252

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2019**	**2018**
Common shares *(Note 14)*	**5,126**	5,126
Class A shares *(Note 14)*		
Balance at beginning of period	**787**	519
Issuance of Class A shares	**-**	202
Balance at end of period	**787**	721
Retained earnings		
Balance at beginning of period	**7,292**	6,396
Reclassification of cumulative unrealized losses on equity securities to opening retained earnings	**-**	(9)
Adjustment to recognize income tax effects of intercompany transfer of assets to opening retained earnings	**-**	(7)
	7,292	6,380
Net income attributable to the Shareholder	**213**	535
Dividend to the Province's Consolidated Revenue Fund	**-**	(283)
Balance at end of period	**7,505**	6,632
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	**(243)**	(295)
Reclassification of cumulative unrealized losses on equity securities to opening retained earnings	**-**	9
	(243)	(286)
Other comprehensive (loss) income	**(3)**	7
Balance at end of period	**(246)**	(279)
Equity attributable to the Shareholder	**13,172**	12,200
Equity attributable to non-controlling interest		
Balance at beginning of period	**165**	165
Income attributable to non-controlling interest	**4**	4
Distribution to non-controlling interest	**(4)**	(4)
Balance at end of period	**165**	165
Total equity	**13,337**	12,365

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2019 and 2018

1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three months ended March 31, 2019 and 2018 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 (the Province or the Shareholder). 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, 2018.

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; or
- 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 2018 comparative amounts have been reclassified from financial statements previously presented to conform to the 2019 interim consolidated financial statement presentation.

The Company has evaluated subsequent events and transactions through May 14, 2019 and has appropriately reflected events that require disclosure in the notes to these interim consolidated financial statements.

Seasonal Variations

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 surplus baseload generation (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 Ontario Energy Board (OEB) approved regulated prices and the actual water flows are mitigated by the OEB-authorized regulatory variance and deferral accounts (regulatory accounts).

2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

New Accounting Standards Effective in 2019

Lease Accounting

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842) to replace existing lease accounting guidance under *Leases* (Topic 840). The update included comprehensive changes to existing guidance, particularly for lessees, with the aim of increasing transparency and comparability among organizations by requiring the recognition of right-of-use assets and lease liabilities on the balance sheet.

Effective January 1, 2019, OPG adopted Topic 842, utilizing the optional transition method wherein any cumulative impact from adopting the new standard is recognized 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. In transitioning to Topic 842, the Company elected to adopt the package of practical expedients, which permitted OPG to continue the established classification of leases under Topic 840, and did not require a reassessment of the existence of leases within existing or expired contracts nor the treatment of related indirect costs for previously established leases. OPG also adopted the practical expedient within ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, permitting the Company to not undertake an evaluation of existing or expired land easements under this accounting standard prior to its adoption. Any new land easements entered into following adoption of the new standard, along with modification of existing land easements, will be assessed under Topic 842.

A contract is determined to contain a lease if it consists of an identified asset, and the customer in the arrangement has the right to control the use of said asset for a period of time in exchange for consideration. Property, plant or equipment that is physically distinct or whose capacity is substantially received by the customer is representative of an identified asset. The customer’s right to control the use of an identified asset is signified by its rights to obtain substantially all of the economic benefits from the use of the asset and to direct the use of the asset, throughout the period of use. A customer is able to direct the use of the asset if they have the decision-making rights that will most impact the economic benefits derived. Unless explicitly stated, it is presumed an arrangement does not contain substantive substitution rights, wherein it is impractical for the supplier to substitute alternative assets throughout the period of use or obtain any economic benefits from substituting.

As a practical expedient for leasing arrangements in which OPG is the lessee, the lease and non-lease components, if any, are combined and accounted for as a single lease cost. Similarly, as a practical expedient for leasing arrangements in which OPG is the lessor, the Company combines the lease and any non-lease components, and accounts for it as a single lease component. OPG does not account for any non-lease components separately from the combined component.

For arrangements in which OPG is the lessor, the Company has excluded all taxes assessed by a governmental authority on the lease revenue producing transaction, from the consideration in the contract and from variable payments not included in the consideration in the contract.

As permitted by the short-term lease exemption in the standard, OPG has elected not to apply the recognition requirements prescribed by Topic 842 for its short-term leases. Such arrangements include leases that have a term of 12 months or less at the commencement date and do not contain an option to purchase the underlying asset that the entity is reasonably certain to exercise.

When determinable, the rate implicit in the lease is used as the discount rate to calculate the present value of the lease payments related to arrangements in which the Company is the lessee. Otherwise, the incremental borrowing rate is used, which represents the rate of interest OPG would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The incremental borrowing rate for each lease is determined on inception of the leasing arrangement by obtaining an appropriate reference rate, to which any financing spread and lease specific adjustments are applied. The discount rate is reassessed if the respective lease liability is required to be re-measured because of changes in key assumptions or modifications in the underlying contract.

