

May 15, 2014

ONTARIO POWER GENERATION REPORTS 2014 FIRST QUARTER FINANCIAL RESULTS

[Toronto]: – Ontario Power Generation Inc. (OPG or Company) today reported its financial and operating results for the three months ended Mar. 31, 2014. Net income attributable to the Province for the first quarter of 2014 was \$242 million compared to \$28 million for the same quarter in 2013.

Tom Mitchell, President and CEO said, “The long, cold winter put an unusually high demand on Ontario’s electricity system. Our increased income, in part, resulted from OPG’s ability to meet the demand for electricity when people needed it. The price paid to OPG continues to lower the overall price paid by Ontarians for electricity.”

Mr. Mitchell added, “I am especially pleased by the continued positive performance of our Darlington Nuclear Generating Station. In fact, in April, the station received its second consecutive excellent safety and performance evaluation from the World Association of Nuclear Operators. Last year Pickering Nuclear received a strong performance review, the best in that station’s history.”

Mr. Mitchell said Ontario will continue to get value out of the Darlington station for many years to come. “We are deep into the preparations for the refurbishment that would keep the four units in operation until the middle of this century. It is a very valuable asset for the province as it provides about 20 per cent of Ontario’s power every year.”

Net income attributable to the Province for the first quarter of 2014 increased by \$214 million compared to the same quarter in 2013. This increase was primarily due to the favourable impact of higher market prices resulting in higher revenue from electricity sales in the inter-jurisdictional market. This was caused by unseasonably cold temperatures during the first quarter of 2014. These increases were partially offset by lower earnings from the Nanticoke generating station (GS) and the Lambton GS, which ended coal-fired generation in 2013.

The end of coal-fired operations at the Nanticoke GS and the Lambton GS also resulted in a 90 per cent reduction in carbon dioxide and acid gas emissions during the first quarter of 2014, compared to the same quarter in 2013.

Business Segment, Generating, and Operating Performance

OPG's income before interest and income taxes from the electricity generation business segments was \$346 million in the first quarter of 2014. This compared to \$109 million in the same quarter of 2013. The increase was due primarily to the favourable impact of higher market prices received for the generation produced by hydroelectric generating stations that are subject to market price volatility. The increase was partially offset by the impact of ending coal-fired operations at the Nanticoke GS and Lambton GS.

The nuclear waste management business segment recorded a loss before interest and income taxes of \$34 million in the first quarter of 2014, compared to a loss before interest and income taxes of \$63 million in the same quarter of 2013. The improvement was primarily due to higher earnings on the Used Fuel Segregated Fund, partially offset by higher accretion expense which reflected the increase in asset retirement obligations due to the passage of time.

The increase in income before interest and income taxes of \$27 million for the Services, Trading, and other Non-Generation business segment was primarily a result of higher trading margin for electricity sold to neighbouring energy markets.

Total electricity generated during the three months ended March 31, 2014 was 20.5 terawatt hours (TWh) compared to 21.3 TWh for the same quarter in 2013. This decrease was mainly due to ending coal-fired operations at the Nanticoke GS and the Lambton GS in 2013.

The capability factor at the Darlington nuclear station was 96.0 per cent in the first quarter of 2014 compared to 84.1 per cent for the same quarter in 2013, and reflected a decrease in planned outage days. The Pickering stations had a 66.6 per cent capability factor compared to 79.0 per cent in the first quarter of 2013, primarily as a result of an increase in outage days. The availability of OPG's hydroelectric generating stations remained at high levels.

Generation Development

OPG is undertaking a number of generation development and life extension projects to support Ontario's long-term electricity supply requirements. Significant developments during the year are as follows:

Darlington Refurbishment

- The Darlington Refurbishment project is currently in the definition phase. Refurbishment of the four Darlington units is currently estimated to cost less than \$10 billion in 2013 dollars, excluding capitalized interest and escalation. The project is currently estimated to be completed by 2025. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed in 2015.
- The full-scale reactor mock-up facility to be used for tool testing and training for the refurbishment project was made available for service in the first quarter of 2014, ahead of schedule. OPG is progressing with the design and construction of

facilities and infrastructure and safety improvement projects required at the Darlington site for the refurbishment and continued operation of the station.

- In April 2014, the Canadian Nuclear Safety Commission (CNSC) accepted the Global Assessment Report as meeting all regulatory requirements set out in the *Life Extension of Nuclear Power Plants* and provided feedback on the Integrated Implementation Plan. OPG expects the CNSC's final review and approval by the end of 2014 as part of the renewal of the Darlington GS Power Reactor Operating Licence.

Lower Mattagami

- The Lower Mattagami River project is expected to be completed on schedule by June 2015 and within the approved budget of \$2.6 billion. The 78 MW incremental unit at Harmon GS is expected to be declared in-service during the second quarter of 2014, ahead of its original target completion date of September 2014. The Little Long GS was declared in-service in January 2014, also ahead of schedule. As incremental units are placed in-service, the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, may acquire up to a 25 per cent interest in the assets through its investment in the Lower Mattagami Limited Partnership. The life-to-date capital expenditures were \$2,107 million as of Mar. 31, 2014.

Atikokan Conversion to Biomass

- Construction had been completed on the boiler and construction continues on the ancillary systems to support biomass operations. During the first quarter of 2014, a significant milestone was achieved by successfully test firing the main unit on natural gas. Life-to-date capital expenditures were \$153 million as of Mar. 31, 2014. The project is expected to be completed on schedule by August 2014 within the approved budget of \$170 million.

Thunder Bay Conversion to Advanced Biomass

- On May 1, 2014, the Minister of Energy issued a Shareholder Resolution which clarifies certain parameters to be included in the electricity supply contract for the conversion of one unit at the Thunder Bay GS to advanced biomass fuel, which is currently being negotiated with the Ontario Power Authority. Upon completion, the converted station is expected to have an in-service capacity of approximately 150 MW. The Thunder Bay GS ended coal-fired operations in April 2014.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three Months Ended March 31	
(millions of dollars – except where noted)	2014	2013
Earnings		
Revenue	1,387	1,255
Fuel expense	149	183
Gross margin	1,238	1,072
Operations, maintenance and administration	670	700
Depreciation and amortization	181	242
Accretion on fixed asset removal and nuclear waste management liabilities	196	189
Nuclear Funds (earnings) – a reduction to expense	(160)	(124)
Income from investments subject to significant influence	(13)	(10)
Other net expenses	14	18
Income before interest and income taxes	350	57
Net interest expense	12	25
Income tax expense	95	4
Net income	243	28
Net income attributable to the Province	242	28
Net Income attributable to non-controlling interest ¹	1	-
Income (loss) before interest and income taxes		
Electricity generation business segments	346	109
Regulated – Nuclear Waste Management	(34)	(63)
Services, Trading, and Other Non-Generation	38	11
Total income before interest and income taxes	350	57
Cash flow		
Cash flow provided by operating activities	428	245
Electricity generation (TWh)		
Regulated – Nuclear Generation	11.6	11.6
Regulated – Hydroelectric		
Existing regulated hydroelectric generating stations	4.8	4.7
Hydroelectric generating stations subject to rate regulation effective July 1, 2014	3.3	3.4
Contracted Generation Portfolio ²	0.8	1.6
Total electricity generation	20.5	21.3
Average sales prices and average revenue (¢/kWh)		
Average revenue for OPG ³	6.2	5.6
Average revenue for all electricity generators, excluding OPG ⁴	10.1	9.2
Nuclear unit capability factor (per cent)		
Darlington GS	96.0	84.1
Pickering GS	66.6	79.0
Availability (per cent)		
Regulated – Hydroelectric	92.4	93.1
Contract Generation Portfolio – Hydroelectric	96.0	97.9
Equivalent forced outage rate		
Contract Generation Portfolio – Thermal	3.0	17.9
Return on common equity for the twelve months ended March 31, 2014 and December 31, 2013 (per cent) ⁵	3.8	1.5
Funds from operations interest coverage for the twelve months ended March 31, 2014 and December 31, 2013 (times) ⁵	3.0	2.8

