

ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
2018 FIRST QUARTER REPORT
[DRAFT]

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ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

As required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. Since January 1, 2012, OPG also has received exemptive relief from the Ontario Securities Commission (OSC) that allows OPG to apply US GAAP. 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, *Change in Accounting Policies and Estimates* under the heading, *Exemptive Relief for Reporting under US GAAP*. This MD&A is dated May 15, 2018.

FORWARD-LOOKING STATEMENTS

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

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

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

THE COMPANY

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

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

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

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

In-Service Generating Capacity

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

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

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

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

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

HIGHLIGHTS

Overview of Results

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

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

¹ Relates to the 25 percent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, in the Lower Mattagami Limited Partnership, the 33 percent interest of Coral Rapids Power Corporation (CRP), a corporation wholly owned by the Taykwa Tagamou Nation, in the PSS Generating Station Limited Partnership (PSS), and the 10 percent interest of a corporation wholly owned by the Six Nations of Grand River Development Corporation in the Nanticoke Solar LP. CRP increased its partnership interest in PSS to 33 percent in April 2017.

² Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach.

³ For the three months ended March 31, 2018, includes the pre-tax gain on sale of the former Lakeview GS site.

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

Significant factors that increased income before interest and income taxes:

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

Significant factors that reduced income before interest and income taxes:

- Higher depreciation and amortization expenses of \$19 million, mainly due to a higher amount of depreciation expense deferred in regulatory variance and deferral accounts in the first quarter of 2017. The higher deferrals in 2017 were due to costs not included in the regulated prices in effect prior to the OEB's December 2017 decision.
- Higher OM&A expenses of \$14 million, mainly in the Regulated – Nuclear Generation segment, reflecting higher services and materials costs associated with planned outages at the nuclear stations.
- Lower hydroelectric incentive mechanism payments of \$7 million in the Regulated – Hydroelectric segment.

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

Income tax expense increased by \$1 million in the first quarter of 2018, compared to the same quarter in 2017, primarily due to higher income before income taxes, largely offset by a higher amount of deferred income tax expense recorded as a regulatory asset and a reduction in income taxes resulting from a dividend distribution.

Recent Developments

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

The OEB's decision on OPG's May 2016 five-year application for new regulated prices for nuclear and regulated hydroelectric generation was issued on December 28, 2017, following a public hearing process, with an effective date for the new regulated prices of June 1, 2017. The decision included the OEB's findings with respect to ratemaking methodologies for OPG's regulated facilities, the basis for inputs into the hydroelectric incentive mechanism formula, and the elements of the nuclear revenue requirement. Pursuant to the OEB's decision, the new base regulated prices for the regulated hydroelectric facilities for each of the years 2017 to 2021 are to be determined by annually escalating the base regulated prices in effect prior to June 1, 2017, with some adjustments, using an approved formula equal to an industry-specific weighted inflation factor based on indices published annually by the OEB, less a stretch factor adjustment. For the nuclear facilities, a revenue requirement is determined for each of the years 2017

to 2021 based on the OEB-allowed level of operating costs and a return of and on invested capital, reduced by a stretch factor amount. Consistent with the requirement of *Ontario Regulation 53/05*, OPG's overall production-weighted regulated price is smoothed, with a portion of the approved nuclear revenue requirements for the 2017-2021 period deferred for future collection in the Rate Smoothing Deferral Account. The difference between the non-deferred portion of the annual nuclear revenue requirement, calculated by multiplying the approved nuclear base regulated price determined under rate smoothing and the approved forecast of OPG's nuclear electricity production, and the total approved nuclear revenue requirement determines the amount deferred for future collection. Further details on OPG's December 2017 decision can be found in OPG's 2017 annual MD&A in the section, *Highlights* under the heading, *Recent Developments – OEB's Decision on OPG's Application for New Regulated Prices*.