As at January 1, 2019, on implementation of Topic 842, the Company recognized:

(millions of dollars)	**January 1, 2019**	**Balance Sheet Line Item**
Right-of-use asset		
Current	**15**	Other current assets
Non-current	**59**	Property, plant and equipment
	74	
Operating lease liabilities		
Current	**15**	Accounts payable, accrued charges and other payables
Non-current	**63**	Long-term accounts payable and accrued charges
	78	

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 estimate 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 (PP&E), income taxes (including deferred income taxes), contingencies, regulatory assets and regulatory liabilities, goodwill and intangible assets, valuation of investments in segregated funds, depreciation and amortization expenses and inventories. Actual results may differ significantly from these estimates.

Recent Accounting Pronouncements Not Yet Adopted

i) Changes to Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU No. 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans – General* (Subtopic 715-20): *Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* as part of its ongoing efforts to improve the effectiveness of disclosures in notes to financial statements for stakeholders. As part of this update, entities will be required to include additional disclosures such as narrative descriptions of the reasons for significant gains and losses related to changes in the benefit obligations for the period. The update also removed guidance that currently requires disclosures on the amounts in accumulated other comprehensive loss (AOCL) expected to be recognized as components of net periodic benefit cost over the next fiscal year, and for public entities, the effects of a one percent change in assumed health care trend rates on the net periodic benefit costs and benefit obligation for OPEB. Changes instituted by this update are effective retrospectively for all periods presented for fiscal years ending after December 15, 2020 with early adoption permitted. OPG is in the process of evaluating the impact from this update on the Company's disclosures for its post-employment benefit programs.

ii) Changes to Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to Disclosure Requirements for Fair Value Measurement* to continue to improve the effectiveness of disclosures in financial statements for users. Under the new guidance prescribed in this update, entities must disclose additional information regarding Level 3 fair value measurements held at the end of the reporting period. This amendment also clarified existing guidance around measurement uncertainty and investments in entities that calculate net asset value (NAV). This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. Additional disclosures stemming from this update will be applied prospectively. OPG is assessing its current fair value measurements to determine the impact from the changes in this update.

3. ACQUISITION OF EAGLE CREEK RENEWABLE ENERGY, LLC

On November 27, 2018, OPG acquired 100 percent ownership interest of Eagle Creek Renewable Energy, LLC (Eagle Creek) for a total cash purchase price of approximately US$298 million (C$386 million), subject to customary working capital and other adjustments. Transaction costs related to the acquisition were expensed in the consolidated statement of income in 2018.

Eagle Creek is a hydropower platform with interests in 76 hydroelectric facilities and two solar facilities throughout the United States (US) on the date of acquisition. The majority of facilities within Eagle Creek's fleet operate in the New England, Midwest and New York power market areas. The acquisition of Eagle Creek represents an opportunity to expand OPG's renewable generation portfolio to new geographies, with additional clean energy generation aligning to OPG's strategic imperatives. Eagle Creek generates revenue from supplying electricity under long-term energy and capacity supply contracts and by offering energy and capacity into wholesale spot electricity markets.

The preliminary purchase price allocation of the Eagle Creek acquisition is estimated as follows, using the exchange rate on the acquisition date of $1.00 USD = $1.3289 CAD:

(millions of Canadian dollars)	
Current assets	**39**
Property, plant and equipment	**500**
Intangible assets	**109**
Goodwill	**104**
Other long-term assets	**36**
Total assets	**788**
Current liabilities	**92**
Long-term debt	**284**
Deferred income tax liability	**23**
Other long-term liabilities	**3**
Total liabilities	**402**
Total purchase price	**386**
Cash acquired	**(28)**
Total purchase price, net of cash acquired	**358**

The determination of the fair value of assets acquired and liabilities assumed is based upon management's preliminary estimates and assumptions and reflects the fair value of consideration paid, including customary working capital and other adjustments. The Company continues to review information and perform further analysis prior to finalizing the fair value of the assets acquired and the liabilities assumed within the permitted period of 12 months from the date of acquisition in accordance with US GAAP, including finalizing the componentization of fair value measurements to the individual assets acquired within PP&E.

Goodwill represents the excess of the purchase price over the aggregate fair value of net assets acquired. Contributing factors to the amount recorded as goodwill include synergies to be realized from a complementary hydroelectric generation fleet, the potential of using Eagle Creek as a vehicle for future growth of the business in the US, geographic diversification of operations, and access to an experienced senior management team. Goodwill recognized as a result of the acquisition is reported within the Contracted and Other Generation segment.

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

Cash and cash equivalents include cash on deposit and money market securities with a maturity of less than 90 days on the date of purchase. Restricted cash primarily includes amounts set aside pursuant to requirements of various debt and financing agreements. 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 value.

