

May 12, 2017

OPG REPORTS 2017 FIRST QUARTER FINANCIAL RESULTS

Company completes major projects on time and within budget

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) has successfully completed three projects – the Peter Sutherland Sr. Hydroelectric Generating Station (GS), the refurbishment of the Sir Adam Beck Pump Hydroelectric GS reservoir, and the first segment of the Darlington Refurbishment. All three were completed on time and at or below budget.

“Our commitment to project management excellence is evident in these recent results,” said Jeff Lyash, OPG President and CEO. “Projects that are well planned and managed often end the way they start and this shows the benefit of all the pre-planning we have done. We have a long way to go with refurbishing the Darlington station, but we’re confident that we have done the work and have the people in place to deliver this project safely and to plan.”

Lyash went on to say, “Completing the Peter Sutherland Sr. Generating Station ahead of schedule and below budget is another example of OPG’s commitment to ensuring project excellence and creating respectful Indigenous partnerships.” The refurbishment of the Sir Adam Beck Pump GS reservoir will ensure carbon-free electricity production at the station for approximately 50 more years.

The Company reported net income attributable to the Shareholder of \$64 million for the first quarter of 2017, compared to \$123 million for the same period in 2016. The decline in earnings was expected and is primarily the result of lower generation revenue, reflecting lower nuclear electricity generation due to the refurbishment outage for Unit 2 at the Darlington GS and the continuation of existing base regulated prices. Higher earnings on the nuclear fixed asset removal and nuclear waste management segregated funds of \$42 million during the first quarter of 2017 partially offset the reduction in net income.

OPG provides electricity at a price that is 40 per cent less than other generators and is the only electricity generator in Ontario that has its prices set through a public hearing process by the Ontario Energy Board (OEB). In April 2017, OPG completed the public hearing for its current application with the OEB that will set prices for the Company’s nuclear and most of its hydroelectric generation for the next five years, with a proposed effective date of January 1, 2017. The OEB is expected to make a decision on the rate application in the second half of this year. In the meantime, OPG is operating under base regulated prices that were set in 2014 and do not reflect reduced nuclear electricity generation, which is primarily due to the Darlington Refurbishment. The

continuation of these prices has negatively affected revenue and net income in the first quarter of 2017. The outcome of the current rate application and the effective date of the new regulated prices are expected to affect OPG's revenue and net income in subsequent quarters of 2017.

Generating and Operating Performance

Electricity generated during the three months ended March 31, 2017 decreased to 18.6 terawatt hours (TWh) from 21.0 TWh for the same quarter in 2016. Lower nuclear generation of 2.3 TWh was primarily due to the removal from service of Unit 2 at the Darlington GS for the duration of the unit's refurbishment that began in October 2016 and is expected to continue until early 2020. Partially offsetting the reduction in generation from the Darlington GS was an increase of 0.3 TWh from the Pickering GS in the first quarter of 2017 compared to same quarter last year. Lower generation from the Contracted Generation Portfolio also contributed to the decrease in electricity generation, due to lower water flows on the northeastern Ontario river systems in the first quarter of 2017. Subsequent to the first quarter of 2017, higher water flows have been experienced on the eastern and northeastern Ontario river systems.

For the three months ended March 31, 2017, the unit capability factor at the Darlington GS was 85.3 per cent, compared to 97.2 per cent for the same period in 2016. The decrease was primarily a result of a higher number of unplanned outage days at the station in the first quarter of 2017.

At the Pickering GS, the unit capability factor increased to 78.5 per cent for the three months ended March 31, 2017 compared to 72.8 per cent for the same period in 2016, primarily due to favourable unit conditions and execution of planned outage work resulting in a lower number of planned outage days at the station in the first quarter of 2017.

The availability of OPG's regulated hydroelectric generating stations decreased for the three months ended March 31, 2017 to 89.5 per cent, from 94.8 per cent for the same period in 2016. The decrease was primarily due to the reservoir refurbishment project at the Sir Adam Beck Pump GS and a higher number of unplanned outage days.

For the contracted hydroelectric stations, the availability for the three months ended March 31, 2017 of 83.6 per cent was comparable to 83.9 per cent for the same period in 2016.

The Enterprise Total Generating Cost per megawatt hour (MWh) was \$47.86 for the three months ended March 31, 2017, compared to \$41.82 for the same period in 2016. The year-over-year increase was expected and reflects the lower volume of electricity produced due to the Unit 2 refurbishment outage at the Darlington GS.

Generation Development

OPG is undertaking a number of generation development and life extension projects in support of Ontario's electricity planning initiatives. Significant developments during the first quarter of 2017 were as follows:

Darlington Refurbishment

The Darlington Refurbishment project is expected to extend the operating life of the station by approximately 30 years. In October 2016, OPG commenced the refurbishment of the first Darlington GS unit, Unit 2, as planned, as part of the Darlington Refurbishment project. The unit was taken offline safely on October 15, 2016 and de-fuelling of the reactor, the first critical refurbishment activity undertaken once the unit is removed from service, was safely completed in January 2017. Islanding of Unit 2, the physical separation of the unit under refurbishment from the three operating units, was completed in April 2017, signifying the completion of the first major segment of the project, on time and on budget. The overall project continues to track on schedule and budget.

The second segment of the project commenced immediately following the islanding of Unit 2. This segment continues preparatory work to support the removal of feeder tubes and fuel channel assemblies, including opening the reactor air lock doors, installation of shielding, setting up specialized tooling and equipment, and commencing the disassembly and removal of reactor components. Unit 2 is scheduled to be returned to service, after a 40-month refurbishment outage, in the first quarter of 2020, at which time capital expenditures of approximately \$4.8 billion are planned to be placed in service. This includes expenditures incurred during the definition and planning phase of the overall project. Life-to-date capital expenditures were approximately \$3.5 billion as at March 31, 2017.

Peter Sutherland Sr. GS

In March 2017, the project to construct the new 28 MW two-unit hydroelectric generating station successfully completed final testing and commissioning of the turbine and generator units and both units were declared substantially complete. On March 31, 2017, the project received the permit from the Ontario Ministry of the Environment and Climate Change to take water for operations to allow the station to operate commercially. This in-service date is well ahead of the originally planned schedule of the first half of 2018. The project is expected to close below the approved budget of \$300 million following the completion of site remediation, demobilization and other project close-out activities. The project, which is a partnership between OPG and the Coral Rapids Power Corporation, a company wholly owned by the Taykwa Tagamou Nation (TTN), provided valuable employment and training opportunities for TTN members and other local Indigenous people and has created a sustainable revenue stream for the TTN community.

Sir Adam Beck Pump GS

The project to refurbish the 300-hectare Sir Adam Beck Pump GS reservoir began in April 2016 and was completed in February 2017. The project included installation of a new partial liner and construction of a grout curtain in the bedrock foundation of the reservoir dyke, and is expected to add approximately 50 more years to the reservoir's life. The Sir Adam Beck Pump GS facility is integral to OPG's hydroelectric fleet as it

allows water to be diverted from the Sir Adam Beck complex during periods of low electricity demand and stored in the reservoir, to be used to generate up to 600 MW of electricity during subsequent periods of high demand. The project was completed ahead of the originally planned in-service date and below the approved budget of \$58 million.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three Months Ended March 31	
(millions of dollars – except where noted)	2017	2016
Revenue	1,176	1,478
Fuel expense	155	172
Gross margin	1,021	1,306
Operations, maintenance and administration	708	686
Depreciation and amortization	167	312
Accretion on fixed asset removal and nuclear waste management liabilities	238	232
Earnings on Nuclear Segregated Funds - (a reduction to expenses)	(189)	(147)
Income from investments subject to significant influence	(10)	(8)
Other net expenses	8	(11)
Income before interest and income taxes	99	242
Net interest expense	19	33
Income tax expense	12	81
Net income	68	128
Net income attributable to the Shareholder	64	123
Net income attributable to non-controlling interest ¹	4	5
Income before interest and income taxes		
Electricity generation business segments	139	320
Regulated – Nuclear Waste Management	(47)	(83)
Services, Trading, and Other Non-Generation	7	5
Total income before interest and income taxes	99	242
Cash flow		
Cash flow provided by operating activities	118	366
Electricity generation (TWh)		
Regulated – Nuclear Generation	10.0	12.3
Regulated – Hydroelectric	8.0	7.9
Contracted Generation Portfolio ²	0.6	0.8
Total electricity generation	18.6	21.0
Nuclear unit capability factor (per cent) ³		
Darlington Nuclear GS	85.3	97.2
Pickering Nuclear GS	78.5	72.8
Availability (per cent)		
Regulated – Hydroelectric	89.5	94.8
Contracted Generation Portfolio – hydroelectric stations	83.6	83.9
Equivalent forced outage rate		
Contracted Generation Portfolio – thermal stations	12.6	0.9
Enterprise Total Generating Cost (TGC) per MWh for the three months ended March 31, 2017 and March 31, 2016 (\$/MWh) ⁴	47.86	41.82
Return on Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI) for the twelve months ended March 31, 2017 and December 31, 2016 (%) ⁴	3.5	4.2
Funds from Operations (FFO) Adjusted Interest Coverage for the twelve months ended March 31, 2017 and December 31, 2016 (times) ⁴	5.1	5.1

¹ Relates to the 25 per cent interest of a corporation wholly owned by the Moose Cree First Nation in the Lower Mattagami Limited Partnership.

² Includes OPG's share of generation volume from its 50 per cent ownership interests in the Portlands Energy Centre and Brighton Beach GS.

³ Nuclear unit capability factor excludes unit(s) during the period in which they are undergoing refurbishment. Unit 2 of the Darlington GS is excluded from the measure effective October 15, 2016, when the unit was taken offline for refurbishment.

⁴ Enterprise TGC per MWh, ROE Excluding AOCI, and FFO Adjusted Interest Coverage are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about the non-GAAP measures is provided in OPG's Management's Discussion and Analysis for the three months ended March 31, 2017, in the sections *Highlights – FFO Adjusted Interest Coverage*, *Highlights – Return on Common Equity Excluding Accumulated Other Comprehensive Income*, and *Highlights – Enterprise Total Generating Cost per MWh*, as well as *Supplementary Non-GAAP Financial Measures*.