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

On March 29, 2018, the OEB issued the final payment amounts order establishing new regulated prices for OPG's regulated facilities, with an implementation date of March 1, 2018. For the regulated hydroelectric facilities, the OEB approved the base regulated prices as calculated by OPG in the draft payment amounts order it submitted to the OEB on January 17, 2018. The final payment amounts order set base regulated prices for the regulated hydroelectric facilities for the June 1, 2017 to December 31, 2017 period and for the January 1, 2018 to December 31, 2018 period, based on the approved incentive regulation formula and inflation indices published by the OEB. For the 2019-2021 period, the base regulated prices for the regulated hydroelectric facilities will be determined annually before the beginning of each year using the approved formula and published indices.

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

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

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

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

(\$/MWh)	2017 June 1 to December 31	2018	2019	2020	2021
Regulated – Nuclear Generation					
Base regulated price ¹	77.96	78.64	77.00	85.00	89.70
Variance and deferral account rate rider ²	-	1.05	2.79	2.04	-
	77.96	79.69	79.79	87.04	89.70
Regulated – Hydroelectric					
Base regulated price ^{1, 3}	41.67	42.05	-	See Note 3	-
Variance and deferral account rate rider ²	-	0.52	-	-	-
	41.67	42.57	-	-	-

¹ As part of the payment amounts order process, the OEB authorized separate rate riders to allow for the recovery of the revenue shortfall between the new base regulated prices and the previously approved base regulated prices that OPG continued to receive during the interim period between June 1, 2017 and February 28, 2018, over the March 1, 2018 to December 31, 2020 period. The revenue shortfall was recorded as a regulatory asset in the fourth quarter of 2017 and the first quarter of 2018. The nuclear interim period shortfall rider is \$2.89/MWh during the March 1, 2018 to December 31, 2018 period, \$7.71/MWh in 2019 and \$5.64/MWh in 2020. The regulated hydroelectric interim period shortfall rider is \$0.13/MWh during the March 1, 2018 to December 31, 2018 period, \$0.35/MWh in 2019 and \$0.24/MWh in 2020.

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

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

Darlington Refurbishment

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

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

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

Payment of Dividend to Shareholder

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

Sale of Lakeview Site

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

Electricity Generation

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

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

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

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

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

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

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

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

Average Sales Prices

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

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

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

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2018 was \$226 million, compared to \$168 million for the same period in 2017. The increase was due to higher generation revenue receipts as a result of higher electricity generation from the Regulated – Nuclear Generation segment, higher cash receipts from non-generation revenues, and lower payments of income tax installments compared to the same period in 2017. The increase in cash flow provided by operating activities was partly offset by higher OM&A expenditures as a result of increased outage expenditures.

Return on Equity Excluding Accumulated Other Comprehensive Income

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

Enterprise Total Generating Cost per Megawatt-Hour

The Enterprise TGC per megawatt hour (MWh) was \$49.84 for the three months ended March 31, 2018, compared to \$47.86 for the same period in 2017. The increase was mainly a result of higher OM&A expenses before the impact of

regulatory variance and deferral accounts and higher sustaining capital expenditures, partially offset by higher nuclear electricity generation.

Nuclear Total Generating Cost per Megawatt-Hour

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

Hydroelectric Total Generating Cost per Megawatt-Hour

The Hydroelectric TGC per MWh was \$20.42 for the three months ended March 31, 2018, compared to \$19.79 for the same period in 2017. The increase in the Hydroelectric TGC per MWh was primarily due to the decrease in hydroelectric electricity generation as a result of lower water flows on the northwestern and eastern Ontario river systems.