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

As at *(millions of dollars)*	**March 31 2019**	**December 31 2018**
Cash and cash equivalents	**382**	196
Restricted cash	**129**	117
Total cash, cash equivalents and restricted cash	**511**	313

Proceeds from OPG's green bond issuances are restricted in purpose and are to be used solely to finance eligible investments that offer tangible environmental benefits, as defined in OPG's Green Bond Framework. The net proceeds from the first green bond issuance of $450 million in June 2018 are to be used to finance eligible hydroelectric projects and are held in a segregated account. In February 2019, $36 million was released from the segregated account, representing funds invested in eligible hydroelectric projects in the fourth quarter of 2018. As at March 31, 2019, the restricted cash balance related to the first green bond issuance is $48 million (December 31, 2018 − $84 million).

The net proceeds from the second green bond issuance of $500 million in January 2019 are to be used to finance eligible projects as defined in OPG's Green Bond Framework, including the acquisition of Eagle Creek, and are held in a segregated account. In the first quarter, approximately $471 million was released from the segregated account, including funds used in the acquisition of Eagle Creek. As at March 31, 2019, the restricted cash balance related to the second green bond issuance is $27 million.

Certain cash accounts held within Eagle Creek are restricted for prescribed purposes, including debt service, insurance, and general collateral purposes in accordance with applicable contractual arrangements. As at March 31, 2019, the restricted cash balance held within Eagle Creek is $20 million (December 31, 2018 − $17 million).

Cash on deposit held by the Fair Hydro Trust (the Trust) 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. As at March 31, 2019, the restricted cash balance related to the Trust is $34 million (December 31, 2018 − $16 million).

5. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

The Company has entered into operating lease arrangements for office space throughout Ontario to house key operational activities and personnel. OPG is also party to water power leases and Parks Canada licences that provide the Company with a right-of-use to the underlying lands on which most of its hydroelectric generating stations in Ontario are constructed. In addition, the Company leases vehicles and rail cars for use at its generating stations. OPG does not have any sales-type or direct financing lease arrangements.

While the Company's office leases are subject to fixed base rental charges, the arrangements also contain variable payments to reimburse lessors for provision of common area maintenance services during each year of the lease term. Payments in connection with OPG's water power leases and Parks Canada licences are entirely variable, based on the amount of electricity produced by its hydroelectric generating stations during each year of the lease term. These variable amounts are not included in the measurement of OPG's lease liabilities, but are recognized as a variable lease expense when incurred. Lease payments related to the Company's leased vehicles qualify for the short-term lease recognition exemption given the nature of the arrangement and therefore no right-of-use asset or liability has been recognized.

In leasing arrangements where OPG has the option to extend the lease term, payments associated with renewing the leases are not included in the measurement of their associated lease liabilities or right-of-use assets as they are not reasonably certain of being exercised. Similarly, in leasing arrangements where OPG has the option to terminate the lease prior to the end of the term, payments associated with terminating these leases are not included in the measurement of the lease liabilities or right-of-use assets as they are not reasonably certain of being exercised. OPG has not provided residual value guarantees within its leases, nor is the Company subject to any restrictions or covenants as a result of entering into these leasing arrangements.

During the three months ended March 31, 2019, the Company incurred operating lease expenses of $26 million, inclusive of short-term lease costs of $2 million and variable lease costs of $20 million. Additionally, OPG had cash outflows of $4 million for the three months ended March 31, 2019 in connection with amounts included in the measurement of the Company's operating lease liabilities.

During the three months ended March 31, 2019, OPG entered into new operating lease arrangements, resulting in the recognition of $5 million of right-of-use assets and related operating lease liabilities. The Company had a weighted-average remaining lease term of 7.1 years and a weighted-average discount rate in its leasing arrangements of 3.05 percent as at March 31, 2019.

A maturity analysis of the leasing arrangements in which the Company is the lessee has been summarized below, along with a reconciliation to OPG's operating lease liabilities:

(millions of dollars)	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**Thereafter**	**Total**
Operating lease payments	15	14	12	12	8	20	81
Impact of discounting							(10)
Present value							71

OPG held corresponding current and long-term operating lease liabilities of $15 million and $56 million, respectively, as at March 31, 2019. In addition, the Company held corresponding current and long-term operating lease assets of $15 million and $52 million, respectively, as at March 31, 2019.

In addition to its lease arrangement with Bruce Power L.P. (Bruce Power) related to the Bruce nuclear generating stations, OPG leases various real estate assets to various third-party customers under operating lease arrangements in which the Company is the lessor, providing customers with the right-of-use to assets including land and office space. The Company receives mostly fixed rental payments in connection with these agreements. However, some arrangements contain variable lease payments that are indexed to the applicable Consumer Price Index, with rents being subject to changes in the index over the course of the lease term. The arrangements do not contain any options to purchase the underlying asset from the Company that the lessee is reasonably certain to exercise. As the underlying asset in many of these arrangements is land, the Company expects to derive, at a minimum, the current fair value from these assets at the end of the lease term. OPG undertakes preventative and ongoing maintenance programs, combined with periodic major upgrades, to maintain the residual values of the underlying assets at the end of the lease term. Given the durability of such assets and their ability to hold or even appreciate their value, OPG considers the residual value risk from these leasing arrangements to be nominal.