¹ Relates to the 25 per cent interest of the Amisk-oo-Skow Finance Corporation, a corporation wholly-owned by the Moose Cree First Nation, in the incremental assets of the Lower Mattagami Limited Partnership.

² Includes OPG's share of generation volume from its 50 percent ownership interests in the Portlands Energy Centre (PEC) and Brighton Beach.

³ Average revenue for OPG is comprised of regulated revenues, market based revenues, revenues from energy supply agreements, and other energy revenue from cost recovery agreements. In 2014, average revenue for OPG excludes the revenue from the cost recovery agreement for termination costs for the Nanticoke GS and Lambton GS as these stations ended coal-fired operations in 2013. Average revenue for OPG also excludes OPG's share of revenues and generation from PEC and Brighton Beach.

⁴ Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the hourly Ontario electricity price (HOEP), plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue, including revenue from the Nanticoke GS and Lambton GS cost recovery agreement.

⁵ "Funds from operations interest coverage" and "Return on equity" are non-GAAP financial measures and do not have any standardized meaning prescribed by US GAAP. Additional information about these measures is provided in OPG's Management's Discussion and Analysis for the period ended Mar. 31, 2014, under the heading, *Supplementary Non-GAAP Financial Measures*.

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. Our focus is on the efficient production and sale of electricity from our generation assets, while operating in a safe, open and environmentally responsible manner.

Ontario Power Generation Inc.'s unaudited consolidated financial statements and Management's Discussion and Analysis as at and for the three months ended Mar. 31, 2014, 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
2014 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, 2014. 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, related party transactions 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, and MD&A as at and for the year ended December 31, 2013.

As required by Ontario Regulation 395/11, as amended, a regulation under the *Financial Administration Act* (Ontario) (FAA), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. In the first quarter of 2014, the Ontario Securities Commission (OSC) 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 heading, *Exemptive Relief for Reporting under US GAAP*, under the section *Changes in Accounting Policies and Estimates*. This MD&A is dated May 14, 2014.

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 under the heading *Risk Management*. 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 fuel costs and availability, generating station performance, cost of fixed asset removal and nuclear waste management, performance of investment funds, closure or conversion of coal-fired generating stations, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations, income taxes, electricity spot market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, and the impact of regulatory decisions by the Ontario Energy Board (OEB). 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).

As at March 31, 2014, OPG's electricity generation portfolio had an in-service capacity of 16,853 megawatts (MW). OPG operates two nuclear generating stations, three thermal generating stations, 65 hydroelectric generating stations, and two wind power turbines. 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 580 MW Brighton Beach (Brighton Beach) gas-fired combined cycle GS. 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 of the co-owned facilities is accounted for using the equity method of accounting and OPG's share of equity income is presented in income from investments subject to significant influence under the Contracted Generation Portfolio segment.

OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P. (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.

OPG's Reporting Structure

Effective January 1, 2014, OPG revised the composition of its reportable business segments to reflect changes in its generation portfolio and its internal reporting. These changes primarily reflect 48 of OPG's hydroelectric generating facilities being prescribed for rate regulation, effective July 1, 2014, and ending the use of coal at the Nanticoke and Lambton generating stations in 2013. OPG's reportable business segments, effective January 1, 2014, are as follows:

- Regulated – Nuclear Generation
- Regulated – Nuclear Waste Management
- Regulated – Hydroelectric
- Contracted Generation Portfolio
- Services, Trading, and other Non-Generation.

OPG's Regulated – Nuclear Generation and Regulated – Nuclear Waste Management segments are unchanged.

The Regulated – Hydroelectric segment continues to include the results of Sir Adam Beck 1, 2 and Pump GS, DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. Beginning in the first quarter of 2014, this segment also includes the results of 48 hydroelectric stations which have been prescribed for rate regulation, effective July 1, 2014, under amended *Ontario Regulation 53/05*. The comparative information for the 48 hydroelectric stations, previously recorded under the Unregulated – Hydroelectric segment in OPG's first quarter 2013 MD&A and financial statements, has been reclassified to conform to this new presentation.

The Contracted Generation Portfolio segment includes the results of operating generation facilities that are not prescribed for rate regulation. The segment includes primarily generating facilities that are under an Energy Supply Agreement (ESA) or other long-term generating contract with the Ontario Power Authority (OPA).

Activities of generating stations that are not currently subject to a contract or rate regulation, but are available to generate electricity for sale, if required, are also included in the Contracted Generation Portfolio segment. Since the Lambton GS and Nanticoke GS were generating electricity up to the end of 2013, the activities related to these stations for the comparative period are reported in the Contracted Generation Portfolio segment. Effective January 1, 2014, the activities related to the Lambton GS and Nanticoke GS are reported under the Services, Trading, and other Non-Generation business segment. These stations ended coal-fired operations as a result of the Shareholder declaration issued in March 2013 mandating that OPG end the use of coal at these stations by the end of 2013.

The Contracted Generation Portfolio segment also includes OPG's share of equity income from its 50 percent ownership interests in PEC and Brighton Beach. OPG's share of the in-service generating capacity and generation volume from its interests in PEC and Brighton Beach are also included in this segment.

The Services, Trading, and other Non-Generation segment is a non-generation segment and includes the revenue and expenses related to OPG's trading and other non-hedging activities. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate to electricity that is purchased and sold at the Ontario border, financial energy trades, sales of financial risk management products, and sales of energy-related products. In addition, OPG has a wholly owned trading subsidiary that transacts solely in the United States (US) market. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in the revenue of this segment. In addition, this segment includes revenue from real estate rentals and other unregulated service revenues. The above activities were previously reported in the other segment.

Information for the comparative period has been adjusted to reflect the changes to OPG's reportable business segments and is labeled "adjusted".

The in-service generating capacity by business segment as of March 31, 2014 and December 31, 2013 was as follows:

	March 31 2014	As at December 31 2013 (adjusted)
(MW)		
Regulated – Nuclear Generation	6,606	6,606
Regulated – Hydroelectric ¹	6,432	6,432
Contracted Generation Portfolio ²	3,815	3,748
Total	16,853	16,786

¹ Includes the capacity of 48 of OPG's hydroelectric generating facilities which have been prescribed for rate regulation, effective July 1, 2014, per the amended *Ontario Regulation 53/05*.