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

CORE BUSINESS, STRATEGY, AND OUTLOOK

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

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

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

Operational Excellence

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

Public Safety

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

Electricity Generation Production and Reliability

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

- OPG's current five-year operating licence for the Pickering GS was approved by the CNSC in 2013 and expires on August 31, 2018. This current licence was issued assuming that the station would shut down in 2020. As previously announced, OPG is continuing to execute on a plan to extend safe and reliable operation of the Pickering GS to 2024. In June 2017, OPG confirmed to the CNSC that it intends to cease commercial operation of all Pickering units on December 31, 2024. In August 2017, OPG submitted a ten-year licence renewal application to the CNSC in order to extend commercial operation to December 31, 2024 and place the station in a safe storage state in 2028. The first public hearing for the Pickering GS licence renewal application took place on April 4, 2018 and provided an opportunity for OPG to present its submission to the CNSC that outlined how the Pickering GS meets technical requirements and is qualified to continue operations. The final set of public hearings will take place between June 26 and June 28, 2018. Based on the evidence and documentation submitted to the CNSC, OPG continues to believe it is well positioned to obtain a licence renewal that would support its extended operations plan for the Pickering GS to 2024.
- In 2016, OPG submitted applications with the CNSC seeking a ten-year licence renewal for the Pickering Waste Management Facility (PWMF) to August 31, 2028. On February 7, 2018, following public hearings in April 2017, the CNSC announced that the PWMF licence was renewed for a ten-year period and will be valid until August 31, 2028.
- During the first quarter of 2018, OPG completed the overhaul and rehabilitation of Unit 1 of the Sir Adam Beck Pump GS to ensure reliable unit operation for approximately the next 20 years, as well as the overhaul and upgrade of Unit 1 of the Harmon GS, which increased the station's generating capacity by 8 MW.
- Work is continuing on the overhauls and upgrade of Unit 2 of the DeCew Falls GS and Unit 2 of the Little Long GS and the overhauls and rehabilitation of Unit 2 of the Lower Notch GS and Unit 6 of the Sir Adam Beck Pump GS.
- The definition phase work continues for the Water Conveyance System project to rehabilitate the Sir Adam Beck 1 GS canal and associated structures to ensure their continued safe and reliable operations for approximately the next 50 years.
- Commencement of definition phase work for the frequency conversion of Units 1 and 2 of the Sir Adam Beck 1 GS and the overhaul and upgrade of the R.H. Saunders GS units.
- As part of the process to decommission the Nanticoke GS, OPG safely demolished the station's stacks in February 2018. The removal of the powerhouse and associated structures is in progress. A competitive bidding process for the demolition of the Lambton GS is continuing, with a contract for the removal of the powerhouse and associated structures expected to be issued during 2018. The costs of the decommissioning activities are charged to a previously established decommissioning provision.

Environmental Performance

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

In the first quarter of 2018, the Government of Canada introduced legislation to amend the *Fisheries Act* (Bill C-68) and to replace the *Canadian Environmental Assessment Act, 2012* with a more comprehensive *Impact Assessment*

Act (Bill C-69). If passed by Parliament, this legislation could introduce new regulatory requirements to further protect fish and fish habitat, and for assessing designated projects. OPG is reviewing the proposed changes and exploring opportunities to mitigate any associated risks.

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

People and Culture

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

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

Project Excellence

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

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

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

² Expenditures are charged against the Nuclear Liabilities.

Darlington Refurbishment

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

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

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

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

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

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

Ranney Falls Hydroelectric GS

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

Nanticoke Solar Facility

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

Deep Geologic Repository for Low and Intermediate Level Waste

OPG has proposed a deep geologic repository as the preferred solution for the safe long-term management of the L&ILW produced from the continued operation of OPG-owned nuclear generating stations. Agreement has been

reached with local municipalities for OPG to develop the L&ILW DGR on lands adjacent to OPG's Western Waste Management Facility (WWMF) in Kincardine, Ontario.

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

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

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

Financial Strength

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

Increasing Revenue, Reducing Costs and Achieving Appropriate Return

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

For the regulated operations, achievement of the above objectives is largely dependent on outcomes of applications for regulated prices to the OEB and growth of the asset base earning a return as part of the regulated prices. The OEB's December 2017 decision and March 2018 payment amounts order establishing new regulated prices effective June 1, 2017 provide substantial price certainty for the regulated business up to 2021.

While the OEB set costs for determining the new regulated prices below OPG's forecasted levels, including through the use of stretch factors under incentive ratemaking, the new regulated prices will result in a substantial increase in revenue and net income compared to the previously approved prices.

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

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

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

Ensuring Availability of Cost Effective Funding

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

Social Licence

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

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

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

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

Outlook

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

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

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

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

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

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

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

inherent in financial markets and changes in Ontario CPI, or changes in funding liability estimates, may result in either or both funds becoming underfunded in the future.