An analysis of the leasing arrangements in which the Company is the lessor has been summarized below:

(millions of dollars)	**1 Year**	**2 Years**	**3 Years**	**4 Years**	**5 Years**	**Thereafter**	**Total**
Undiscounted operating lease receipts	23	41	9	37	4	689	803

6. REGULATORY ASSETS AND REGULATORY LIABILITIES

The regulatory assets and regulatory liabilities recorded as at March 31, 2019 and December 31, 2018 are as follows:

(millions of dollars)	**March 31 2019**	**December 31 2018**
Regulatory assets		
Variance and deferral accounts authorized by the OEB		
Pension & OPEB Cash Versus Accrual Differential Deferral Account	**803**	783
Pension and OPEB Cost Variance Account	**628**	673
Hydroelectric Surplus Baseload Generation Variance Account	**434**	449
Bruce Lease Net Revenues Variance Account	**149**	141
Other variance and deferral accounts [1]	**136**	118
	2,150	2,164
Interim Period Revenue Shortfall	**439**	519
Pension and OPEB Regulatory Asset *(Note 11)*	**3,477**	3,514
Deferred Income Taxes	**1,116**	1,062
Total regulatory assets	**7,182**	7,259
Less: current portion	**632**	490
Non-current regulatory assets	**6,550**	6,769
Regulatory liabilities		
Variance and deferral accounts authorized by the OEB		
Pension & OPEB Cash Payment Variance Account	**250**	220
Hydroelectric Water Conditions Variance Account	**202**	191
Impact Resulting from Changes to Pickering Station End-of-Life Dates (December 31, 2017) Deferral Account	**156**	124
Changes in Station End-of-Life Dates (December 31, 2015) Deferral Account	**101**	103
Other variance and deferral accounts [2]	**162**	160
Total regulatory liabilities	**871**	798
Less: current portion	**108**	36
Non-current regulatory liabilities	**763**	762

[1] Represents amounts for the Rate Smoothing Deferral Account, the Nuclear Liability Deferral Account, the Nuclear Deferral and Variance Over/Under Recovery Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, the Nuclear Development Variance Account, the Fitness for Duty Deferral Account, and the Niagara Tunnel Project Pre-December 2008 Disallowance Variance Account.

[2] Represents amounts for the Ancillary Services Net Revenue Variance Account, the Income and Other Taxes Variance Account, the Hydroelectric Incentive Mechanism Variance Account, the SR&ED ITC Variance Account and the Capacity Refurbishment Variance Account.

In the March 2018 payment amounts order, the OEB approved OPG's request to recover an amount totalling $305 million related to previously recorded variance and deferral account balances, without adjustments. With the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account and the Pension and OPEB Cost Variance Account, the approved amount of $305 million provided for the recovery of the December 31, 2015 balances in all of the Company's variance and deferral accounts, less amounts previously approved for recovery or repayment for these accounts in 2016.

On February 21, 2019, the OEB issued a decision and order that approved a full settlement agreement reached by OPG and intervenors on OPG's requested disposition of regulatory accounts, which resulted in the approval to recover a total of $1,322 million recorded in the Pension & OPEB Cash to Accrual Differential Deferral Account and other balances accumulated in regulatory accounts between January 1, 2016 and December 31, 2017 and $204 million in associated income tax impacts, without adjustments. These income tax impacts were previously recorded as part of the regulatory asset for deferred income taxes. The OEB's decision and order authorized OPG to collect $535 million of the approved balances through incremental nuclear and regulated hydroelectric rate riders for the period from January 1, 2019 to December 31, 2021. The remaining approved balances will be collected after 2021.

Any shortfall or over-recovery of the approved balances in the variance and deferral accounts due to differences between actual and forecast production is 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.

7. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**March 31 2019**	**December 31 2018**
Senior notes payable to the Ontario Electricity Financial Corporation	**3,260**	3,400
Medium Term Notes	**1,450**	950
Lower Mattagami Energy Limited Partnership project debt	**1,595**	1,595
PSS Generating Station Limited Partnership project debt	**245**	245
UMH Energy Partnership project debt	**178**	178
Eagle Creek senior notes	**316**	323
Fair Hydro Trust senior debt	**912**	900
Other	**21**	21
	7,977	7,612
Less: fair value discount	**(29)**	(31)
Less: unamortized bond issuance fees	**(28)**	(25)
Less: amounts due within one year	**(508)**	(368)
Long-term debt	**7,412**	7,188

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

(millions of dollars)	**2019**	**2018**
Interest on long-term debt [1]	**80**	68
Interest on short-term debt	**2**	2
Interest income	**(3)**	(1)
Interest capitalized to property, plant and equipment and intangible assets	**(55)**	(44)
Interest related to regulatory assets and regulatory liabilities [2]	**(6)**	(6)
Net interest expense	**18**	19

1 Excludes interest on Fair Hydro Trust senior debt.

2 Includes interest to recognize the cost of financing related to variance and deferral accounts, as authorized by the OEB, and interest costs deferred in certain variance and deferral accounts.