² Includes OPG's share of in-service generating capacity of 275 MW for PEC and 290 MW for Brighton Beach.

In January 2014, the in-service capacity of the Contracted Generation Portfolio segment increased by 67 MW as a result of declaring the incremental unit at the Little Long GS in-service.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. A detailed discussion of OPG's performance by reportable segment is included under the section, *Discussion of Operating Results by Business Segment*.

(millions of dollars – except where noted)	Three Months Ended March 31	
	2014	2013
Revenue	1,387	1,255
Fuel expense	149	183
Gross margin	1,238	1,072
Operations, maintenance and administration	670	700
Depreciation and amortization	181	242
Accretion on fixed asset removal and nuclear waste management liabilities	196	189
Earnings on nuclear fixed asset removal and nuclear waste management funds	(160)	(124)
Property and capital taxes	11	15
Income from investments subject to significant influence	(13)	(10)
Restructuring	2	2
	887	1,014
Income before other loss, interest and income taxes	351	58
Other loss	1	1
Income before interest and income taxes	350	57
Net interest expense	12	25
Income tax expense	95	4
Net income	243	28
Net income attributable to the Province	242	28
Net income attributable to non-controlling interest ¹	1	-
Electricity production (TWh) ²	20.5	21.3
Cash flow		
Cash flow provided by operating activities	428	245

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 incremental assets of the Lower Mattagami Limited Partnership.

² Includes OPG's share of generation volume from its 50 percent ownership interests in PEC and Brighton Beach. Electricity production for the comparative period has been adjusted to include 50 percent of the production from PEC and Brighton Beach.

Net income attributable to the Province increased by \$214 million during the first quarter of 2014, compared to the same quarter in 2013. The following summarizes the significant items which caused the variance:

Significant factors that increased income before interest and income taxes:

- Increase in revenue of \$132 million primarily as a result of higher electricity spot market prices and trading revenue, partially offset by lower rate riders in 2014
- Higher generation volume from the existing stations included in the Lower Mattagami River project, the Thunder Bay GS, and the incremental unit at the Little Long GS, which was declared in service in January 2014
- Higher earnings on the Used Fuel Segregated Fund (Used Fuel Fund) of \$37 million due to the impact of a higher Ontario consumer price index (CPI) on the committed return related to the first 2.23 million used fuel

bundles and favourable market conditions for the excess portion of the fund. This was partially offset by the impact of the Bruce Lease Net Revenues Variance Account

- Lower salary costs of \$13 million due to headcount reductions.

Significant factors that reduced income before interest and income taxes:

- Lower earnings of \$11 million from the Nanticoke GS and the Lambton GS mainly as a result of ending coal-fired generation at these stations in 2013
- Higher accretion expense of \$7 million as a result of an increase in the fixed asset removal and nuclear waste management liabilities.

Segment Results

The following table summarizes OPG's income before interest and income taxes by business segment:

	Three Months Ended March 31	
	2014	2013 (adjusted)
<i>(millions of dollars)</i>		
<i>Income (loss) before interest and income taxes</i>		
Regulated – Nuclear Generation	-	(17)
Regulated – Hydroelectric	307	125
Contracted Generation Portfolio	39	1
Total electricity generation business segments	346	109
Regulated – Nuclear Waste Management	(34)	(63)
Services, Trading, and other Non-Generation	38	11
	350	57

Income before interest and income taxes from the electricity generation business segments increased by \$237 million for the first quarter of 2014. The increase was primarily due to higher generation revenue from the Regulated – Hydroelectric segment as a result of higher electricity spot market prices received for the generation produced by the 48 hydroelectric generating stations that have been prescribed for rate regulation effective July 1, 2014.

The increase in income before interest and income taxes for the Contracted Generation Portfolio segment was primarily due to the following:

- Higher revenue from the existing assets of the generating stations included in the Lower Mattagami River project. This increase in revenue was primarily a result of higher electricity spot market prices and higher generation volume. The existing assets of the Lower Mattagami River project are not subject to the revenue mechanism under the hydroelectric ESA until the last incremental unit of the Lower Mattagami River project is declared in-service. Until that time, the generation from these stations receives the electricity spot market price
- Higher generation revenue for the Thunder Bay GS during the first quarter of 2014, compared to the same quarter in 2013, primarily due to higher generation volume and higher electricity spot market prices
- Higher revenue as a result of production from the incremental unit at the Little Long GS, which was declared in service in January 2014, and which receives revenue determined under the hydroelectric ESA
- Higher earnings from the Lennox GS as a result of higher generation volume and higher electricity spot market prices, net of the impact of the Lennox ESA.

The improvement for the Regulated – Nuclear Waste Management business segment of \$29 million was primarily a result of higher earnings on the Used Fuel Fund. The decrease was partially offset by higher accretion expense which reflected the increase in asset retirement obligations due to the passage of time.

The increase in income before interest and income taxes of \$27 million for the Services, Trading, and other Non-Generation business segment was primarily a result of higher trading margin for electricity sold to neighbouring energy markets.

Electricity Generation

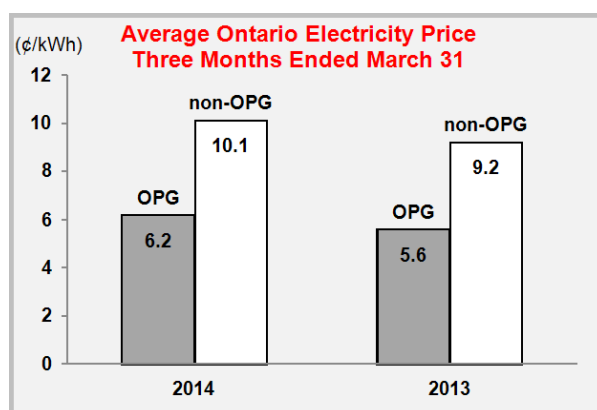
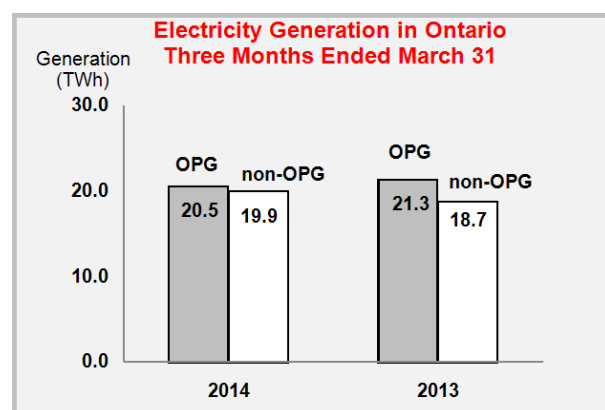
Electricity generation was as follows:

	Three Months Ended March 31	
	2014	2013 (adjusted)
(TWh)		
Regulated – Nuclear Generation	11.6	11.6
Regulated – Hydroelectric		
Existing regulated hydroelectric generating stations	4.8	4.7
Hydroelectric generating stations subject to rate regulation effective July 1, 2014	3.3	3.4
Contracted Generation Portfolio ¹	0.8	1.6
Total OPG electricity generation	20.5	21.3
Total electricity generation by all other generators in Ontario	19.9	18.7

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

Lower generation of 0.8 TWh for the Contracted Generation Portfolio segment was primarily a result of ending coal-fired operations at the Nanticoke GS and the Lambton GS in 2013. OPG ended the use of coal at these stations in accordance with the Shareholder declaration issued in March 2013. Higher generation from other stations in the Contracted Generation Portfolio segment partially offset the decrease in generation from these stations.