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

ENVIRONMENT, SOCIAL GOVERNANCE, AND SUSTAINABILITY

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

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

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

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

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

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2018	2017
Revenue from contracts with customers	871	643
Leasing revenue	9	9
Revenue	880	652
Fuel expense	73	68
Gross margin	807	584
Operations, maintenance and administration	604	589
Depreciation and amortization	121	107
Property taxes	7	6
Income (loss) before interest and income taxes	75	(118)

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

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

Higher depreciation and amortization expenses of \$14 million in the first quarter of 2018 were mainly due to a higher amount of depreciation expense deferred in regulatory variance and deferral accounts in the first quarter of 2017. The higher deferrals in 2017 were due to costs not included in the regulated prices in effect prior to the OEB's December 2017 decision. In addition, new assets in service for the Pickering GS contributed to the increase in depreciation and amortization expenses.

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

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

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

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

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

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

Regulated – Nuclear Waste Management Segment

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

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

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

Regulated – Hydroelectric Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2018	2017
Revenue from contracts with customers ¹	356	363
Fuel expense	65	73
Gross margin	291	290
Operations, maintenance and administration	80	76
Depreciation and amortization	36	34
Other losses	4	-
Income before interest and income taxes	171	180

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

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

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

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

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

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

Contracted Generation Portfolio Segment

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

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

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

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

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

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

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

Fair Hydro Trust Segment

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2018	2017
Cash and cash equivalents, beginning of period ¹	234	186
Cash flow provided by operating activities	226	168
Cash flow used in investing activities	(604)	(413)
Cash flow provided by financing activities	472	279
Net increase in cash and cash equivalents	94	34
Cash and cash equivalents, end of period ¹	328	220

¹ Includes restricted cash.

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

Investing Activities

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

Cash flow used in investing activities during the first quarter of 2018 increased by \$191 million compared to the same quarter in 2017. The increase in net cash flow used in investing activities was primarily due to the Trust's acquisition of Investment Interest from the IESO of \$460 million in March 2018, partially offset by the receipt of proceeds from the sale of the former Lakeview GS site in March 2018.

Financing Activities

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

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

In December 2017, the Fair Hydro Trust entered into an \$800 million two-year revolving warehouse facility agreement expiring in December 2019. As at March 31, 2018, there were outstanding senior notes of \$336 million under this credit facility, \$235 million of which was used to finance 51 percent of the Trust's funding requirement for the acquisition of the Investment Interest from the IESO in March 2018 in the amount of \$460 million. An additional \$76 million was issued under the credit facility in April 2018 to finance fifty-one percent of the Trust's funding requirement for the acquisition of the Investment Interest from the IESO in April 2018 in the amount of \$149 million.

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

In April 2018, the Trust issued \$400 million of senior notes payable with a coupon interest rate of 3.52 percent and an effective interest rate of 3.60 percent, payable semi-annually until maturity in May 2038. The proceeds were used to repay the majority of the outstanding balance of the revolving warehouse facility after the Investment Interest acquisition in April 2018. Following this repayment, the facility had \$12 million outstanding.

BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars) (unaudited)</i>	As At	
	March 31 2018	December 31 2017
Property, plant and equipment – net	21,515	21,322
The increase was primarily due to capital expenditures on the Darlington Refurbishment and other projects, partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	16,909	16,724
The increase was primarily due to earnings on the Nuclear Segregated Funds, partially offset by reimbursement of eligible expenditures on nuclear fixed asset removal and nuclear waste management activities.		
Regulatory assets and liabilities – net <i>(current and non-current portions)</i>	6,773	6,637
The increase was primarily due to the continued recognition of net revenue in January and February 2018 in the revenue shortfall account resulting from the OEB's December 2017 decision on new regulated prices and an increase in future income taxes.		
Long-term debt <i>(current and non-current portions)</i>	6,876	6,319
The increase was primarily due to the issuance of senior notes payable to the OEFC of \$600 million and the net issuance of senior notes payable by the Fair Hydro Trust of \$232 million. The increase was offset by debt repayments totalling \$275 million.		
Fixed asset removal and nuclear waste management liabilities	20,639	20,421
The increase was primarily a result of accretion expense representing the increase in the present value liabilities due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities		