Ontario Power Generation Inc.'s unaudited interim consolidated financial statements and Management's Discussion and Analysis as at and for the three months ended March 31, 2017 can be accessed on OPG's web site (www.opg.com), the Canadian Securities Administrators' web site (www.sedar.com), or can be requested from the Company.

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ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
2017 FIRST QUARTER REPORT

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ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three months ended March 31, 2017. 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, the Annual Information Form, and the MD&A as at and for the year ended December 31, 2016.

As required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. In 2014, the Ontario Securities Commission approved an exemption which allows OPG to apply US GAAP up to January 1, 2019. The term of the exemption is subject to certain conditions, which may result in the expiry of the exemption prior to January 1, 2019. For details, refer to the section, *Critical Accounting Policies and Estimates* under the heading, *Exemptive Relief for Reporting under US GAAP*, in OPG's 2016 annual MD&A. This MD&A is dated May 12, 2017.

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, 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, and forecasts of earnings, cash flows, Funds from Operations (FFO) Adjusted Interest Coverage, Return on Common Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI), Total Generating Cost (TGC) and capital 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, 2017, OPG's electricity generation portfolio had an in-service capacity of 16,205 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). 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 (Bruce Power). Income from these leased stations is included in 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 2016 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, 2017 and December 31, 2016 was as follows:

(MW)	As at	
	March 31 2017	December 31 2016
Regulated – Nuclear Generation ¹	5,728	5,728
Regulated – Hydroelectric	6,421	6,421
Contracted Generation Portfolio ²	4,056	4,028
Total	16,205	16,177

¹ The in-service generating capacity as of March 31, 2017 and December 31, 2016 excludes Unit 2 of the 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, 2017, the total in-service capacity increased by 28 MW. The increase was due to the completion of Peter Sutherland Sr. hydroelectric GS, which was placed in-service on March 31, 2017. The Peter Sutherland Sr. GS is discussed in the section, *Highlights* under the heading, *Recent Developments*.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. Significant factors which contributed to OPG's results during the three months ended March 31, 2017, compared to the same period in 2016, are discussed below.

<i>(millions of dollars – except where noted) (unaudited)</i>	Three Months Ended March 31	
	2017	2016
Revenue	1,176	1,478
Fuel expense	155	172
Gross margin	1,021	1,306
Operations, maintenance and administration	708	686
Depreciation and amortization	167	312
Accretion on fixed asset removal and nuclear waste management liabilities	238	232
Earnings on nuclear fixed asset removal and nuclear waste management funds	(189)	(147)
Income from investments subject to significant influence	(10)	(8)
Property taxes	11	12
	925	1,087
Income before other gains, interest, and income taxes	96	219
Other gains	(3)	(23)
Income before interest and income taxes	99	242
Net interest expense	19	33
Income before income taxes	80	209
Income tax expense	12	81
Net income	68	128
Net income attributable to the Shareholder	64	123
Net income attributable to non-controlling interest ¹	4	5
<i>Electricity production (TWh) ²</i>	18.6	21.0
<i>Cash flow</i>		
Cash flow provided by operating activities	118	366

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.

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

Net income attributable to the Shareholder was \$64 million for the first quarter of 2017, a decrease of \$59 million compared to 2016. Income before interest and income taxes was \$99 million for 2017, a decrease of \$143 million compared to 2016. The following summarizes the significant factors which contributed to the variance:

Significant factors that reduced income before interest and income taxes:

- Lower revenue from the nuclear base regulated price of approximately \$134 million, partially offset by the largely associated decrease in fuel expense of \$13 million, reflecting lower electricity generation of 2.3 terawatt hours (TWh) from the Regulated – Nuclear Generation segment and the continuation of existing base regulated prices set by the OEB in 2014. Existing base regulated prices continue to be in effect pending the OEB's decision on OPG's current application for new regulated prices, expected in the second half of 2017. The lower nuclear generation was primarily due to the ongoing refurbishment of Unit 2 at the

Darlington GS since October 2016. The existing nuclear base regulated price was set to allow the Company to recover its approved nuclear costs over a higher nuclear production volume, based on the 2014 and 2015 outage profile that did not include a refurbishment outage. OPG has requested January 1, 2017 as the effective date of the new regulated prices. Further details on OPG's current application for new regulated prices can be found under the heading, *Recent Developments – OPG's Application for New Regulated Prices*.

- Higher operations, maintenance and administration (OM&A) expenses of \$22 million, mainly in the Regulated – Nuclear Generation segment, reflecting use of temporary staff and planned hiring to fill vacant positions due to attrition, and higher material costs related to maintenance work at the nuclear stations.
- A gain of \$22 million recorded in the first quarter of 2016 to reflect the OEB's decision on OPG's motion asking the OEB to review and vary parts of its November 2014 decision on OPG's regulated prices.

Significant factors that increased income before interest and income taxes:

- Higher earnings on the nuclear fixed asset removal and nuclear waste management funds (Nuclear Segregated Funds) of \$42 million, primarily due to higher earnings on the Used Fuel Segregated Fund.
- Higher hydroelectric incentive mechanism revenue of \$7 million from the Regulated – Hydroelectric segment.

The expiry of rate riders for the recovery of approved balances in OEB-authorized regulatory variance and deferral accounts (regulatory accounts) on December 31, 2016 contributed to the decrease in revenue in the first quarter of 2017, compared to the same period in 2016, but was primarily offset by a decrease in the amortization expense related to regulatory account balances. OPG has requested new rate riders in its current application for new regulated prices to the OEB, with a proposed effective date of January 1, 2017.

Net interest expense decreased by \$14 million in the first quarter of 2017, compared to the same quarter in 2016, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project.

Income tax expense decreased by \$69 million in the first quarter of 2017, compared to the same quarter in 2016, primarily due to lower income before income taxes in the first quarter of 2017 and a higher income tax expense in the first quarter of 2016 due to a reduction in regulatory assets related to income taxes.

Segment Results

The following table summarizes OPG's income before interest and income taxes by business segment. 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)</i>	Three Months Ended March 31	
	2017	2016
<i>Income (loss) before interest and income taxes</i>		
Regulated – Nuclear Generation	(118)	46
Regulated – Hydroelectric	180	196
Contracted Generation Portfolio	77	78
Total electricity generation business segments	139	320
Regulated – Nuclear Waste Management	(47)	(83)
Services, Trading, and Other Non-Generation	7	5
	99	242

Electricity Generation

Electricity generation was as follows:

(TWh)	Three Months Ended March 31	
	2017	2016
Regulated – Nuclear Generation	10.0	12.3
Regulated – Hydroelectric	8.0	7.9
Contracted Generation Portfolio ¹	0.6	0.8
Total OPG electricity generation	18.6	21.0
Total electricity generation by other generators in Ontario ²	18.6	18.9

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.

The lower electricity generation from the Regulated – Nuclear Generation segment in the first quarter of 2017 compared to the same quarter in 2016 was primarily the result of the removal from service of Unit 2 at the Darlington GS for the duration of the unit's refurbishment, which began in October 2016. This decrease in electricity generation was partially offset by an increase in generation from the Pickering GS, primarily due to favourable unit conditions and execution of planned outage work resulting in a lower number of planned outage days.

The higher electricity generation from the Regulated – Hydroelectric generating segment in the first quarter of 2017 was primarily due to a lower volume of water spilled as a result of less prevalent SBG conditions, largely offset by the impact of lower water flows on the eastern and northeastern Ontario river systems, compared to the first quarter in 2016.

The lower electricity generation from the Contracted Generation Portfolio segment was primarily the result of lower water flows on the northeastern 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 2017, Ontario's electricity demand as reported by the IESO was 34.3 TWh compared to 35.2 TWh for the same quarter in 2016, which excludes 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, other grid-connected renewable resources and nuclear stations. Reducing hydroelectric production, which often results in spilling of water, is the first measure used by the IESO to manage SBG conditions. While baseload generation supply surplus in Ontario was less prevalent in the first quarter of 2017 compared to the same period in 2016, OPG lost 0.8 TWh of hydroelectric generation due to SBG conditions in the first quarter of 2017. OPG lost 1.7 TWh of hydroelectric generation due to SBG conditions during the first quarter of 2016. 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. 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 same base regulated prices for electricity generated by these segments, authorized by the OEB effective November 1, 2014, were in effect during the first quarter of 2017 as in 2016. These prices will remain in effect until such time as the OEB approves new regulated prices based on OPG's current application, discussed under the heading, *Recent Developments – OPG's Application for New Regulated Prices*. The base regulated prices established in 2014 are discussed in OPG's 2016 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 5.8 cents per kilowatt hour (¢/kWh) during the first quarter of 2017, compared to 7.0 ¢/kWh during the same quarter in 2016. The decrease in the average sales price was primarily due to the expiry, on December 31, 2016, of an OEB-authorized nuclear rate rider of \$10.84 per megawatt hour (MWh) for the recovery of variance and deferral account balances. The average sales price for the Regulated – Hydroelectric segment was 4.2 ¢/kWh during the first quarter of 2017, compared to 4.4 ¢/kWh during the same quarter in 2016. The decrease in the average sales price was primarily due to the expiry, on December 31, 2016, of a regulated hydroelectric rate rider of \$3.19/MWh for the recovery of variance and deferral account balances. These rate riders were established to recover approved balances recorded in OEB-authorized regulatory variance and deferral accounts in prior years. As such, the year-over-year changes in revenue from the rate riders were largely offset by changes in amortization expense related to regulatory account balances. There were no rate riders in effect during the first quarter of 2017 for either nuclear or regulated hydroelectric generation, pending the outcome of OPG's current application with the OEB for new regulated prices.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2017 was \$118 million, compared to \$366 million for the same period in 2016. The decrease in cash flow provided by operating activities in the first quarter of 2017, compared to the same quarter in 2016, was expected and primarily due to lower generation revenue receipts reflecting lower generation from the Regulated – Nuclear Generation segment as a result of the ongoing refurbishment of Unit 2 at the Darlington GS and the expiry, on December 31, 2016, of the OEB-authorized rate riders for nuclear and regulated hydroelectric generation. The decrease in cash flow in the first quarter of 2017 was also due to higher income tax instalments, compared to the same quarter in 2016.