In the first quarter of 2019, OPG issued a green bond offering of $500 million under its Medium Term Note Program maturing in 2049. The coupon interest rates on these bonds are 4.25 percent. OPG repaid long-term debt of $140 million to the Ontario Electricity Financial Corporation during the first quarter of 2019.

8. SHORT-TERM DEBT

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. There were no amounts outstanding under the bank credit facility as at March 31, 2019 (December 31, 2018 – nil). There was no commercial paper outstanding under OPG's commercial paper program as at March 31, 2019 (December 31, 2018 − $170 million).

As at March 31, 2019, Lower Mattagami Energy Limited Partnership (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 2023 and a $100 million tranche maturing in August 2019. As at March 31, 2019, there was $134 million of external commercial paper outstanding under LME's commercial paper program (December 31, 2018 − $140 million). A letter of credit of $55 million was issued in July 2017 and remains outstanding as at March 31, 2019 under the $300 million tranche of LME's credit facility (December 31, 2018 − $55 million).

As at March 31, 2019, OPG maintained $25 million of short-term, uncommitted overdraft facilities (December 31, 2018 − $25 million) and $473 million of short-term, uncommitted credit facilities (December 31, 2018 − $476 million), 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, 2019, a total of $403 million of Letters of Credit had been issued under these facilities (December 31, 2018 − $404 million). This included $364 million for the supplementary pension plans, $38 million for general corporate purposes and $1 million related to the operation of the Portlands 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, 2020. As at March 31, 2019, there were Letters of Credit outstanding under this agreement of $150 million, which were issued in support of OPG's supplementary pension plans (December 31, 2018 − $150 million).

UMH Energy Partnership 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, 2019, total Letters of Credit of $15 million had been issued under these facilities (December 31, 2018 − $15 million).

9. 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, 2019 and December 31, 2018 consist of the following:

As at *(millions of dollars)*	**March 31** **2019**	**December 31** **2018**
Liability for nuclear used fuel management	**12,666**	12,523
Liability for nuclear decommissioning and nuclear low and intermediate level waste management	**8,480**	8,399
Liability for non-nuclear fixed asset removal	**299**	303
Fixed asset removal and nuclear waste management liabilities	**21,445**	21,225

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Three Months Ended March 31, 2019			
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and OPEB**	**Currency Translation Adjustment**	**Total**
AOCL, beginning of period	**(48)**	**(208)**	**13**	**(243)**
Translation of foreign operations	**-**	**-**	**(10)**	**(10)**
Amounts reclassified from AOCL	**4**	**3**	**-**	**7**
Other comprehensive income (loss) for the period	**4**	**3**	**(10)**	**(3)**
AOCL, end of period	**(44)**	**(205)**	**3**	**(246)**

	Three Months Ended March 31, 2018				
(millions of dollars)	**Unrealized Gains and Losses on Cash Flow Hedges**	**Pension and OPEB**	**Equity Securities**	**Currency Translation Adjustment**	**Total**
AOCL, beginning of period	(66)	(220)	(9)	-	(295)
Reclassification of cumulative unrealized losses on equity securities to opening retained earnings	-	-	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)

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three months ended March 31, 2019 and 2018 are as follows:

	Amount Reclassified from AOCL		
(millions of dollars)	**2019**	**2018**	**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 11 for additional details).

Existing pre-tax net losses for derivatives of $16 million deferred in AOCL as at March 31, 2019 are expected to be reclassified to net income within the next 12 months.

11. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

OPG's pension and OPEB costs for the three months ended March 31, 2019 and 2018 are as follows:

(millions of dollars)	Registered Pension Plans 2019	Registered Pension Plans 2018	Supplementary Pension Plans 2019	Supplementary Pension Plans 2018	Other Post-Employment Benefits 2019	Other Post-Employment Benefits 2018
Components of Cost Recognized for the Period						
Current service costs	**78**	83	**2**	2	**18**	20
Interest on projected benefit obligation	**152**	142	**3**	3	**25**	26
Expected return on plan assets, net of expenses	**(206)**	(205)	**-**	-	**-**	-
Amortization of net actuarial loss [1]	**39**	49	**2**	2	**-**	2
Costs recognized [2]	**63**	69	**7**	7	**43**	48

[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, 2019 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of $37 million (three months ended March 31, 2018 − $49 million).

