ONTARIO POWER GENERATION INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

MARCH 31, 2018

INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

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

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

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

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

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

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

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

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

INTERIM CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY (UNAUDITED)

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

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

1. BASIS OF PRESENTATION

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

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

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

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

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

Use of Management Estimates

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

2. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

New Accounting Standards Effective in 2018

Revenue from Contracts with Customers

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

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

Revenue from Contracts with Customers – Regulated Generation

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

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

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

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

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

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

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

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

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

Revenue Recognition – Leasing Revenue

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

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Equity Securities

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

Restricted Cash Disclosures

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

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

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

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

Intra-entity Transfers of Assets Other than Inventory

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

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

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

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

Recent Accounting Pronouncements Not Yet Adopted

Lease Accounting

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

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

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

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

3. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

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

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

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

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

4. REGULATORY ASSETS AND REGULATORY LIABILITIES

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

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

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

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

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

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

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

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

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

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

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

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

5. LONG-TERM DEBT AND NET INTEREST EXPENSE

Long-term debt consists of the following:

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

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

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

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

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

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

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

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

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

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

6. SHORT-TERM DEBT

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

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

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

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

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

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

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

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

8. INCOME TAXES

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

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

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

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

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

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

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

10. PENSION AND OTHER POST-EMPLOYMENT BENEFITS

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

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

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

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

11. RISK MANAGEMENT AND DERIVATIVES

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

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

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

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

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

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

12. FAIR VALUE MEASUREMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices as at the interim consolidated balance sheet dates. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by OPG is the current bid price. These instruments are included in Level 1 and are comprised primarily of equity investments and fund investments. The fair value hierarchy groups financial instruments into three levels, based on the significance of inputs used in measuring the fair value of the assets and liabilities.

For financial instruments for which quoted market prices are not directly available, fair values are estimated using forward price curves developed from observable market prices or rates. The estimation of fair value may include the use of valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing as at the interim consolidated balance sheet dates. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investments Measured at Net Asset Value

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

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

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

Infrastructure

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

Real Estate

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

Agriculture

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

Pooled Funds

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

13. SHARE CAPITAL

Common Shares

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

Class A Shares

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

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

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

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

14. EARNINGS PER SHARE

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

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

15. COMMITMENTS AND CONTINGENCIES

Litigation

On August 9, 2006, a Notice of Action and Statement of Claim filed with the Ontario Superior Court of Justice in the amount of $500 million was served against OPG and Bruce Power by British Energy Limited and British Energy International Holdings Limited (together British Energy). The action is for contribution and indemnity of any amounts British Energy was liable for in an arbitration against it by some of the owners of Bruce Power regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power (the Arbitration). Both the action and the Arbitration relate to corrosion to a steam generator unit discovered after OPG leased the Bruce nuclear generating stations to Bruce Power.

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

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

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

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

Guarantees

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

Contractual Obligations

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

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

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

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

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

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

16. BUSINESS SEGMENTS

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

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

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

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

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

17. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

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

[1] Represents other accounts receivable.

18. PAYMENT OF DIVIDEND TO SHAREHOLDER

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

19. SALE OF LAKEVIEW SITE

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