The decrease in cash flow provided by operating activities was partially offset by lower pension plan contributions reflecting an updated actuarial valuation of the OPG registered pension plan filed with the Financial Services Commission of Ontario in September 2016, and lower contributions to the Used Fuel Segregated Fund and the Decommissioning Segregated Fund. Both the Used Fuel Segregated Fund and the Decommissioning Segregated Fund were determined to be fully funded based on an updated estimate of OPG's nuclear waste management and nuclear facilities decommissioning obligations pursuant to a reference plan approved by the Province, for years 2017 to 2021, under the Ontario Nuclear Funds Agreement (ONFA), effective January 1, 2017. Pursuant to the ONFA, the reference plan is required to be updated at least once every five years. Contributions to either or both of the Nuclear Segregated Funds may be required in the future should the funds be in an underfunded position at the time of the next ONFA reference plan update. The year-over-year decrease in cash flow also was partially offset by the payment of a supplemental rent rebate to Bruce Power in the first quarter of 2016 in relation to a period in 2015. The lease agreement for the Bruce nuclear generating stations giving rise to this rebate was amended in late 2015 to eliminate this provision going forward.

Funds from Operations Adjusted Interest Coverage

FFO Adjusted Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flow. The indicator is measured over a 12-month period. FFO Adjusted Interest Coverage was 5.1 times for the 12 month-periods ended March 31, 2017 and December 31, 2016. FFO Adjusted Interest Coverage in 2017 reflected a year-

over-year decrease in FFO before interest due to lower cash flow provided by operating activities, offset by the impact of a lower adjusted interest expense due to a decrease in the excess of interest on pension and OPEB projected benefit obligations over expected return on pension plan assets.

The decrease in the excess of interest on pension and OPEB benefit obligations over expected return on pension plan assets in the first quarter of 2017 was primarily due to the change in the method used to estimate the interest cost and service cost component of pension and OPEB costs. Effective January 1, 2017, OPG adopted a full yield curve approach to the estimation of these cost components, by applying the specific spot rates along the yield curve used in the determination of the projected benefit obligations to the relevant projected cash flows. Under the previous method, these components of pension and OPEB costs were calculated using the same single weighted-average discount rates as reflected in the calculation of the benefit obligations. This change in the method was accounted for prospectively, as a change in estimate. The resulting reduction in pension and OPEB costs in the first quarter of 2017 did not have a material impact on net income as it was largely offset by the impact of OEB-authorized variance and deferral accounts in the regulated business segments. Further details on the full yield curve approach can be found in the 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Pension and Other Post-Employment Benefits*.

Return on Common 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 12 months ended March 31, 2017 was 3.5 percent, compared to 4.2 percent for the 12 months ended December 31, 2016. As expected, the decrease was primarily due to lower net income attributable to the Shareholder. Reduced revenue due to the continuation of existing base regulated prices that do not reflect the lower nuclear generation as a result of the Unit 2 refurbishment outage at the Darlington GS negatively impacted net income and ROE Excluding AOCI for the 12-month period ended March 31, 2017. The continuation of existing base regulated prices until such time as new regulated prices are approved by the OEB later in 2017 will negatively affect OPG's ROE Excluding AOCI.

Enterprise Total Generating Cost per MWh

The Enterprise TGC per MWh was \$47.86 for the three months ended March 31, 2017, compared to \$41.82 for the same period in 2016. The increase in Enterprise TGC per MWh in the first quarter of 2017 was expected and primarily due to the decrease in electricity generation reflecting the Unit 2 refurbishment outage at the Darlington GS.

Nuclear Total Generating Cost per MWh

The Nuclear TGC per MWh was \$69.87 for the three months ended March 31, 2017, compared to \$56.37 for the same period in 2016. The increase in Nuclear TGC per MWh in the first quarter of 2017 was expected and primarily due to the decrease in nuclear electricity generation reflecting the Unit 2 refurbishment outage at the Darlington GS.

Hydroelectric Total Generating Cost per MWh

The Hydroelectric TGC per MWh was \$19.79 for the three months ended March 31, 2017, which was comparable to \$19.94 for the same period in 2016.

ROE Excluding AOCI, FFO Adjusted Interest Coverage, 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, cash flow provided by operating activities, 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, FFO Adjusted Interest Coverage, Enterprise TGC per MWh, Nuclear TGC per MWh and Hydroelectric TGC per MWh are found in the section, *Supplementary Non-GAAP Financial Measures*.

Recent Developments

Darlington Refurbishment

In October 2016, OPG commenced the refurbishment of the first Darlington GS unit, Unit 2, as planned, as part of the Darlington Refurbishment project. The unit was taken offline safely on October 15, 2016 and de-fuelling of the reactor, the first critical refurbishment activity undertaken once the unit is removed from service, was safely completed in January 2017. Islanding of Unit 2, the physical separation of the unit under refurbishment from the three operating units, was completed in April 2017, signifying the completion of the first major segment of the project. The second segment commenced immediately following the islanding of Unit 2. The second segment continues preparatory work to support the removal of feeder tubes and fuel channel assemblies, including opening the reactor air lock doors, installation of shielding, setting up specialized tooling and equipment, and commencing the disassembly and removal of reactor components. Once refurbished, Unit 2 is scheduled to be returned to service in the first quarter of 2020, at which time capital expenditures of approximately \$4.8 billion are planned to be placed in service. The project is tracking on schedule and budget.

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

Peter Sutherland Sr. Hydroelectric GS

In March 2017, the project to construct the 28 MW two-unit Peter Sutherland Sr. hydroelectric GS successfully completed final testing and commissioning of the turbine and generator units and both units were declared substantially complete. On March 31, 2017, the project received a permit from the Ontario Ministry of Environment and Climate Change (MOECC) to take water for operations to allow the station to operate commercially. This in-service date is well ahead of the originally planned schedule of the first half of 2018. The project's schedule was accelerated to take advantage of favourable weather conditions. The project is expected to close below the approved budget of \$300 million, following the completion of site remediation, camp dismantling, demobilization and other project close-out activities.

The project was constructed in partnership with Coral Rapids Power Corporation (CRP), a corporation wholly owned by the Taykwa Tagamou Nation, through PSS Generating Station Limited Partnership (PSS). Under the partnership agreement, as the units achieve commercial operation, CRP may increase its partnership interest up to 33 percent, through its investment in PSS. In April 2017, CRP exercised its right under the partnership agreement to increase its interest in PSS to 33 percent.

OPG's Application for New Regulated Prices

In May 2016, OPG filed a 5-year application with the OEB for new base regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017, on the basis of an incentive regulation ratemaking methodology for the hydroelectric operations and a custom incentive regulation framework for the nuclear operations. For the hydroelectric facilities, the application proposes to escalate the existing base regulated prices, with some adjustments, for each of the years 2017 to 2021, based on a formula that considers an industry specific inflation factor less a productivity improvement factor and less a stretch factor intended to incent additional innovation and efficiency. For the nuclear operations, the application proposes revenue requirements for each of the years 2017 to 2021 based on OPG's forecast of operating costs, reduced by a stretch factor amount, as well as a return on rate base and an annual forecast of production. The application also requests new rate riders, effective January 1, 2017, to recover or repay the December 31, 2015 balances in all of the Company's OEB-authorized variance and deferral accounts, with the exception of the Pension & OPEB Cash Versus Accrual Differential Deferral Account, less amounts previously approved for recovery or repayment through rate riders that were in effect to December 31, 2016. The Pension & OPEB Cash Versus Accrual Differential Deferral Account is

discussed further in the section, *Balance Sheet Highlights* under the heading, *Pension & OPEB Cash Versus Accrual Differential Deferral Account*.

Consistent with the requirements of *Ontario Regulation 53/05*, OPG's application submission in May 2016 incorporated a nuclear rate smoothing proposal. This proposal would result in OPG deferring a portion of the approved annual nuclear revenue requirements during the period from January 1, 2017 to the end of the Darlington Refurbishment project in a deferral account for future collection.

In March 2017, the Province amended *Ontario Regulation 53/05* to require that the portion of the approved annual nuclear revenue requirements deferred for future collection under rate smoothing be determined with a view of making more stable year-over-year changes in OPG's weighted-average nuclear and hydroelectric regulated price, including rate riders. Previously, the regulation required that the deferred amounts be determined with a view of making more stable year-over-year changes in OPG's nuclear base regulated price only, excluding rate riders. The amendment is intended to make more predictable the impact on customer bills resulting from changes in OPG's overall regulated prices, reducing the average year-over-year change in customer bills over the term of OPG's current application. Following the amendment, in March 2017, OPG submitted a modified rate smoothing proposal to the OEB to reflect the new requirements of the regulation, as part of its application for new regulated prices. OPG expects to recognize amounts deferred under rate smoothing as income in the period to which the underlying approved revenue requirements relate.

In March 2017, the OEB approved a settlement agreement reached by OPG and intervenors on a limited set of issues in OPG's application (Settlement Agreement). Among the settled issues, the agreement provided for the continuation of all applicable existing variance and deferral accounts and accepted a number of variance and deferral account balances for recovery, as requested in OPG's application. In addition, the Settlement Agreement accepted OPG's proposed adjustments to the existing regulated hydroelectric base regulated prices for the purposes of determining the starting point for an incentive regulation formula for the 2017 to 2021 period. The Settlement Agreement did not impact OPG's financial results for the three months ended March 31, 2017.

The OEB conducted 23 public oral hearing days on the unsettled issues in OPG's application between February 27, 2017 and April 13, 2017, as part of an overall public proceeding on the application. Final arguments in the proceeding are scheduled to be completed by June 19, 2017. The OEB's decision on the application, including the effective date of approved new regulated prices, is expected in the second half of 2017.