[2] Pension and OPEB costs for the three months ended March 31, 2019 exclude the net reduction of costs of $3 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, 2018 − net reduction of costs of $25 million).

12. RISK MANAGEMENT AND DERIVATIVES

The management of interest rate, foreign exchange and commodity risks includes using derivatives to hedge the exposure in accordance with corporate risk management policies. The fair value of the derivatives totalled a net liability of $8 million as at March 31, 2019 (December 31, 2018 − net liability of $5 million).

Interest Rates

OPG is exposed to risks related to changes in market interest rates. 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. OPG periodically uses interest rate swap agreements to mitigate elements of interest rate risk exposure associated with anticipated financing.

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 denominated in, or tied to, US dollars. To manage this risk, the Company periodically employs various financial instruments such as forwards and other derivative contracts. In addition, volatility in the Canadian/US foreign exchange rate also impacts OPG’s financial results from its Eagle Creek subsidiary, whose operations are based exclusively in the US.

Commodity Prices

OPG is also exposed to fluctuations in commodity prices. Changes in the market prices of nuclear fuels, oil, gas and biomass 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.

Credit

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator's (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. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at March 31, 2019 was less than $1 million (December 31, 2018 – less than $1 million).

13. 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.

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. Pooled fund investments 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. 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 fair value of the investments within the Used Fuel Segregated Fund and Decommissioning Segregated Fund's (together the Nuclear Segregated Funds) real assets portfolios are determined using appropriate valuation techniques, such as recent arm's-length market transactions, references to current fair values of other instruments 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.

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.

The following is a summary of OPG's financial instruments and their fair value as at March 31, 2019 and December 31, 2018:

	Fair Value		Carrying Value [1]		
(millions of dollars)	**2019**	**2018**	**2019**	**2018**	**Balance Sheet Line Item**
Nuclear Segregated Funds (includes current portion) [2]	**17,692**	17,483	**17,692**	17,483	Nuclear fixed asset removal and nuclear waste management funds
Financing receivables	**1,945**	1,868	**1,788**	1,788	Financing receivables
Investment in Hydro One shares	**151**	153	**151**	153	Equity securities
Payable related to cash flow hedges	**(30)**	(32)	**(30)**	(32)	Long-term accounts payable and accrued charges
Long-term debt – OPG (includes current portion)	**(7,658)**	(6,924)	**(7,036)**	(6,681)	Long-term debt
Long-term debt – Fair Hydro Trust	**(964)**	(913)	**(912)**	(900)	Long-term debt
Other financial instruments	**23**	28	**23**	28	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, accrued charges and other payables 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 Trust's 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.

In September 2018, the Province announced its intention to make future proposed legislative changes to the *Ontario Fair Hydro Plan Act, 2017* (the Fair Hydro Act) to replace the Global Adjustment refinancing component of Ontario's Fair Hydro Plan (Fair Hydro Plan). In March 2019, the Government of Ontario tabled Bill 87, *Fixing the Hydro Mess Act, 2019* (Fixing the Hydro Mess Act), proposed legislation designed to amend various statutes related to energy, including the Fair Hydro Act. On May 9, 2019, the Fixing the Hydro Mess Act received Royal Assent and will come into force in November 2019. Under the legislation, the Province will be responsible for paying existing funding obligations administered by the Trust, while OPG will be responsible for paying the operating costs of the Trust. As there will be no new Global Adjustment refinancings, and the Province will be responsible for the existing funding obligations, including principal repayments, administered by the Trust, the Trust will be prohibited from issuing any new funding obligations. The IESO will no longer provide for the administration or servicing of the associated financing and other costs associated with the Trust's financing receivable balances from Specified Consumers (Investment Interest) on behalf of the Trust. Since September 2018, the fair value of the financing receivables, related to the right to recover deferred Global Adjustment and associated financing and other costs from Specified Consumers (Investment Interest), acquired from the IESO reflects the projected cash flows and expected returns on the asset to be collected from the Province. Therefore, the fair value of the financing receivables are 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, 2019 and December 31, 2018:

	March 31, 2019			
(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	**5,698**	**5,169**	**-**	**10,867**
Investments measured at NAV [1]				**1,869**
				12,736
Due to Province				**(2,639)**
Used Fuel Segregated Fund, net				**10,097**
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	**4,307**	**3,822**	**-**	**8,129**
Investments measured at NAV [1]				**1,510**
				9,639
Due to Province				**(2,044)**
Decommissioning Segregated Fund, net				**7,595**
Investment in equity securities	**151**	**-**	**-**	**151**
Other financial assets	**1**	**2**	**37**	**40**
Liabilities				
Other financial liabilities	**(15)**	**(1)**	**(1)**	**(17)**

[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.