Off-Balance Sheet Arrangements

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

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

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

Exemptive Relief for Reporting under US GAAP

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

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

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

RISK MANAGEMENT

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

Risks to Achieving Operational Excellence

Proposed Asbestos Regulations

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

OPG is assessing the risk and impact of the proposed Regulations, particularly affecting the use of spare parts and the existing inventory which may contain asbestos. A key concern is the application of this regulation within OPG's nuclear fleet, where a significant number of spare parts are known to contain asbestos and may be required to address an emergent condition or to complete a maintenance outage to return the unit to operation. OPG has

provided submissions to Environment and Climate Change Canada and to the CNSC to ensure the issues and potential impacts are understood by the respective regulatory bodies.

Risks to Maintaining Financial Strength

Commodity Markets

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

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

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

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

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

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

Foreign Exchange

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

Trading

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

Credit

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

RELATED PARTY TRANSACTIONS

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

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

The related party transactions are summarized below:

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31			
	Income	2018 Expense	Income	2017 Expense
Hydro One				
Electricity sales	4	-	4	-
Services	-	5	1	5
Dividends	2	-	2	-
Province of Ontario				
Change in Decommissioning Segregated Fund amount due to Province ¹	-	(2)	-	163
Change in Used Fuel Segregated Fund amount due to Province ¹	-	(21)	-	217
Hydroelectric gross revenue charge	-	28	-	28
ONFA guarantee fee	-	-	-	2
OEFC				
Hydroelectric gross revenue charge	-	38	-	38
Interest expense on long-term notes	-	37	-	41
Income taxes, net of investment tax credits	-	53	-	12
IESO				
Electricity related revenue	1,232	-	1,067	-
Earnings from Fair Hydro Trust	4	-	-	-
	1,242	138	1,074	506

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

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

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

¹ Balance consists of unbilled cost recovery revenue.

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

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

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

The Company maintains a comprehensive system of policies, procedures, and processes that represents its framework for internal controls over financial reporting and for its disclosure controls and procedures (together, ICFR). 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 ICFR.

QUARTERLY FINANCIAL HIGHLIGHTS

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

<i>(millions of dollars – except where noted) (unaudited)</i>	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

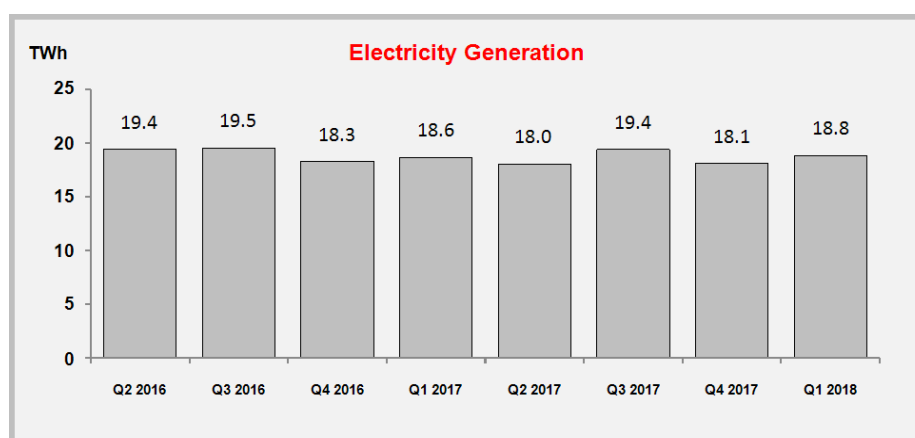
<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2017	December 31 2016	September 30 2016	June 30 2016
Revenue	1,176	1,388	1,400	1,387
Net income (loss)	68	(8)	198	135
Less: Net income attributable to non-controlling interest	4	5	4	3
Net income (loss) attributable to the Shareholder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

Trends

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

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

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



SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

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

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

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

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

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

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

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

¹ Amounts may not calculate due to rounding.

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

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

¹ Amounts may not calculate due to rounding.

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

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

¹ Amounts may not calculate due to rounding.

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

For further information, please contact:

Investor Relations

416-592-6700

webmaster@opg.com

Media Relations

416-592-4008

1-877-592-4008

www.opg.com

www.sedar.com