Ontario's Fair Hydro Plan

On March 2, 2017, the Province announced Ontario's Fair Hydro Plan (the Plan) aimed at reducing electricity bills for all residential consumers in the province on average by 25 percent. As part of the Plan, the Province has proposed refinancing a portion of the Global Adjustment costs over a longer time period for Regulated Price Plan eligible customers (e.g., residential, farm, small businesses). On May 11, 2017, the Province introduced legislation that, if passed, will enable the IESO and OPG to work together to implement this financing as requested by the Province. Any final agreement to implement OPG's involvement with the Plan is subject to approval by OPG's Board of Directors, which has established a Special Committee to provide oversight on behalf of the Board of Directors.

Shareholder Declaration and Shareholder Resolution to Sell Certain Real Estate Properties

In December 2015, OPG received a Shareholder Declaration and a Shareholder Resolution requiring the Company to sell its head office premises and associated parking facility located at 700 University Avenue and 40 Murray Street in Toronto, Ontario. A purchase and sale agreement was executed in December 2016, and the sale was completed in April 2017. An after-tax gain on sale of approximately \$280 million was recognized upon completion of the transaction in the second quarter of 2017. Pursuant to the Shareholder Declaration and Shareholder Resolution, and as prescribed in the *Trillium Trust Act, 2014*, OPG is required to transfer the proceeds from this disposition, net of prescribed deductions under the act, into the Province's Consolidated Revenue Fund. OPG is working with the

Ontario Ministry of Finance to finalize the prescribed costs incurred in connection with the disposition of the sale and the designated proceeds that will be transferred into the Consolidated Revenue Fund, in accordance with the *Trillium Trust Act, 2014*.

The Company's head office premises and associated parking facility are not considered core assets to OPG's business, and are reported under the Services, Trading, and Other Non-Generation segment.

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 2016 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 2016 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 2016, the annual public doses resulting from the Darlington GS operations and the Pickering GS operations were 0.6 μSv and 1.5 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

- As part of the plan to extend Pickering operations, OPG is continuing to undertake further technical work to confirm that the station's pressure tubes, a key life-limiting component of the station, will remain fit for service for operation to 2024. OPG is also nearing completion of component condition assessments to identify the work required to support the continued operation of the station. The accounting end of life assumptions for the Pickering GS, currently set at the end of 2020, are expected to be reassessed after the required fuel channel maintenance strategies in support of extended operations have been implemented on the initial units, taking into account the requirement for the Canadian Nuclear Safety Commission's (CNSC) approval, discussed 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 licence was issued assuming that the station would shut down in 2020. By June 30, 2017, OPG is required to confirm to the CNSC the end date of commercial operations of all operating Pickering units. Work on the Pickering licence renewal application is proceeding and the application is expected to be filed by August 31, 2017 for the CNSC's approval in 2018. The requested licence renewal will span the planned extended operations period, through to the end of the planned period to de-fuel, de-water, and place the station

in a safe state condition after shutdown. OPG will submit a Periodic Safety Review, Global Assessment Report, and Integrated Implementation Plan (IIP) for the station to the CNSC as part of the licence renewal.

- In 2016, OPG submitted applications with the CNSC seeking a ten-year licence renewal for the Western Waste Management Facility (WWMF), located at the Bruce generating stations' site, to May 31, 2027, and a ten-year licence renewal for the Pickering Waste Management Facility (PWMF) to August 31, 2028. The licence renewal applications were presented to the CNSC at public hearings in April 2017. The current licence for the WWMF expires on May 31, 2017 and for the PWMF on March 31, 2018. Renewal decisions on the WWMF and PWMF licences are expected to be issued prior to the expiry of the respective current licences.
- During the first quarter of 2017, OPG completed the replacement of the Shebandowan Lake Control Dam at the Kakabeka Falls GS, which will maintain structural integrity and enhance dam safety for another 100 years.
- Work continues on the rehabilitation of Unit 10 of the Sir Adam Beck 1 GS and Unit 1 of the Sir Adam Beck Pump GS, and the overhaul and upgrade of Unit 1 of the Harmon GS.
- Later in 2017, OPG expects to start definition phase activities for the Water Conveyance System project to rehabilitate the Sir Adam Beck 1 GS canal and associated structures, ensuring their continued safe and reliable operations for approximately the next 50 years.
- Work is in progress to reduce five regional hydroelectric offices to four, by integrating the Central Operations group into the other existing regional operations groups. This change will result in operational efficiency improvements.
- OPG has begun the process of decommissioning the Nanticoke and Lambton generating stations, and is developing a demolition plan that will ensure that the stations are closed safely, securely and in an environmentally responsible manner. Project milestones in 2017 include the elimination of coal yard equipment and structures, removal of ash silos, and the selection of a contractor to remove the stacks, powerhouse, interior equipment and supporting site structures for the Nanticoke GS.

Environmental Performance

In 2016, the Government of Ontario passed the *Climate Change Mitigation and Low-Carbon Economy Act, 2016* and the associated *Cap and Trade Program Regulation*. The legislation provides the foundation for regulating greenhouse gas (GHG) emissions in Ontario and establishes a cap and trade program, with the first compliance period being from January 1, 2017 to December 31, 2020.

The cap and trade program is a market mechanism intended to give Ontarians an incentive to reduce GHG emissions by putting a price on carbon. OPG has an internal program to meet its GHG emissions compliance obligations. With OPG's low GHG emitting fleet, these obligations do not have a material financial impact on the Company. The MOECC held the first quarterly auction of GHG allowances on March 22, 2017.

Disclosures related to the Company's environmental policy and environmental risks can be found in OPG's 2016 annual MD&A.

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, 2017 are outlined in the following table, with further details below.

Project (millions of dollars)	Capital expenditures		Approved budget	Expected in-service date	Current status
	Year-to-date	Life-to-date			
Darlington Refurbishment	306	3,491	12,800 ¹	First unit - 2020 Last unit - 2026	Islanding of Unit 2 was completed in April 2017. Preparatory work in the reactor vault to support the removal of feeder tubes and fuel channel assemblies is in progress. The project is tracking on schedule and on budget.
Peter Sutherland Sr. Hydroelectric GS	22	258	300	2017	The station was placed in-service on March 31, 2017, ahead of the originally planned schedule, and is expected to close below the approved budget. Refer to the section, <i>Core Business, Strategy, and Outlook</i> under the heading, <i>Recent Developments</i> for further details.
Sir Adam Beck Pump GS Reservoir Refurbishment	2	48	58	2017	The refurbishment was completed and the reservoir was returned to service in February 2017, ahead of the originally planned in-service date and below the approved budget.
Ranney Falls Hydroelectric GS	2	5	77	2019	Project definition work has been completed and site clearing and mobilization work has commenced.
Nanticoke Solar Facility	1	2		2019	Project definition work is in progress and construction is planned to commence as early as in the fourth quarter of 2017.
Deep Geologic Repository for low and intermediate level radioactive waste (L&ILW)	2 ²	197 ²			Additional information requested by the Canadian Environmental Assessment Agency (CEAA) based on their review of the material submitted by OPG in December 2016 is being prepared and will be submitted by May 26, 2017.

¹ The total project budget of \$12.8 billion is for the refurbishment of all four units at the Darlington GS.

² Expenditures are charged against the nuclear fixed asset removal and nuclear waste management liabilities (Nuclear Liabilities).

Darlington Refurbishment

The Darlington generating units are forecast to be 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.

In 2016, the Darlington Refurbishment project transitioned from the planning phase to the execution phase, as OPG commenced the refurbishment of the first unit, Unit 2, in October 2016, as planned. The unit was taken offline on October 15, 2016. De-fuelling of the reactor, the first critical refurbishment activity undertaken once the unit is removed from service, was safely completed in January 2017, ahead of schedule, with a total of 480 fuel channels de-fuelled. Islanding of Unit 2, the physical separation of the refurbishment unit from the three operating units, was completed in April 2017, signifying the completion of the first major segment of the project. The second segment commenced immediately following the islanding of the unit. The second segment continues preparatory work to support the removal of feeder tubes and fuel channel assemblies, including opening the reactor air lock doors, installation of shielding, setting up specialized tooling and equipment, and commencing the disassembly and removal of reactor components. Once refurbished, Unit 2 is scheduled to be returned to service in the first quarter of 2020, at which time capital expenditures of approximately \$4.8 billion are planned to be placed in service. The project is tracking on schedule and budget.

A number of pre-requisite projects in support of the execution phase of the project, including construction of facilities, infrastructure upgrades and installation of safety enhancements, have been completed. This includes the Containment Filtered Venting System and the Third Emergency Power Generator safety enhancement projects that were placed in-service in April 2017. Completion of the Heavy Water Storage and Drum Handling Facility has been delayed due to challenges with construction. Remediation measures are in progress. This delay will not impact the overall Darlington Refurbishment project schedule, as the Heavy Water Storage and Drum Handling Facility is not on the critical path. The remaining projects are tracking for completion in line with the refurbishment execution schedule.

In addition to the de-fuelling and islanding of Unit 2 completed to date, other key project activities in 2017 are as follows:

- Completion of preparation activities to support Retube and Feeder Replacement work.
- Continued refurbishment task rehearsals for the specialized tooling to be used for removal and replacement of feeder tubes and fuel channel assemblies at OPG's reactor training and mock-up facility.
- Removal of Unit 2 feeder tubes and commencement of the fuel channel removal series.
- Completion of the Re-tube Waste Processing Building.
- Continued construction of the Heavy Water Storage and Drum Handling Facility.
- Commencement of the major turbine generator overhaul and fuel handling power track replacement.
- Continued execution of work to support the requirements set out in the CNSC-approved IIP for the Darlington GS.

In addition to the execution of refurbishment activities for Unit 2, OPG has commenced planning for the refurbishment of Unit 3, and is entering into associated commitments to procure major components that require long lead times. As of March 31, 2017, \$43 million has been invested in planning activities related to the refurbishment of the second unit. These planning activities are being undertaken in accordance with the refurbishment project schedule.