Total electricity generation from the Regulated – Nuclear Generation segment did not change for the three months ended March 31, 2014 compared to the same period in 2013. A decrease in generation at the Pickering Nuclear GS due to higher planned and unplanned outage days at Units 1 and 7 was offset by increased generation at the Darlington Nuclear GS. The increased generation at the Darlington Nuclear GS was a result of a decrease in planned outage days.



Average Sales Prices and Average Revenue

OPG's average revenue reflects the average sales prices for all of its electricity generation segments. The majority of OPG's generation is from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments. The regulated prices authorized by the OEB for electricity generated from nuclear facilities operated by OPG and existing regulated hydroelectric generating stations are discussed in OPG's annual MD&A under the heading, *Revenue Mechanisms for Regulated and Unregulated Generation*.

The average sales price for the Regulated – Nuclear Generation segment during the three months ended March 31, 2014 was 5.5 ¢/kWh compared to 5.7 ¢/kWh during the same period in 2013. The decrease was primarily due to a lower rate rider during 2014 related to the recovery of approved variance and deferral account balances.

The average sales price for the Regulated – Hydroelectric segment during the first quarter of 2014 was 5.6 ¢/kWh compared to 3.6 ¢/kWh during the same quarter in 2013. The increase was primarily due to higher electricity spot market prices during the first quarter of 2014 compared to the same quarter in 2013. Beginning in 2014, the Regulated – Hydroelectric segment includes the results of 48 hydroelectric stations which have been prescribed for rate regulation, effective July 1, 2014. Prior to the OEB establishing regulated rates for these 48 stations, the generation from these stations will continue to receive the Ontario electricity spot market price. The average sales price for these stations during the three months ended March 31, 2014 was 7.9 ¢/kWh, compared to 3.1 ¢/kWh during the same period in 2013. The increase was primarily due to the higher weighted average hourly Ontario electricity price (HOEP) of 7.6 ¢/kWh during the first quarter of 2014 compared to 3.0 ¢/kWh during the same quarter in 2013. The increase in the HOEP was primarily due to unseasonably cold temperatures during the first quarter of 2014 compared to the same period in 2013. The colder temperature resulted in higher natural gas prices and higher Ontario primary demand. The increase in average sales prices for the Regulated – Hydroelectric segment was partially offset by a lower rate rider during 2014 for the existing regulated stations.

The average revenue for the three months ended March 31, 2014 and 2013 was as follows:

	Three Months Ended March 31	
	2014	2013 (adjusted)
(¢/kWh)		
Average revenue for OPG ¹	6.2	5.6
Average revenue for all electricity generators, excluding OPG ²	10.1	9.2

¹ Average revenue for OPG is comprised of regulated revenues, market based revenues, revenues from ESAs, and other energy revenue from cost recovery agreements. In 2014, average revenue for OPG excludes the revenue from the cost recovery agreement for termination costs for the Nanticoke GS and Lambton GS as these stations ended coal-fired operations in 2013. Average revenue for OPG also excludes OPG's share of revenues and generation from PEC and Brighton Beach.

² Revenues for other electricity generators are calculated as the sum of hourly Ontario demand multiplied by the HOEP, plus total global adjustment payments, plus the sum of hourly net exports multiplied by the HOEP, less OPG's generation revenue, including revenue from the Nanticoke GS and Lambton GS cost recovery agreement.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2014 was \$428 million, compared to \$245 million for the three months ended March 31, 2013. This increase in cash was primarily due to the impact of higher electricity spot market prices and higher trading revenues.

Funds from Operations Interest Coverage

The Funds from Operations (FFO) Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage is measured over a 12-month period. FFO Interest Coverage for the twelve months ended March 31, 2014 was 3.0 times and 2.8 times for December 31, 2013. The FFO Interest Coverage increased primarily due to higher cash flows provided by operating activities.

Return on Common Equity

Return on Common Equity (ROE) is an indicator of OPG's performance consistent with its objectives to operate on a financially sustainable basis and to maintain value for the Shareholder. ROE is measured over a 12-month period. ROE for the twelve months ended March 31, 2014 was 3.8 percent and 1.5 percent for December 31, 2013. ROE increased for the period primarily due to higher net income attributable to the Province.

FFO Interest Coverage and ROE are not measurements in accordance with US GAAP and should not be considered as alternative measures to net income, cash flows from operating activities, or any other measure of performance under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of performance and are consistent with the corporate strategy to operate on a financially sustainable basis. The definition and calculation of FFO Interest Coverage and ROE can be found under the section, *Supplementary Non-GAAP Financial Measures*.

Recent Developments

Court of Appeal Decision on OEB Ruling

In June 2013, the Court of Appeal for Ontario granted OPG's appeal of the Divisional Court of Ontario's decision regarding the March 2011 OEB ruling. The OEB ruling disallowed recovery in regulated prices of a portion of OPG's nuclear compensation costs. As a result, the OEB's decision in this area was set aside, and the matter was to be sent back to the OEB for a re-hearing. In the third quarter of 2013, the OEB sought leave to appeal the decision to the Supreme Court of Canada. During the first quarter of 2014, the Supreme Court granted leave for the OEB's appeal to be heard. OPG expects the Supreme Court of Canada's decision on this appeal in 2015.

CNP-Westinghouse Memorandum of Understanding

In April 2014, Canadian Nuclear Partners Inc. (CNP), a wholly-owned subsidiary of OPG, and Westinghouse Electric Company entered into a non-exclusive Memorandum of Understanding to explore the potential joint provision of services on a wide range of global nuclear projects. The collaboration is part of OPG's efforts to leverage the Company's expertise to create new revenue streams that will generate long-term value for OPG. The companies will consider diverse projects including nuclear refurbishment, maintenance and outage services, as well as future decontamination, decommissioning and remediation of existing nuclear power plants, and new nuclear power plants.

New Nuclear Units

In the 2013 Long-Term Energy Plan, the Government of Ontario indicated that it will not proceed at this time with the construction of two new nuclear reactors at the Darlington site. However, the Ministry of Energy will work with OPG to maintain the site preparation licence granted by the CNSC. As such, OPG is undertaking activities required to support the Environmental Assessment (EA) and existing licence.

On May 14, 2014, OPG received the decision of the Federal Court (Canada) on a judicial review of the issuance of Power Reactor Site Preparation Licence and a judicial review in relation to the Darlington New Nuclear Project EA. OPG is reviewing the ruling to assess the impact of this decision.

CORE BUSINESS AND STRATEGY

OPG's mandate is to reliably and cost-effectively produce electricity from its diversified portfolio of generating assets, while operating in a safe, open, and environmentally responsible manner. OPG's mission is to be Ontario's low cost electricity generator through a focus on three corporate strategies:

- Operational Excellence
- Project Excellence
- Financial Sustainability.