	December 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	5,245	4,926	-	10,171
Investments measured at NAV [1]				1,775
				11,946
Due to Province				(1,982)
Used Fuel Segregated Fund, net				9,964
Decommissioning Segregated Fund				
Investments measured at fair value, excluding investments measured at NAV	3,962	3,635	-	7,597
Investments measured at NAV [1]				1,436
				9,033
Due to Province				(1,514)
Decommissioning Segregated Fund, net				7,519
Investments in equity securities	153	-	-	153
Other financial assets	5	3	43	51
Liabilities				
Other financial liabilities	(19)	(4)	-	(23)

[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, 2019, there were no transfers between Level 1 and Level 2 and 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, 2019	**43**
Unrealized losses included in revenue	**(2)**
Realized losses included in revenue	**(6)**
Purchases	**1**
Closing balance, March 31, 2019	**36**

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, 2019:

(millions of dollars except where noted)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Real assets				
Infrastructure	**1,990**	**542**	**n/a**	**n/a**
Real estate	**1,234**	**653**	**n/a**	**n/a**
Agriculture and timberland	**155**	**36**	**n/a**	**n/a**
Pooled funds				
Short-term investments	**21**	**n/a**	**Daily**	**1–5 days**
Fixed income	**1,909**	**n/a**	**Daily**	**1–5 days**
Equity	**904**	**n/a**	**Daily**	**1–5 days**
Total	**6,213**	**1,231**		

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

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income, generally through investments such as energy, transportation and utilities. The fair values of investments in this class have been estimated using NAV of the Nuclear Segregated Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund. The investments in the respective infrastructure 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 of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2028.

Real Estate

This class includes investments in institutional-grade real estate property. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation. 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 partnership investments are not redeemable. However, the Nuclear Segregated Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreement. 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 class will be liquidated.

Agriculture and Timberland

This class includes a diversified portfolio of global farmland and timberland investments. The investment objective is to provide a differentiated return source, income yield and inflation protection. 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 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 and timberland 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 class will be liquidated.

Pooled Funds

This 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.

14. SHARE CAPITAL

Common Shares

As at March 31, 2019 and December 31, 2018, 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.

As at March 31, 2019 and December 31, 2018, OPG had 18,343,815 Class A shares issued and outstanding at a stated value of $787 million.

15. 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 for the three months ended March 31, 2019 was 274.6 million (three months ended March 31, 2018 – 269.0 million). There were no dilutive securities as at March 31, 2019 and March 31, 2018.

16. 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 Ontario Superior Court of Justice to a timetable for the remaining steps in the litigation, pursuant to which the matter was to be set down for trial by December 31, 2018. OPG delivered a statement of defence in accordance with an extension of the original June 30, 2017 delivery deadline set up in the timetable. British Energy served a reply on November 14, 2018 and served its Affidavit of Documents on November 23, 2018. British Energy obtained an extension to the time required to set the matter down for trial. British Energy has set the matter down for trial, although no date for trial has been scheduled. OPG is awaiting further information about the timing of next steps in the matter.

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 are 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 consolidated 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, 2019, the total amount of guarantees OPG provided to these entities was $81 million (December 31, 2018 − $81 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, 2019, 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, 2019 are as follows:

(millions of dollars)	**2019** [1]	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**
Fuel supply agreements	123	122	114	75	73	11	518
Contributions to the OPG registered pension plan [2]	148	203	-	-	-	-	351
Long-term debt repayment	228	663	416	177	46	5,535	7,065
Interest on long-term debt	218	279	250	237	232	4,452	5,668
Fair Hydro Trust senior debt repayment	-	-	12	-	-	900	912
Interest on Fair Hydro Trust senior debt	31	31	31	31	31	364	519
Short-term debt repayment	134	-	-	-	-	-	134
Commitments related to Darlington Refurbishment project [3]	341	-	-	-	-	-	341
Operating licenses	32	43	45	46	47	97	310
Operating lease obligations	13	14	12	12	8	22	81
Unconditional purchase obligations	45	59	5	-	-	-	109
Accounts payable and accrued charges	896	13	-	-	-	16	925
Other	70	35	10	10	8	74	207
Total	2,279	1,462	895	588	445	11,471	17,140

[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, 2018. The next actuarial valuation of the OPG registered pension plan must have an effective date no later than January 1, 2021. 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 2020 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.

Collective Bargaining Agreements

The governing collective agreement between OPG and the Power Workers' Union (PWU) expired on March 31, 2018. The mediation/arbitration process for the renewal of the collective agreement concluded on April 3, 2019 with the issuance of the arbitrator's decision. The arbitrator ordered the parties to implement the previously reached tentative renewal agreement that was not ratified by the PWU membership, without any changes. The renewed collective agreement expires on March 31, 2021.

17. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended March 31, 2019

(millions of dollars)	Regulated			Unregulated			
	Nuclear Generation	Nuclear Waste Management	Hydro-electric	Contracted and Other Generation	Other	Elimination	Total
Revenue from contracts with customers	**879**	**-**	**381**	**155**	**4**	**-**	**1,419**
Leasing revenue	**6**	**-**	**-**	**-**	**3**	**-**	**9**
Other revenue	**-**	**31**	**-**	**-**	**12**	**(45)**	**(2)**
Total revenue	**885**	**31**	**381**	**155**	**19**	**(45)**	**1,426**
Fuel expense	**70**	**-**	**66**	**12**	**-**	**-**	**148**
Gross margin	**815**	**31**	**315**	**143**	**19**	**(45)**	**1,278**
Operations, maintenance and administration	**622**	**31**	**77**	**50**	**14**	**(45)**	**749**
Depreciation and amortization	**167**	**-**	**57**	**30**	**12**	**-**	**266**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**252**	**-**	**2**	**1**	**-**	**255**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(220)**	**-**	**-**	**-**	**-**	**(220)**
Income from investments subject to significant influence	**-**	**-**	**-**	**(13)**	**-**	**-**	**(13)**
Property taxes	**6**	**-**	**-**	**3**	**1**	**-**	**10**
Other losses (gains)	**-**	**-**	**1**	**-**	**(13)**	**-**	**(12)**
Income (Loss) before interest and income taxes	**20**	**(32)**	**180**	**71**	**4**	**-**	**243**
Net interest expense							**18**
Income before income taxes							**225**
Income tax expense							**8**
Net income							**217**

Segment Income (Loss) for the Three Months Ended March 31, 2018	**Regulated**			**Unregulated**			
(millions of dollars)	**Nuclear Generation**	**Nuclear Waste Management**	**Hydro-electric**	**Contracted and Other Generation**	**Other**	**Elimination**	**Total**
Revenue from contracts with customers	871	-	356	149	7	-	1,383
Leasing revenue	9	-	-	-	4	-	13
Other revenue	-	33	-	-	22	(44)	11
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)
Income from investments subject to significant influence	-	-	-	(10)	-	-	(10)
Property taxes	7	-	-	1	1	-	9
Other losses (gains)	-	-	4	-	(267)	-	(263)
Income (Loss) before interest and income taxes	75	(33)	171	78	280	-	571
Net interest expense							19
Income before income taxes							552
Income tax expense							13
Net income							539

Change in Reportable Segments

In December 2017, the Trust was established as a separate entity to be the financing entity contemplated by the Fair Hydro Act. 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).

The Province has provided a limited guarantee to specified creditors of the Trust. The limited guarantee would be triggered in the event that (1) the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected due to either of the following events: a) the Province changes the Fair Hydro Act or any other legislation or regulation; or b) the Province undertakes a significant change in Ontario's electricity market; or (2) a court declares that the Fair Hydro Act is invalid or unconstitutional in such a way that the Trust's ability to receive amounts in respect of its Investment Interest to pay for certain funding obligations is adversely affected.

In March 2019, the Government of Ontario tabled Bill 87, Fixing the Hydro Mess Act, proposed legislation to amend various statutes related to energy, including the Fair Hydro Act. On May 9, 2019, the Fixing the Hydro Mess Act received Royal Assent will come into force in November 2019. Under the legislation, the Province will be responsible for paying existing funding obligations administered by the Trust, while OPG will be responsible for paying the operating costs of the Trust. As there will be no new Global Adjustment refinancings, and the Province will be responsible for the existing funding obligations, including principal payments, administered by the Trust, the Trust will be prohibited from issuing any new funding obligations. The IESO will no longer provide for the administration or servicing of the associated financing and other costs associated with the Trust's financing receivable balances from Specified Consumers (Investment Interest) on behalf of the Trust. As currently worded, the amendments to the Fair Hydro Act would result in the Trust no longer being consolidated into OPG's consolidated financial statements subsequent to the date the amendment was passed into law.

During the three months ended March 31, 2019, OPG's financial results related to its role as the Financial Services Manager under the Fair Hydro Act, which primarily comprise the financial results of the Trust, ceased being reported as a separate business segment in the Company's consolidated financial statements. These financial results are now reported within the Other category. The 2018 comparative amounts have been reclassified from consolidated financial statements previously presented to conform to the 2019 interim consolidated financial statement presentation.

18. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**Three Months Ended March 31 2019**	**2018**
Receivables from related parties	**31**	(83)
Inventory	**3**	22
Prepaid expenses	**(1)**	(2)
Other current assets	**53**	44
Accounts payable, accrued charges and other payables	**(46)**	(135)
	40	(154)

19. SALE OF NON-CORE ASSETS

Sale of Lakeview Site

In March 2018, OPG completed the sale of its former Lakeview generating station site property located in Mississauga, Ontario, with a gain on sale of $205 million, net of 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.