Sir Adam Beck Pump GS Reservoir Refurbishment

The Sir Adam Beck Pump GS refurbishment construction began in April 2016 and the 300-hectare reservoir was returned to service in February 2017 upon completion of the reservoir commissioning program. The Sir Adam Beck Pump GS facility allows OPG to pump and store water diverted from the Sir Adam Beck generating complex during periods of low electricity demand, to be used to generate up to 600 MW of electricity during subsequent periods of high electricity demand. The work on the project included installation of a new partial liner and construction of a grout curtain in the bedrock foundation of the reservoir dyke. The refurbishment is expected to add approximately 50 more

years to the reservoir's life. The project was completed ahead of the originally planned in-service date of April 2017 and below the approved budget of \$58 million.

Ranney Falls Hydroelectric GS

In the first quarter of 2017, OPG completed the contractor selection process and awarded contracts for the construction of a 10 MW single-unit powerhouse on the existing Ranney Falls GS site, as part of the Regulated – Hydroelectric segment. The new unit will replace an existing unit that reached its end of life in 2014. The civil contractor has begun site clearing and mobilization. The expected in-service date is in the fourth quarter of 2019 with a budget of \$77 million.

Nanticoke Solar Facility

The project to construct a 44 MW solar facility at OPG's Nanticoke GS site and adjacent lands under a Large Renewable Procurement contract with the IESO, through Nanticoke Solar LP, is planned to commence as early as in the fourth quarter of 2017. In the first quarter of 2017, OPG purchased SunEdison Canadian Construction LP's (SECCLP) interests in Nanticoke Solar LP, originally a partnership between OPG, SECCLP and a subsidiary of the Six Nations of the Grand River Development Corporation, and is working to obtain approvals and permits required to enable the commencement of construction. The facility is expected to be completed in the first quarter of 2019.

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 Deep Geologic Repository (DGR) on lands adjacent to the WWMF in Kincardine, Ontario.

In 2012, the CNSC and the CEAA appointed a three-member Joint Review Panel (JRP) for OPG's proposed L&ILW DGR. The JRP examined the environmental effects of the proposed L&ILW DGR to meet the requirements of the *Canadian Environmental Assessment Act*. In May 2015, the JRP submitted its report and recommendations on the Environmental Assessment (EA) to the federal Minister of Environment. The report concluded that, given mitigation, there is unlikely to be significant environmental impact from the project and recommended that the Minister approve the EA. The report suggested that the project should be implemented expeditiously.

In February 2016, the federal Minister of Environment and Climate Change requested additional information on certain aspects of the EA, including information related to alternate locations for the project and potential for cumulative environmental effects if Canada's planned used fuel deep geologic repository being developed by the Nuclear Waste Management Organization were to be located in close proximity to OPG's proposed L&ILW DGR. OPG has completed the requested studies and submitted the requested information in December 2016, as planned. Following the CEAA's review of OPG's submission and a period of public comment, the CEAA has requested additional information from OPG. OPG has reviewed the information request and will respond to the CEAA by May 26, 2017. An EA Decision Statement by the Minister is expected by the fourth quarter of 2017. Based on the information submitted to the Minister in December 2016, the L&ILW DGR Project at the WWMF site remains OPG's preferred solution for the safe long-term management of the L&ILW, based on a relative consideration of environmental effects, transportation risks, transportation and other project-related costs and uncertainties, and the absence of certainty of improved safety or environmental quality at an alternate location.

OPG anticipates a site preparation and construction licence may be issued in the first half of 2018, if the EA Decision Statement supports licensing. OPG has initiated work to ensure all licensing-related submissions will be completed and ready to be submitted expeditiously to the CNSC for a licence review. In addition, work has been initiated to seek OPG's Board of Directors' approval to proceed to the definition phase work in 2018. This definition phase work will include completion of engineering design activities. OPG would then seek approval from the Board of Directors to proceed to the construction phase. OPG also continues its engagement with the Saugeen Ojibway Nations toward

securing community support for the L&ILW DGR. 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 growth.

Increase Revenue, Reduce Costs and Achieve Appropriate Return

In the second quarter of 2016, OPG filed a 5-year application with the OEB for new base regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017. Consistent with the requirements of *Ontario Regulation 53/05*, OPG's application incorporates a rate smoothing proposal, as amended in March 2017. The application seeks to ensure that nuclear regulated prices under the rate smoothing approach allow for sufficient cash flow to meet the Company's liquidity needs, support cost effective funding for the Darlington Refurbishment project and other expenditures, and maintain the Company's investment grade credit rating, while taking into account both near-term and future impacts on customers. In addition, the application will further challenge and incentivize OPG to find additional cost reductions and efficiencies within its operations, as a result of greater de-coupling of regulated prices from costs and a longer rate-setting period under the OEB's incentive ratemaking framework. The application also seeks an increase in the nuclear rate base, effective in early 2020, to reflect the planned placement in service of approximately \$4.8 billion of capital expenditures upon the scheduled return to service of Unit 2 at the Darlington GS as part of the Darlington Refurbishment project and, effective in 2017, an increase in the deemed capital structure applied to the total regulated rate base to 49 percent equity and 51 percent debt from 45 percent equity and 55 percent debt reflected in the existing regulated prices. If approved, this would improve OPG's return on Shareholder's investment.

A public oral hearing on OPG's application commenced in late February 2017 and was completed in April 2017, with final arguments scheduled to be completed by June 19, 2017. The OEB's decision on the application, including the effective date of approved new regulated prices, is expected in the second half of 2017. Further details on OPG's rate application can be found in the section, *Highlights* under the heading, *Recent Developments*.

For generation assets that do not form part of the assets regulated by the OEB, OPG's strategy has been to secure appropriate long-term revenue arrangements. In line with this strategy, virtually all of OPG's non-regulated operating facilities and assets under construction are subject to long-term Energy Supply Agreements (ESAs) or other long-term contracts with the IESO. This includes the Peter Sutherland Sr. GS, which will begin earning contracted revenue under its hydroelectric ESA once the IESO confirms commercial operation of the station, expected to be effective as of March 31, 2017. The ESA expires in 2067.

Ensure Availability of Cost Effective Funding

In April 2017, 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 its Indigenous community partners. The Company seeks to establish these relationships based on

a foundation of respect for the languages, customs, and political, social and cultural organizations of the Indigenous communities. OPG's commitment in this area includes pursuing generation-related development partnerships on the basis of long-term commercial arrangements, such as the construction of the Peter Sutherland Sr. GS in partnership with Taykwa Tagamou Nation and the development of the Nanticoke solar facility in partnership with the Six Nations of the Grand River. In March 2017, the Peter Sutherland Sr. GS was placed in-service and, in April 2017, the Taykwa Tagamou Nation, through CRP, increased their partnership interest in PSS to 33 percent under the partnership agreement. OPG also continues to engage with Indigenous communities regarding the Company's nuclear waste management operations, through regularly scheduled meetings and ongoing dialogue in connection with OPG's proposed L&ILW DGR, and the re-licensing of the PWMF and the WWMF.

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. The existing base regulated prices were established by the OEB effective November 1, 2014 based on a forecast of costs and production for the regulated facilities for the 2014 to 2015 period. The future outcome of OPG's current application for new regulated prices is expected to provide substantial price certainty for the regulated business for the 2017 to 2021 period.

In its current application, OPG has requested January 1, 2017 as the effective date for the new regulated prices. In December 2016, the OEB issued an order declaring the existing base regulated prices interim, which preserves the OEB's ability to make the new regulated prices effective as early as January 1, 2017. The OEB's decision on the application, including the effective date of the new regulated prices, is expected in the second half of 2017. Considering the timing of OPG's application and OPG's procedural adherence to date, the Company believes that the OEB could make the new regulated prices effective January 1, 2017. This would allow OPG to recover the difference between the approved new regulated prices and the existing regulated prices for the period between January 1, 2017 and the implementation date of the new prices based on the OEB's order.

The continuation of existing regulated prices until the OEB's decision on OPG's application is issued is expected to continue to contribute to lower income, particularly from the Regulated – Nuclear Generation segment, and lower ROE Excluding AOCI during 2017, compared to 2016. In large part, this is due to the year-over-year reduction in nuclear electricity generation resulting from the Unit 2 refurbishment outage at the Darlington GS, given that the existing nuclear regulated prices were determined in 2014 based on a higher production forecast that reflected the operation of all four units at the station. As such, the OEB's decision on the effective date of the new regulated prices, as well as the timing of the decision issuance, could have a significant impact on OPG's financial results during 2017. OPG's application for new regulated prices is further discussed in the section, *Highlights* under the heading, *Recent Developments*.

Nuclear base regulated prices resulting from OPG's current application will be subject to a rate smoothing mechanism that defers collection of a portion of OEB-approved revenues. As expected, combined with the expiry of rate riders in effect to the end of 2016 and a year-over-year reduction in nuclear generation due to the Unit 2 refurbishment outage at the Darlington GS, this will result in lower cash flow from operations and a lower FFO Adjusted Interest Coverage ratio in 2017, compared to 2016. The continuation of existing base regulated prices until such time as new prices are determined and implemented by the OEB also is contributing to lower cash flow from operations in 2017. 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.

Lower nuclear generation due to the Darlington Refurbishment outages will continue to negatively impact the Enterprise TGC metric for the duration of the refurbishment project. Variability in sustaining capital investment expenditures, including major sustaining projects for the hydroelectric operations, also will impact the Enterprise TGC in future periods.

Several OEB-authorized regulatory variance and deferral accounts currently in place contribute to reducing the relative variability of the Company's income and ROE Excluding AOCI. Among others, these variance 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. There is no variance or deferral account in place related to the impact of generation performance of the nuclear stations on revenue from base regulated prices. Considering the impact of the variance and deferral accounts, the Regulated – Hydroelectric segment generally is expected to produce overall more predictable earnings compared to the Regulated – Nuclear Generation segment. 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. 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 operations going forward.