The following sections provide an update to OPG's disclosures related to operational excellence, project excellence, and financial sustainability. A detailed discussion of OPG's three corporate strategies is included in the 2013 annual MD&A under the headings *Operational Excellence*, *Project Excellence*, and *Financial Sustainability*.

Operational Excellence

Operational excellence at OPG's nuclear, hydroelectric, and thermal generating facilities is accomplished by generating safe, reliable, and cost-effective electricity.

Nuclear Generating Assets

Pickering Unit 4 and Unit 8 commenced their planned maintenance outages in the first quarter of 2014. In addition, planning activities for the Vacuum Building Outage scheduled to be executed at the Darlington Nuclear GS in 2015 are underway and will continue in 2014.

In 2013, the Canadian Nuclear Safety Commission (CNSC) approved a five-year operating licence which combines the Pickering A and B Nuclear generating stations' licences into a single-site licence. This supports the intention to operate the Pickering Units 5 to 8 to 2020. A regulatory hold point was added to the licence related to fuel channels and the original assumed end-of-life dates for Pickering Units 5 to 8. To satisfy the requirements for removal of the hold point, OPG provided the results of additional safety assessments in a May 2014 Commission Hearing with public participation, as required by the CNSC.

The current Darlington Nuclear GS Power Reactor Operating Licence runs to December 31, 2014. On December 13, 2013, OPG submitted an application for a licence renewal that would span the refurbishment period. The CNSC hearing is scheduled for November 2014. OPG's preparations, including submissions for the hearing, are on track. In April 2014, the Darlington Nuclear GS received its second consecutive excellent safety and performance evaluation from the World Association of Nuclear Operators.

Generation and reliability at the Pickering and Darlington Nuclear generating stations during the first quarter of 2014 are discussed under the heading, *Regulated – Nuclear Generation Segment* in the section *Discussion of Operating Results by Business Segment*.

Hydroelectric Generating Assets

OPG's hydroelectric generating stations that are currently prescribed for rate regulation and the stations which have become prescribed for rate regulation effective July 1, 2014 are included in the Regulated – Hydroelectric segment. Hydroelectric generating stations that are not subject to rate regulation by the OEB are included in the Contracted Generation Portfolio segment. A description of these reportable business segments is included under the heading *OPG's Reporting Structure*.

In consideration of current and future market conditions and the related revenue mechanisms, OPG continues to evaluate and implement plans to increase capacity, maintain performance, and extend the operating life of its hydroelectric generating assets. During the first quarter of 2014, OPG continued major equipment overhauls and rehabilitation work at several stations, including major rehabilitation work at Unit 3 of the Sir Adam Beck Pump GS, Unit 3 of the Pine Portage GS, and Unit 5 of the Des Joachims GS. Other hydroelectric generation projects are discussed under the heading *Project Excellence*.

Thermal Generating Assets

OPG's operating thermal generating stations are included in the Contracted Generation Portfolio segment. These stations operate as peaking facilities, depending on electricity demand. In April 2014, OPG ended coal-fired operations at the Thunder Bay GS as all existing coal inventory was utilized. Discussions related to the conversion of the Atikokan and Thunder Bay generating stations are included under the heading, *Project Excellence*.

Thermal assets that are no longer available to generate electricity are included in the Services, Trading, and other Non-Generation business segment once the assets are removed from service. With the end of coal-fired generation at the Nanticoke GS and the Lambton GS, OPG is continuing activities at these stations related to placing the units in

such a state to preserve the option to convert them to natural gas and/or biomass in the future. These activities are reflected in the Services, Trading, and other Non-Generation business segment in 2014.

Environmental Performance

During the first quarter of 2014, there were no significant changes to environmental legislation affecting the Company. There was a reduction in environmental risk as the Company's largest coal-fired stations, the Lambton and Nanticoke generating stations, ended coal-fired operations by the end of 2013. As a result, carbon dioxide and acid gas emissions were down 90 percent during the first quarter of 2014, compared to the same quarter in 2013.

Disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2013 annual MD&A.

Project Excellence

OPG is pursuing several generation development projects. OPG's major projects include Darlington refurbishment, new hydroelectric generation and plant expansions, and the potential conversion of coal-fired generating units to alternative fuels. The status updates for OPG's major projects as of March 31, 2014 are outlined below.

Project <i>(millions of dollars)</i>	Capital expenditures		Approved budget	Planned in-service date	Status
	Year-to-date	Life-to-date			
Darlington Refurbishment	183	976			This project is part of Ontario's Long-Term Energy Plan. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed in 2015. See update below.
Lower Mattagami	125	2,107	2,600	June 2015	Construction continues. Project is on budget and on schedule. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste ¹	3 ¹	170 ¹			Public hearing phase continues.
Atikokan Biomass Conversion	9	153	170	August 2014	Construction continues. Project is on budget and on schedule. See update below.

¹ Expenditures are funded by the nuclear fixed asset removal and nuclear waste management liabilities.

Darlington Refurbishment

The Darlington Refurbishment project is currently in the definition phase. Refurbishment of the four Darlington units is currently estimated to cost less than \$10 billion in 2013 dollars, excluding capitalized interest and escalation. The project is currently estimated to be completed by 2025. A detailed cost and schedule estimate for the refurbishment of the four units is expected to be completed in 2015. In 2016, the first unit outage will commence and OPG will start execution of the refurbishment scope on that unit.

In May 2013, construction of the full-scale reactor mock-up facility began. The mock-up facility and development of specialized tooling are both integral to OPG's strategy to ensure certainty in scope, schedule and project cost. The mock-up was made available for service in the first quarter of 2014, ahead of schedule. Re-tube and feeder replacement tooling design and fabrication is progressing and remains on track for completion in 2015.

OPG is progressing with the design and construction of facilities and infrastructure and safety improvement projects required at the Darlington site for the refurbishment and continued operation of the station. Construction is underway for the Heavy Water Storage facility, the on-site Refurbishment Project office and Support Annex facilities as well as water and sewer system and electrical power upgrades. The Ministry of Transportation, on behalf of OPG, has also commenced site clearing for the upgrade of the Holt Road and Highway 401 Interchange in preparation of the Darlington Refurbishment project.

The CNSC has set out the regulatory requirements in *Life Extension of Nuclear Power Plants* (RD-360). In line with these requirements, OPG must complete a series of assessments of the Darlington Refurbishment project.

- In April 2013, the EA was challenged by way of Judicial review in the Federal Court of Canada, on the grounds that the EA failed to comply with requirements of the *Canadian Environmental Assessment Act*, and that the hearing deprived the applicants certain procedural rights. OPG and the Attorney-General of Canada have defended the application on the basis that the decisions taken throughout the entire EA process were made by an expert tribunal reasonably exercising its discretion. Therefore, the law provides that the Courts should not disturb these decisions. An oral hearing of the Judicial review has occurred and a decision is expected towards the end of 2014.
- In July 2013, OPG received the CNSC's staff assessment of the Integrated Safety Review (ISR), which confirmed that the ISR meets applicable regulatory requirements. OPG is required to identify and address any new revisions to the Darlington ISR Basis Codes along with any new significant industry experience. In February 2014, this update was completed and provided to the CNSC. No new significant scope items were identified as a result of this review.
- In December 2013, OPG submitted the Global Assessment Report (GAR) and the Integrated Implementation Plan (IIP) to the CNSC. In April 2014, the CNSC accepted the GAR as meeting all regulatory requirements of RD-360 and provided feedback on the IIP. OPG expects the CNSC's final review and approval by the end of 2014 as part of the renewal of the Darlington GS Power Reactor Operating Licence.

Lower Mattagami

The 78 MW incremental unit at the Harmon GS is expected to be declared in-service during the second quarter of 2014, ahead of its original target completion date of September 2014. This is the second incremental unit to be completed on the Lower Mattagami River project. As incremental units are placed in-service, the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation, may acquire up to a 25 percent interest in the assets through its investment in the Lower Mattagami Limited Partnership.

Atikokan Biomass Conversion

The Atikokan Biomass Conversion project is expected to be completed on schedule by August 2014 within the approved budget of \$170 million. As of March 31, 2014, construction had been completed on the boiler and construction continues on the ancillary systems to support biomass operations. During the first quarter of 2014, a significant milestone was achieved by successfully test firing the main unit on natural gas.

Thunder Bay Conversion

On May 1, 2014, the Minister of Energy issued a Shareholder Resolution which clarifies certain parameters to be included in the electricity supply contract for the conversion of one unit at the Thunder Bay GS to advanced biomass fuel, which is currently being negotiated with the OPA. Upon completion, the converted station is expected to have an in-service capacity of approximately 150 MW. The Thunder Bay GS ended coal-fired operations in April 2014.

Financial Sustainability

As a commercial enterprise, OPG's financial priority is to consistently achieve a level of financial performance that will ensure its long-term financial sustainability and maintain the value of its assets for its Shareholder – the Province of Ontario. Inherent in this priority are three objectives:

- enhance profitability by increasing revenue
- improve efficiency and reduce costs
- ensure a strong financial position that enhances OPG's ability to finance its operations and generation development projects.

Revenue Growth

OPG's revenue strategy focuses on revenue growth, while taking into account the impact on Ontario electricity ratepayers. Currently, OPG has multiple sources of revenue, including:

- regulated revenue from nuclear and most baseload hydroelectric generating facilities
- contract revenue from ESAs and cost recovery agreements for most of its remaining unregulated facilities
- unregulated revenue based on electricity spot market prices for certain facilities that are not prescribed a regulated price or not subject to revenue from an ESA
- non-generation revenues.

Effective July 1, 2014, an amendment to *Ontario Regulation 53/05* requires OPG's 48 currently unregulated hydroelectric stations that are not under an ESA to be prescribed for rate regulation.

OPG's objectives are to clearly demonstrate that costs for its regulated operations are prudently incurred and should be fully recovered, and to earn an appropriate return on its regulated assets.

In September 2013, OPG filed an application with the OEB for new regulated prices effective January 1, 2014. OPG's application requests that the nuclear generation regulated price, excluding rate riders, increase from \$51.52/MWh to \$69.91/MWh and the hydroelectric generation regulated price, excluding rate riders, increase from \$35.78/MWh to \$42.31/MWh. In addition, the application seeks new rate riders effective January 1, 2015 to recover the December 31, 2013 balances in certain variance and deferral accounts. The rate riders requested were \$1.59/MWh for the output from the nuclear facilities and \$2.99/MWh for the output from the existing regulated hydroelectric facilities, based on forecast variance and deferral account balances. In addition, OPG's September 2013 application includes a proposed regulated price of \$47.59/MWh for the production from the 48 newly regulated stations, effective July 1, 2014.

During the second quarter of 2014, as part of common regulatory practice, OPG will be filing an update to the requested regulatory prices, including rate riders, to reflect material changes from forecast information provided in its application. These prices would allow OPG to recover its costs for these stations while providing an opportunity to earn an appropriate return on these assets. The decision on OPG's application will be made by the OEB following a public hearing process, which is currently ongoing. OPG is also planning a future rate application during 2014 to request recovery of other deferral and variance account balances.

OPG has negotiated ESAs and cost recovery agreements for most of its unregulated hydroelectric and thermal assets, and continues to negotiate ESAs for new development and conversion projects.

During the first quarter of 2014, a portion of OPG's electricity production from certain unregulated facilities was sold at the Ontario electricity spot market price. This includes production from stations that are prescribed for rate regulation effective July 1, 2014. During the first quarter of 2014, OPG's financial results benefited from the increase in Ontario electricity spot market prices primarily due to unseasonably cold temperatures in Ontario during January and February 2014.

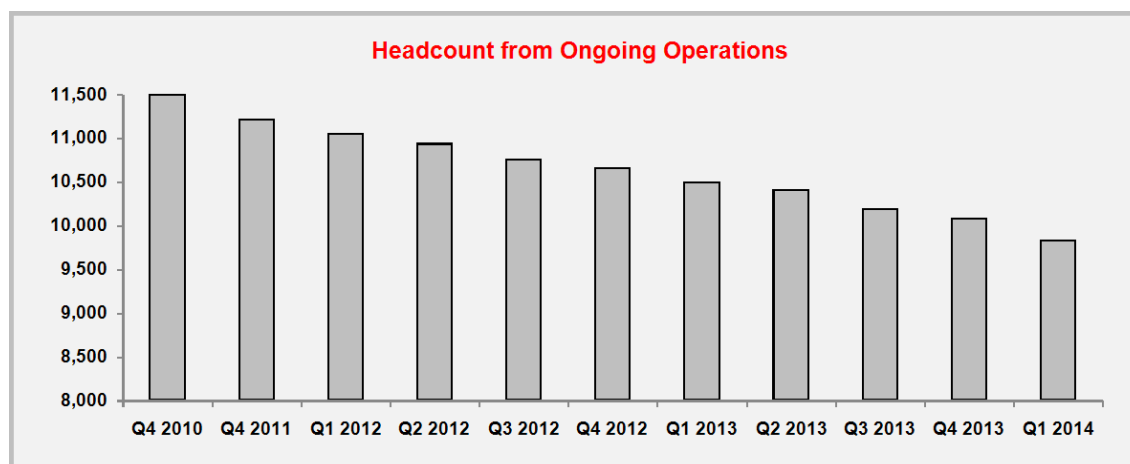
OPG also earns non-electricity generation revenues through a number of sources, including: isotope and heavy water sales; the lease of the Bruce A and B nuclear stations; joint ventures associated with PEC and Brighton Beach; trading and other non-hedging activities; real estate rentals and sales; and the provision of technical and engineering services to third parties. During the first quarter of 2014, OPG's trading revenue significantly increased from higher prices realized on interconnected market sales to neighbouring energy markets.

To increase non-generation revenues, OPG, through its wholly-owned subsidiary, CNP, continues to explore opportunities to provide management and technical services to other utilities and power sector organizations.