OPG's forecast capital expenditures for 2017 are approximately \$1.8 billion. This includes amounts for the Darlington Refurbishment project, hydroelectric and other development projects including the completion of the Peter Sutherland Sr. GS and the expansion of the Ranney Falls GS, and sustaining capital investments across the generating fleet. OPG's major projects are discussed in the *Project Excellence* section.

In addition to the operating and financial performance of the electricity generation business, OPG's results are affected by the earnings on the Nuclear Segregated Funds, which are reported in the Regulated – Nuclear Waste Management segment. While the Nuclear Segregated Funds are managed to achieve, in the long term, the target rate of return based on the discount rate specified in the ONFA, the rates of return earned in a given period can be subject to various external factors including financial market conditions and changes in the Ontario consumer price index (CPI). In the short term, these factors can be volatile and cause fluctuations in the Company's income. This volatility is partially mitigated by the impact of the Bruce Lease Net Revenues Variance Account and, as discussed below, the funded status of the two segregated funds.

As OPG does not have the right to withdraw surplus amounts from the Nuclear Segregated Funds when the segregated funds are overfunded relative to the life cycle funding liability pursuant to a current approved ONFA Reference Plan, OPG limits the amount of Nuclear Segregated Funds assets reported on the balance sheet to the present value life cycle funding liability per the most recently approved ONFA reference plan. This reduces the volatility of earnings on the Nuclear Segregated Funds reflected in net income when the Nuclear Segregated Funds are in a fully funded or overfunded position. As at March 31, 2017, the Decommissioning Segregated Fund was overfunded by approximately 24 percent, and the Used Fuel Segregated Fund was marginally overfunded, by less than one percent, based on the 2017 ONFA Reference Plan. Variability in asset performance due to volatility inherent in financial markets and changes in Ontario CPI may result in either or both funds becoming underfunded in the future.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2017	2016
Revenue	652	926
Fuel expense	68	81
Gross margin	584	845
Operations, maintenance and administration	589	563
Depreciation and amortization	107	230
Property taxes	6	7
(Loss) income before other losses, interest, and income taxes	(118)	45
Other gains	-	(1)
(Loss) income before interest and income taxes	(118)	46

Segment earnings decreased by \$164 million during the first quarter of 2017, compared to the same quarter in 2016. The decrease in earnings was expected and primarily due to reduced revenue from the nuclear base regulated price of approximately \$134 million, partly offset by the largely associated decrease in fuel expense of \$13 million. The decrease in revenue reflected lower electricity generation of 2.3 TWh and the continuation of the existing nuclear base regulated price set by the OEB in 2014. The existing base regulated price continues to be in effect pending the OEB's decision on OPG's application for new regulated prices, proposed to be effective on January 1, 2017. The lower nuclear generation was primarily due to the ongoing Unit 2 refurbishment outage at the Darlington GS that began in October 2016. The existing nuclear base regulated price does not reflect the lower generation as a result of the refurbishment outage, as it was set to allow the Company to recover its approved nuclear costs over a higher nuclear production volume, based on the 2014 and 2015 outage profile that did not include a refurbishment outage. The year-over-year reduction in nuclear electricity generation was partially offset by the impact of the decreased number of planned outage days at the Pickering GS in the first quarter of 2017, compared to the same quarter in 2016.

The increase in OM&A expenses of \$26 million in the first quarter of 2017, compared to the same quarter in 2016, also contributed to lower segment earnings. The increase in OM&A expenses reflected use of temporary staff and planned hiring to fill vacant positions due to attrition, and higher material costs related to maintenance work at the nuclear stations.

The expiry of an OEB-authorized nuclear rate rider on December 31, 2016 contributed to the decrease in segment revenue in the first quarter of 2017, compared to the same quarter in 2016. As rate riders allow for recovery of approved balances in OEB-authorized regulatory variance and deferral accounts, this decrease in revenue was largely offset by a decrease in amortization expense related to regulatory account balances. There was no rate rider in effect during the first quarter of 2017 pending the outcome of OPG's current application to the OEB for new regulated prices.

The Unit Capability Factors for the Darlington GS and Pickering GS for 2017 and 2016 were as follows:

	Three Months Ended March 31	
	2017	2016
Unit Capability Factor (%) ¹		
Darlington GS	85.3	97.2
Pickering GS	78.5	72.8

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 decreased in the first quarter of 2017, compared to the same quarter in 2016, primarily due to a higher number of unplanned outage days at the station in the first quarter of 2017.

The increase in the Unit Capability Factor at the Pickering GS in the first quarter of 2017, compared to the same quarter in 2016, was primarily due to favourable unit conditions and execution of planned outage work resulting in a lower number of planned outage days at the station in the first quarter of 2017.

Regulated – Nuclear Waste Management Segment

(millions of dollars) (unaudited)	Three Months Ended March 31	
	2017	2016
Revenue	27	34
Operations, maintenance and administration	29	36
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	234	228
Earnings on nuclear fixed asset removal and nuclear waste management funds	(189)	(147)
Loss before interest and income taxes	(47)	(83)

Earnings from the segment improved by \$36 million in the first quarter of 2017 compared to the same quarter in 2016. The year-over-year improvement in earnings was primarily due to higher earnings from the Nuclear Segregated Funds.

Higher earnings on the Used Fuel Segregated Fund, net of the impact of the Bruce Lease Net Revenue Variance Account, were the primary reason for the higher Nuclear Segregated Fund earnings during the first quarter of 2017, compared to the same period in 2016. As the Used Fuel Segregated Fund was overfunded as at December 31, 2016 and March 31, 2017, the earnings on the fund recorded in income during the first quarter of 2017 reflected the growth in the present value of the used fuel life cycle funding liability per the 2017 ONFA Reference Plan. During the first quarter of 2016, the Used Fuel Segregated Fund was underfunded based on the ONFA reference plan then in effect, and therefore earnings on the fund reflected the CPI-adjusted rate of return guaranteed by the Province under the ONFA for funding related to the initial 2.23 million used fuel bundles and market returns for the portion of the fund not guaranteed by the Province.

As of December 31, 2016, OPG recorded a decrease of approximately \$1,570 million to the Nuclear Liabilities and associated asset retirement costs capitalized as part of the carrying value of the nuclear generating stations to reflect the comprehensive update of the underlying assumptions and baseline cost estimates for these liabilities carried out as part of the 2017 ONFA Reference Plan update process. The resulting year-over-year decreases in accretion on fixed asset removal and nuclear waste management liabilities recorded in the Regulated – Nuclear Waste Management segment, and depreciation and fuel expenses recorded in the Regulated – Nuclear Generation segment during the first quarter of 2017, compared to the same quarter in 2016, were offset by the impact of the Bruce Lease Net Revenues Variance Account and the Nuclear Liability Deferral Account authorized by the OEB. Further details on the change in the estimate of the Nuclear Liabilities as of December 31, 2016 are described in OPG's 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Asset Retirement Obligation*.

Under the current OEB-approved cost recovery methodology, the above changes in expenses associated with the year-end 2016 adjustment to the Nuclear Liabilities are not expected to materially affect OPG's income during 2017, as these changes are expected to continue to be largely offset by the impact of the regulatory accounts until such time as the OEB implements corresponding changes to OPG's nuclear regulated prices, and subsequently by the impact of such new regulated prices.

Regulated – Hydroelectric Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2017	2016
Revenue ¹	363	385
Fuel expense	73	79
Gross margin	290	306
Operations, maintenance and administration	76	76
Depreciation and amortization	34	56
Income before other gains, interest and income taxes	180	174
Other gains	-	(22)
Income before interest and income taxes	180	196

¹ During the three months ended March 31, the Regulated – Hydroelectric segment revenue included incentive payments of \$8 million in 2017 and \$1 million in 2016 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 decrease in income before interest and income taxes of \$16 million during the first quarter of 2017, compared to the same period in 2016, was primarily due to a gain of \$22 million recognized during the first quarter of 2016 to reflect the OEB's January 2016 decision to reverse a portion of an earlier capital cost disallowance related to the Niagara Tunnel project expenditures, in response to a motion by OPG. The decrease in income was partially offset by higher hydroelectric incentive mechanism payments in the first quarter of 2017.

The decrease in revenue was largely due to the expiry of an OEB-authorized rate rider on December 31, 2016. As the rider allowed for the recovery of approved balances in OEB-authorized regulatory variance and deferral accounts, the resulting reduction in revenue was largely offset by lower amortization expense related to regulatory account balances. There was no rate rider in effect during the first quarter of 2017 pending the outcome of OPG's current application to the OEB for new regulated prices.

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

	Three Months Ended March 31	
	2017	2016
Hydroelectric Availability (%)	89.5	94.8

The Hydroelectric Availability decreased in the first quarter of 2017, compared to the same period in 2016, primarily due to the reservoir refurbishment project at the Sir Adam Beck Pump GS and a higher number of unplanned outage days for the regulated hydroelectric stations.

Contracted Generation Portfolio Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2017	2016
Revenue	143	145
Fuel expense	14	12
Gross margin	129	133
Operations, maintenance and administration	39	40
Depreciation and amortization	19	19
Accretion on fixed asset removal liabilities	2	2
Property taxes	2	2
Income from investments subject to significant influence	(10)	(8)
Income before interest and income taxes	77	78

Income before interest and income taxes decreased by \$1 million during the first quarter of 2017, compared to the same period in 2016. The decrease primarily resulted from lower revenues from the Lower Mattagami River generating stations, partially offset by higher revenues from the Lennox GS primarily due to increased market demand.

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	
	2017	2016
Hydroelectric Availability (%)	83.6	83.9
Thermal EFOR (%)	12.6	0.9

The Hydroelectric Availability in the first quarter of 2017 was comparable to the same period in 2016. The higher thermal EFOR in the first quarter of 2017, compared to the same period in 2016, was primarily due to a higher number of unplanned outage days at a Lennox GS unit as a result of a transmission outage.