Improving Efficiency and Reducing Costs

OPG is aggressively pursuing efficiency and productivity improvements while reducing costs. To accomplish this, OPG launched a multi-year Business Transformation initiative in 2011 to create a streamlined company with a sustainable cost structure. OPG has implemented a centre-led model to more efficiently utilize its resources. Each business unit has launched initiatives to improve efficiencies and reduce work through process streamlining. These initiatives are driving sustainable change, while ensuring that there is no adverse impact on the safety, reliability, and environmental sustainability of OPG's operations.

OPG plans to use attrition to reduce its year-end 2016 headcount from ongoing operations by over 2,300 employees from the 2011 level. This reduction is expected to result in lower labour costs in operations, maintenance and administration (OM&A) expenses compared to the 2011 level. During the January 1, 2011 to March 31, 2014 period, OPG's headcount from ongoing operations has been reduced by over 1,800, primarily through attrition to below 10,000 employees. The reduction in headcount has already saved OPG approximately \$340 million over the period from January 1, 2011 to March 31, 2014.



Strengthening Financial Position

In addition to its initiatives to increase revenue, achieve efficiencies, and reduce costs, OPG also employs the following four strategies to strengthen its financial position:

- Ensuring sufficient liquidity:** OPG's primary sources of liquidity and capital include funds generated from operations, bank financing, credit facilities provided by the Ontario Electricity Financial Corporation (OEFC), and capital market financing. During the first quarter of 2014, cash flow provided by operating activities increased by \$183 million, compared to the same quarter in 2013. OPG is expected to renew and extend its \$1 billion bank credit facility to May 2019 during the second quarter of 2014. OPG also has access to a \$500 million general corporate credit facility with the OEFC which will expire on December 31, 2014. OPG intends to continue to access the capital markets, where appropriate, to obtain cost effective financing for future generation development projects.

- **Maintaining an investment grade credit rating:** OPG's current investment grade credit ratings have enabled it to secure financing at cost effective interest rates. During the first quarter of 2014, Standard & Poor's reaffirmed OPG's long-term credit rating at A- with a negative outlook and DBRS Ltd. re-affirmed the long-term credit rating on OPG's debt at A (low), and the commercial paper rating at R-1 (low). All ratings from DBRS Ltd. have a stable outlook.
- **Ensuring that generation development projects are economic and provide for cost recovery and an appropriate return:** During the first quarter of 2014, OPG continued to negotiate ESAs for new development and conversion projects as discussed under the heading *Project Excellence* in the section, *Core Business and Strategy*.
- **Evaluating financial performance:** OPG continuously evaluates its financial performance using key credit rating and financial metrics, including ROE, and FFO Interest Coverage. For further details, refer to the ROE and FFO Interest Coverage disclosure in the section, *Supplementary Non-GAAP Financial Measures*.

KEY GENERATION AND FINANCIAL PERFORMANCE INDICATORS

Key performance indicators that directly pertain to OPG's mandate and corporate strategies are measures of production efficiency, cost-effectiveness, environmental, and safety performance. OPG evaluates the performance of its generating stations using a number of key performance indicators. The measures used vary depending on the generating technology.

Effective January 1, 2014, OPG revised the composition of its reportable business segments to reflect changes in its generation portfolio and its internal reporting. Given OPG's current fleet of thermal stations after ending coal-fired operations at the Nanticoke GS and the Lambton GS, OPG no longer uses the Thermal Start Guarantee Rate and the Thermal OM&A Expense per MW as indicators of performance. In addition, OPG previously reported Nuclear Production Unit Energy Cost and Hydroelectric Equivalent Forced Outage Rate (EFOR). Effective January 1, 2014, OPG has moved to Nuclear Total Generating Cost (TGC) per MWh as a cost performance indicator for its nuclear generating facilities and reports Hydroelectric Availability as the only measure of the reliability of its hydroelectric generating facilities. OPG continues to report the Nuclear Unit Capability Factor as a measure of its nuclear station performance, and Hydroelectric OM&A expense per MWh as a measure of the cost effectiveness of its hydroelectric generating facilities.

Nuclear Total Generating Cost per Megawatt hour

Nuclear TGC per MWh is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as the total of fully-allocated OM&A expenses from ongoing nuclear operations including total pension and OPEB costs, nuclear fuel expense including expenses related to used fuel storage and disposal, and capital project costs for ongoing nuclear operations, divided by net nuclear electricity generation.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2014	2013
Regulated generation sales	638	664
Variance accounts	(92)	(74)
Other	162	145
Total revenue	708	735
Fuel expense	76	74
Variance and deferral accounts	(16)	(12)
Total fuel expense	60	62
Gross margin	648	673
Operations, maintenance and administration	511	527
Depreciation and amortization	130	156
Property and capital taxes	7	7
Loss before interest and income taxes	-	(17)

The improvement in segment earnings of \$17 million during the first quarter of 2014 compared to the same period in 2013 was primarily a result of a decrease in OM&A expenses. The decrease in OM&A expenses of \$16 million was primarily due to the following factors:

- A decrease in expenditures related to outage activities during the first quarter of 2014
- the impact of reduced headcount as a result of Business Transformation.

Gross margin decreased by \$25 million in the first quarter of 2014, compared to the same period in 2013 primarily due to a lower rate rider for nuclear generation in 2014. The impact of the lower rate rider was largely offset by a corresponding decrease in amortization expense related to regulatory balances.

The increase in other revenue was primarily due to the decrease in the fair value of the derivative liability embedded in the terms of the Bruce Power lease agreement (Bruce Lease). The changes in the fair value of this derivative are recorded in other revenue, with a corresponding change in the regulatory asset related to the Bruce Lease Net Revenues Variance Account. As such, there was no income impact related to the change in the fair value of the derivative liability.

The Unit Capability Factors for the Darlington and Pickering Nuclear generating stations and the Nuclear TGC per MWh are as follows:

	Three Months Ended March 31	
	2014	2013
Unit Capability Factor (%)		
Darlington GS	96.0	84.1
Pickering GS	66.6	79.0
Nuclear TGC per MWh (\$/MWh)	51.67	53.72

The higher Unit Capability Factor at the Darlington Nuclear GS for the three months ended March 31, 2014, compared to the same period in 2013, was primarily due to a decrease in planned outage days. The decrease in Unit Capability Factor at the Pickering Nuclear GS was primarily due to the following factors:

- increase in planned outage days due to the deferral of a 2013 fourth quarter outage to the first quarter of 2014

- increase in number of unplanned outage days at Units 1 and 7, partially offset by
- the impact of an extension to a planned outage during the first quarter of 2013.

The decrease in Nuclear TGC per MWh during the first quarter of 2014, compared to the same period in 2013, was primarily due to lower OM&A expenses.

Regulated – Nuclear Waste Management Segment

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2014	2013
Revenue	29	25
Operations, maintenance and administration	31	27
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	192	185
Earnings on nuclear fixed asset removal and nuclear waste management funds	(160)	(124)
Loss before interest and income taxes	(34)	(63)

Higher earnings on the Used Fuel Fund contributed to the improved earnings for the segment in the first quarter of 2014 compared to the same quarter in 2013. An increase in the Ontario CPI which affects the committed return related to the first 2.23 million used fuel bundles was the primary reason for the higher Used Fuel Fund earnings during the period. Additionally, favourable market conditions resulted in higher earnings for the portion of the Used Fuel Fund related to the used fuel bundles that are in excess of the 2.23 million. The increased earnings in the segment were partially offset by higher accretion expense.