Services, Trading, and Other Non-Generation Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2017	2016
Revenue	17	21
Gross margin	17	21
Operations, maintenance and administration	1	4
Depreciation and amortization	7	7
Accretion on fixed asset removal liabilities	2	2
Property taxes	3	3
Loss before other losses, interest, and income taxes	4	5
Other gains	(3)	-
Income before interest and income taxes	7	5

Segment earnings increased by \$2 million during the first quarter of 2017, compared to the same quarter in 2016, due to lower OM&A expenses reflecting the decision, in the fourth quarter of 2016, to proceed with the decommissioning of the Lambton GS, and dividend income from OPG's investment in Hydro One Limited (Hydro One) shares acquired in April 2016. OPG acquired these shares for investment purposes, to mitigate the risk of future price volatility related to the Company's future share delivery obligations under the collective agreements with the Power Workers' Union.

and The Society of Energy Professionals. The increase in segment earnings was partially offset by lower revenue from the Company's electricity trading activities in the first quarter of 2017.

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, and capital market financing. 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, and to service and repay long-term debt.

Changes in cash and cash equivalents for the three months ended March 31, 2017 and 2016 were as follows:

<i>(millions of dollars) (unaudited)</i>	Three Months Ended March 31	
	2017	2016
Cash and cash equivalents, beginning of period	186	464
Cash flow provided by operating activities	118	366
Cash flow used in investing activities	(363)	(310)
Cash flow used in financing activities	279	20
Net increase	34	76
Cash and cash equivalents, end of period	220	540

For a discussion regarding cash flow provided by operating activities and the FFO Adjusted Interest Coverage ratio, 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 2017 increased by \$53 million compared to the same quarter in 2016. The increase was primarily due to higher expenditures on the Darlington Refurbishment project, partially offset by the staggered maturity of a structured deposit note entered in 2015 in support of the Peter Sutherland Sr. GS project. The principal amount of the deposit note that matured in the first quarter of 2017 was higher than the amount that matured in the same quarter in 2016. The final maturity date of the deposit note was in April 2017.

Financing Activities

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. In the second quarter of 2017, OPG expects to renew and extend the expiry date of both tranches from May 2021 to May 2022. There were no amounts outstanding under the bank credit facility as at March 31, 2017.

There was \$133 million of commercial paper outstanding under OPG's commercial paper program as at March 31, 2017.

As at March 31, 2017, OPG also maintained \$25 million of short-term, uncommitted overdraft facilities, and a further \$460 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at March 31, 2017, a total of \$386 million of Letters of Credit had been issued under these facilities. This included \$349 million for the supplementary pension plans, \$36 million for general corporate purposes, and \$1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust, expiring on November 30, 2018. The maximum amount of co-ownership interest that can be sold under this agreement is \$150 million. As at March 31, 2017, no borrowings were issued under this agreement and there were Letters of Credit outstanding under this agreement of \$150 million, which were issued in support of OPG's supplementary pension plans.

As at March 31, 2017, Lower Mattagami Energy Limited Partnership (LME) maintained a \$500 million bank credit facility to support the funding requirements for the Lower Mattagami River project including support for LME's commercial paper program. The facility consists of a \$300 million tranche maturing in August 2021 and a \$200 million tranche maturing in August 2017. As at March 31, 2017, there was no external commercial paper outstanding under LME's commercial paper program. There were also no amounts outstanding under LME's bank credit facility as at March 31, 2017.

In June 2016, OPG entered into a \$700 million general corporate credit facility agreement with the OEFC, which expires on December 31, 2017. As at March 31, 2017, there were outstanding long-term borrowings of \$200 million under this credit facility.

In February 2017, OPG issued senior notes payable to the OEFC totalling \$200 million and maturing in February 2047. The effective interest rate and coupon interest rate of these notes was 4.12 percent.

As at March 31, 2017, OPG's long-term debt outstanding was \$5,684 million, including \$1,328 million due within one year.

OPG continues to evaluate arrangements that would appropriately support the Company's financing needs and capital expenditure programs.

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 2017	December 31 2016
Property, plant and equipment – net	20,248	19,998
The increase was primarily due to capital expenditures on the Darlington Refurbishment project, partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	16,157	15,984
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.		
Short-term debt	135	2
The increase was due to commercial paper issued under OPG's commercial paper program.		
Long-term debt <i>(current and non-current portions)</i>	5,670	5,520
The increase was primarily due to the issuance of senior notes payable to the OEFC totalling \$200 million in February 2017.		
Fixed asset removal and nuclear waste management liabilities	19,683	19,484
The increase was primarily as 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 nuclear waste management activities.		

Pension & OPEB Cash Versus Accrual Differential Deferral Account

In setting OPG's regulated prices effective November 1, 2014, the OEB limited the recovery of the regulated portion of OPG's pension and OPEB costs to the regulated portion of the Company's cash expenditures for its pension and OPEB plans. Effective November 1, 2014, the OEB authorized the Pension & OPEB Cash Versus Accrual Differential Deferral Account, which records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis in accordance with US GAAP and OPG's corresponding actual cash expenditures for these plans. The OEB's November 2014 decision indicated that the future recovery, if any, of amounts recorded in the deferral account would be subject to the outcome of an OEB generic proceeding on the regulatory treatment and recovery of pension and OPEB costs. The Company has recognized the amount set aside in the Pension & OPEB Cash Versus Accrual Differential Deferral account as a regulatory asset. As at March 31, 2017, the regulatory asset balance was \$517 million, which represents the excess of pension and OPEB costs calculated using the accrual basis in accordance with US GAAP over the corresponding cash expenditures for the period from November 1, 2014 to March 31, 2017.

In May 2015, the OEB began a consultation process to develop standard principles to guide its future review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery. OPG is participating in the consultation, which is continuing. In its May 2016 application for new regulated prices, OPG has proposed to continue recording the difference between actual pension and OPEB costs for the regulated business determined on an accrual basis in accordance with US GAAP and OPG's corresponding cash expenditures for these plans in the Pension & OPEB Cash Versus Accrual Differential Deferral Account, pending the outcome of the OEB's consultation process. If, as part of the consultation process or another proceeding, the OEB decides that the recovery basis for OPG's pension and OPEB amounts should be changed from the accrual basis, OPG may be required to adjust the regulatory asset for the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

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, 2016. A discussion of recent accounting pronouncements and change in accounting estimate are included in Note 2 to OPG's unaudited interim consolidated financial statements as at and for the three months ended March 31, 2017 under the heading, *Significant Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2016 annual MD&A.

RISK MANAGEMENT

The following provides an update to the discussion of the Company's risks and risk management activities included in OPG's 2016 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.

Financial Risks

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.

	2017 ¹	2018	2019
Estimated fuel requirements hedged ²	75%	74%	63%

¹ Based on actual fuel requirements hedged for the three months ended March 31, 2017 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 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 earnings and cash flow can be affected by movements in the United States dollar relative to the Canadian dollar.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are denominated in, or tied to, US dollars. To manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at March 31, 2017, 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 2017, the VaR utilization ranged between \$0.1 million and \$0.3 million.

Credit

Deterioration in energy markets counterparty credit and non-performance by suppliers and contractors can adversely impact OPG's earnings and cash flow from operations.

OPG manages its exposure to suppliers or counterparties by evaluating their financial condition and negotiating appropriate collateral or other forms of security. OPG's credit exposure relating to energy markets transactions as at March 31, 2017 was \$361 million, including \$348 million to the IESO. Management considers the Company's risk exposure relating to electricity sales through the IESO-administered spot market to be low as 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, 2017, over 95 percent was related to investment grade counterparties.

RELATED PARTY TRANSACTIONS

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

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One, 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 one of several wholly-owned government business enterprises of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions are summarized below:

(millions of dollars) (unaudited)	Three Months Ended March 31			
	Revenue	2017 Expense	Revenue	2016 Expense
Hydro One				
Electricity sales	4	-	2	-
Services	1	5	1	5
Dividends	2	-	-	-
Province of Ontario				
Change in Decommissioning Segregated Fund amount due to Province ¹	-	163	-	(177)
Change in Used Fuel Segregated Fund amount due to Province ¹	-	217	-	(159)
Hydroelectric gross revenue charge	-	28	-	31
ONFA guarantee fee	-	2	-	2
OEFC				
Hydroelectric gross revenue charge	-	38	-	37
Interest expense on long-term notes	-	41	-	42
Income taxes, net of investment tax credits	-	12	-	32
IESO				
Electricity related revenue	1,073	6	1,363	10
	1,080	512	1,366	(177)

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, 2017 and December 31, 2016, the Nuclear Segregated Funds were reported net of amounts due to the Province of \$3,795 million and \$3,415 million, respectively. The details of accounting for the Nuclear Funds are described in OPG's 2016 annual MD&A in the section, *Critical Accounting Policies and Estimates* under the heading, *Nuclear Fixed Asset Removal and Nuclear Waste Management Funds*.

The receivable, available-for-sale securities, payable and long-term debt balances between OPG and its related parties are summarized below:

<i>(millions of dollars) (unaudited)</i>	March 31 2017	December 31 2016
Receivables from related parties		
Hydro One	1	1
IESO	348	421
OEFC	5	1
PEC	4	4
Province of Ontario	4	2
Available-for-sale securities		
Hydro One shares	218	212
Accounts payable and accrued charges		
OEFC	45	61
Province of Ontario	7	2
IESO	2	2
Long-term debt (including current portion)		
Notes payable to OEFC	3,445	3,295

OPG holds interest-bearing Province of Ontario bonds in the Nuclear Segregated Funds and the OPG registered pension fund. As at March 31, 2017, the Nuclear Segregated Funds and the registered pension fund held \$1,650 million and \$237 million of interest-bearing Province of Ontario bonds, respectively. As at December 31, 2016, the Nuclear Segregated Funds and the registered pension fund held \$1,652 million and \$284 million of interest-bearing Province of Ontario bonds, respectively. These bonds are publicly traded securities and are measured at fair value. OPG jointly oversees the investment management of the Nuclear Segregated Funds with the Province.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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

QUARTERLY FINANCIAL HIGHLIGHTS

The following tables set out selected financial information 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 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
Per common share, attributable to the Shareholder (dollars)	\$0.25	(\$0.05)	\$0.76	\$0.51

<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2016	December 31 2015	September 30 2015	June 30 2015
Revenue	1,478	1,312	1,426	1,383
Net income (loss)	128	(100)	85	193
Less: Net income attributable to non-controlling interest	5	1	5	4
Net income (loss) attributable to the Shareholder	123	(101)	80	189
Per common share, attributable to the Shareholder (dollars)	\$0.48	(\$0.39)	\$0.31	\$0.74

Trends

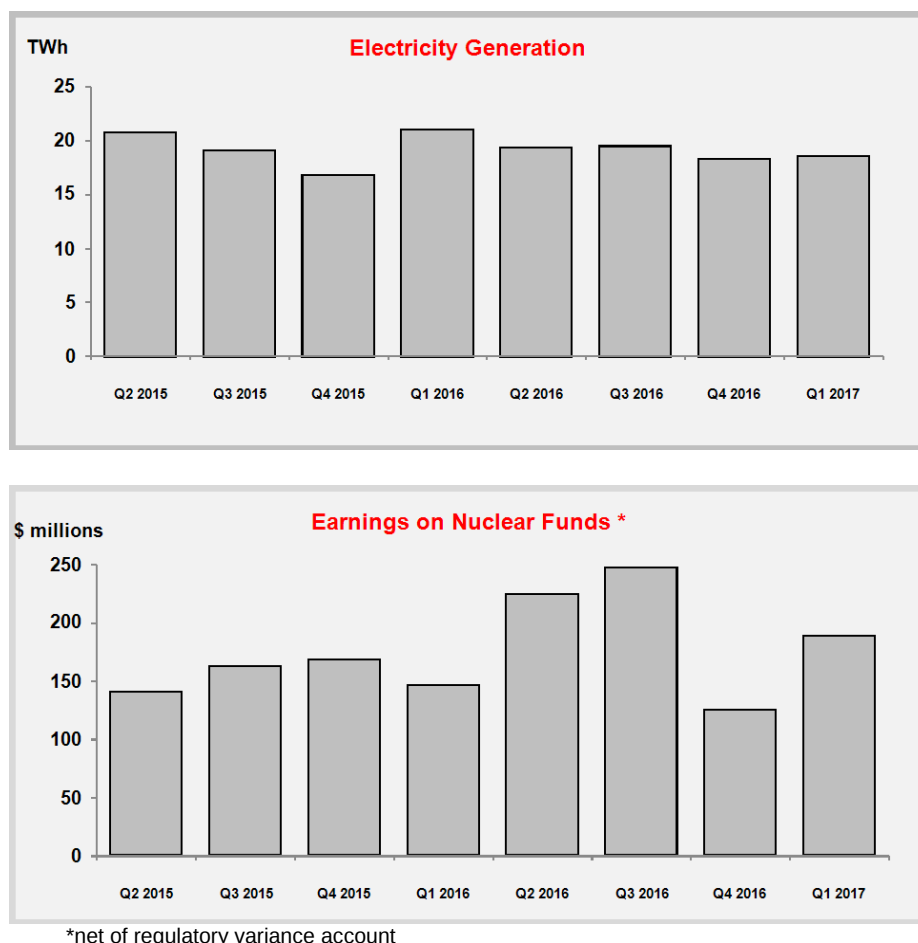
OPG's quarterly results are affected by changes in grid-supplied electricity demand, primarily resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the 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 offset by regulatory variance accounts authorized by the OEB.

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, including the impact on revenue and OM&A expenses, but is not a significant driver of variability for full fiscal year results.

During the third and fourth quarters of 2015, OPG's electricity generation was reduced by the four-unit Darlington Vacuum Building Outage (VBO), which lasted 47 days from September 14, 2015 to October 30, 2015. A VBO is currently required every 12 years at the Darlington GS.

During the fourth quarter of 2016 and the first quarter of 2017, OPG's electricity generation was reduced as a result of the Unit 2 refurbishment outage at the Darlington GS, which began in October 2016 and is expected to continue until early 2020.

OPG's financial results are also affected by the earnings on the Nuclear Segregated Funds, net of the impact of the Bruce Lease Net Revenues Variance Account.



Additional items that affected net income in certain quarters above are described in OPG's 2016 annual MD&A in the section, *Quarterly Financial Highlights*.

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, cash flow provided by operating activities, or any other measure in accordance with US GAAP, but as indicators of operating performance.

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

(1) ROE Excluding AOCI is 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
(millions of dollars – except where noted) (unaudited)	2017	2016
ROE Excluding AOCI		
Net income attributable to the Shareholder	377	436
Divided by: Average equity attributable to the Shareholder, excluding AOCI	10,834	10,442
ROE Excluding AOCI (percent)	3.5	4.2

(2) FFO Adjusted Interest Coverage is defined as FFO before interest divided by adjusted interest expense. FFO before interest is defined as cash flow provided by operating activities adjusted for interest paid, interest capitalized to fixed and intangible assets, and changes to non-cash working capital balances for the period. Adjusted interest expense is calculated as net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest related to regulatory assets and liabilities, and the excess of interest on pension and OPEB projected benefit obligations over expected return on pension plan assets, for the period.

FFO Adjusted Interest Coverage is measured over a 12-month period and is calculated as follows:

	Twelve Months Ended	
	March 31	December 31
(millions of dollars – except where noted) (unaudited)	2017	2016
FFO before interest		
Cash flow provided by operating activities	1,457	1,705
Add: Interest paid	268	269
Less: Interest capitalized to fixed and intangible assets	(152)	(141)
Less: Changes to non-cash working capital balances	(22)	(68)
FFO before interest	1,551	1,765
Adjusted interest expense		
Net interest expense	106	120
Add: Interest income	5	7
Add: Interest capitalized to fixed and intangible assets	152	141
Add: Interest related to regulatory assets and liabilities	32	30
Add: Excess of interest on pension and OPEB projected benefit obligations over expected return on pension plan assets	10	45
Adjusted interest expense	305	343
FFO Adjusted Interest Coverage (times)	5.1	5.1

(3) **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 variance and deferral 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 variance and deferral accounts), and capital expenditures (excluding the Darlington Refurbishment project and other generation development projects) incurred during the period, divided by total electricity generation from OPG-operated generating stations plus electricity generation forgone due to SBG conditions during the period.

	Three Months Ended March 31	
<i>(millions of dollars – except where noted) (unaudited)</i>	2017	2016
Enterprise TGC		
Total OM&A expenses	708	686
Total fuel expense	155	172
Total capital expenditures	408	320
Less: Darlington Refurbishment capital and OM&A costs	(309)	(205)
Less: Other generation development project capital and OM&A costs	(17)	(38)
(Less) Add: OM&A and fuel expenses deferred in regulatory variance and deferral accounts	(11)	18
Less: Nuclear fuel expense for non OPG-operated stations	(13)	(17)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	11	18
Less: OM&A expenses ancillary to electricity generation business	(5)	(5)
Other adjustments	(2)	(5)
	925	944
Adjusted electricity generation (TWh)		
Total OPG electricity generation	18.6	21.0
Adjust for electricity generation forgone due to SBG conditions and OPG's share of electricity generation from co-owned facilities	0.7	1.6
	19.3	22.6
Enterprise TGC per MWh (\$/MWh) ¹	47.86	41.82

¹ Amounts may not calculate due to rounding.

(4) **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 variance and deferral accounts, and expenses ancillary to the nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding the Darlington Refurbishment project costs) incurred during the period, divided by nuclear electricity generation for the period.

	Three Months Ended March 31	
<i>(millions of dollars – except where noted) (unaudited)</i>	2017	2016
Nuclear TGC		
Regulated – Nuclear Generation OM&A expenses	589	563
Regulated – Nuclear Generation fuel expense	68	81
Regulated – Nuclear Generation capital expenditures	366	249
Less: Darlington Refurbishment capital and OM&A costs	(309)	(205)
Add: Regulated – Nuclear Generation OM&A and fuel expenses deferred in regulatory variance and deferral accounts	(2)	25
Less: Nuclear fuel expense for non OPG-operated stations	(13)	(17)
Less: Regulated – Nuclear Generation OM&A expenses ancillary to nuclear electricity generation business	(1)	(1)
Other adjustments	-	(2)
	698	693
Nuclear electricity generation (TWh)	10.0	12.3
Nuclear TGC per MWh (\$/MWh) ¹	69.87	56.37

¹ Amounts may not calculate due to rounding.

(5) **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 variance and deferral accounts, and expenses ancillary to the hydroelectric electricity generation business), hydroelectric gross revenue charge and water rental payments (excluding the impact of regulatory variance and deferral 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 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>	2017	2016
Hydroelectric TGC		
Regulated – Hydroelectric Generation OM&A expenses	76	76
Regulated – Hydroelectric Generation fuel expense	73	79
Contracted Generation Portfolio OM&A expenses	39	40
Contracted Generation Portfolio fuel expense	14	12
Regulated – Hydroelectric Generation and Contracted Generation Portfolio capital expenditures	37	59
Less: Regulated – Hydroelectric Generation and Contracted Generation Portfolio generation development project capital and OM&A costs	(16)	(37)
Less: Thermal OM&A, fuel expenses, and capital expenditures in the Contracted Generation Portfolio	(39)	(37)
Less: Regulated – Hydroelectric Generation OM&A and fuel expenses deferred in regulatory variance and deferral accounts	(9)	(7)
Add: Hydroelectric gross revenue charge and water rental payments for electricity generation forgone due to SBG conditions	11	18
Other adjustments	(1)	2
	185	205
Adjusted hydroelectric electricity generation (TWh)		
Regulated – Hydroelectric Generation electricity generation	8.0	7.9
Contracted Generation Portfolio electricity generation	0.6	0.8
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	1.6
	9.3	10.3
Hydroelectric TGC per MWh (\$/MWh) ¹	19.79	19.94

¹ Amounts may not calculate due to rounding.

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

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