Regulated – Hydroelectric Segment

	Three Months Ended March 31	
	2014	2013 ¹ (adjusted)
<i>(millions of dollars)</i>		
Regulated generation sales ²	189	183
Spot market sales	260	106
Variance accounts	1	11
Other	46	17
Total revenue	496	317
Fuel expense	69	68
Variance accounts	2	2
Total fuel expense	71	70
Gross margin	425	247
Operations, maintenance and administration	76	73
Depreciation and amortization	41	46
Property and capital taxes	-	1
Income before other loss, interest and income taxes	308	127
Other loss	1	2
Income before interest and income taxes	307	125

¹ The comparative amounts have been adjusted to include the activities of 48 of OPG's hydroelectric generating facilities that have been prescribed for rate regulation, effective July 1, 2014, per the amended *Ontario Regulation 53/05*.

² During the three months ended March 31, the Regulated – Hydroelectric segment generation sales included revenue of \$7 million in 2014 and \$2 million in 2013 related to the hydroelectric incentive mechanism.

The significant increase in income before interest and income taxes during the first quarter of 2014, compared to the same quarter in 2013, was primarily due to higher gross margin. The increase in gross margin was primarily the result of higher electricity spot market prices received for the generation produced by the 48 hydroelectric generating stations that have been prescribed for rate regulation effective July 1, 2014. Ancillary services and other station revenue increased during the first quarter of 2014, which also contributed to the higher gross margin for the segment. This was partially offset by a lower hydroelectric rate rider in 2014.

The Regulated – Hydroelectric availability and OM&A expense per MWh are as follows:

	Three Months Ended March 31	
	2014	2013 (adjusted)
Hydroelectric Availability (%)	92.4	93.1
Hydroelectric OM&A expense per MWh (\$/MWh)	9.4	9.0

The hydroelectric availability during the first quarter of 2014 was comparable to the availability in the same quarter in 2013. The high availability reflects the continuing good performance of these regulated hydroelectric generating stations.

The increase in hydroelectric OM&A expense per MWh in the first quarter of 2014 compared to the same quarter in 2013 was primarily due to the impact of slightly higher OM&A expenses.

Contracted Generation Portfolio Segment

	Three Months Ended March 31	
	2014	2013 (adjusted)
<i>(millions of dollars)</i>		
Revenue	93	182
Fuel expense	16	51
Gross margin	77	131
Operations, maintenance and administration	43	96
Depreciation and amortization	5	35
Accretion on fixed asset removal liabilities	2	4
Property and capital taxes	1	4
Income from investments subject to significant influence	(13)	(10)
Restructuring	-	2
Income before other gains, interest and income taxes	39	-
Other gains	-	(1)
Income before interest and income taxes	39	1

For the 2013 comparative period, the Contracted Generation Portfolio segment includes the operating results of the Nanticoke GS and Lambton GS, including revenue and expenses from generation and from the Contingency Support Agreement with the OEFC. Given these stations ended coal-fired generation at the end of 2013, the activities of these stations, including expenses incurred in 2014 associated with placing the stations in reserve status, are being reported in the Services, Trading, and other Non-Generation segment effective January 1, 2014. The end of coal-fired operations and the change in presentation for the segment results in lower revenue, partially offset by lower OM&A and depreciation and amortization expenses during the first quarter of 2014 compared to the same quarter in 2013.

Income before interest and income taxes increased by \$38 million for the three months ended March 31, 2014, compared to the same period in 2013. The increase was primarily due to higher earnings of approximately \$26 million from the existing assets of the generating stations included in the Lower Mattagami River project and the Thunder Bay GS. The increase in earnings was a result of both higher electricity spot market prices and higher generation volume at these stations.

The existing assets of the Lower Mattagami River project are not subject to the revenue mechanism under the hydroelectric ESA until the last incremental unit of the Lower Mattagami River project is declared in-service. Until that time, the generation from these stations receives the electricity spot market price. During the first quarter of 2014, the HOEP was 7.6 ¢/kWh compared to 3.0 ¢/kWh during the same quarter in 2013.

Generation from the Thunder Bay GS was also higher during the first quarter of 2014, compared to the same quarter in 2013. Effective January 1, 2014, generation from the Thunder Bay GS is no longer subject to a reliability-must-run contract and therefore receives the electricity spot market price for production. In April 2014, OPG ended coal-fired operations at the Thunder Bay GS as all existing coal inventory was utilized.

In addition, revenue for the segment increased as a result of production from the incremental unit at the Little Long GS, which was declared in-service in January 2014. The generation from the unit receives revenue calculated under the hydroelectric ESA. Finally, higher earnings from the Lennox GS as a result of higher generation volume and higher electricity spot market prices also contributed to the increase.

The hydroelectric availability, hydroelectric OM&A expense per MWh, and the thermal EFOR for the segment are as follows:

	Three Months Ended March 31	
	2014	2013 (adjusted)
Hydroelectric Availability (%)	96.0	97.9
Hydroelectric OM&A expense per MWh (\$/MWh)	24.0	60.0
Thermal EFOR (%)	3.0	17.9

The hydroelectric availability during the first quarter of 2014 was comparable to the availability in the same quarter in 2013. The high availability reflects the continuing good performance of these hydroelectric generating stations.

The decrease in hydroelectric OM&A expense per MWh for the three months ended March 31, 2014 compared to the same period in 2013 was due to the impact of higher generation from the hydroelectric stations included in this segment.

The significant decrease in thermal EFOR during the first quarter of 2014 compared to the same quarter in 2013 was primarily a result of ending coal-fired operations at the Nanticoke GS and the Lambton GS in 2013.

Services, Trading, and other Non-Generation Segment

	Three Months Ended March 31	
	2014	2013 (adjusted)
<i>(millions of dollars)</i>		
Revenue	89	20
Fuel expense	2	-
Gross margin	87	20
Operations, maintenance and administration	37	1
Depreciation and amortization	5	5
Accretion on fixed asset removal liabilities	2	-
Property and capital taxes	3	3
Restructuring	2	-
Income before interest and income taxes	38	11

Income before interest and income taxes increased by \$27 million for first quarter of 2014 compared to the same quarter in 2013. The unseasonably cold winter provided higher interconnected market sales opportunities resulting in higher trading margin for electricity sold to neighbouring energy markets.

The increase in OM&A expenses during the first quarter of 2014 compared to the same quarter in 2013 was primarily related to the inclusion of the results of the Nanticoke GS and the Lambton GS in this segment as discussed under the section, *The Company*. The increase in OM&A expenses was largely offset by revenue for termination costs as provided for under the Contingency Support Agreement with the OEFC for these stations. The agreement's early termination provision allows OPG to recover actual costs incurred that cannot be reasonably avoided or mitigated during 2014.

Income Taxes

Income tax expense for the three months ended March 31, 2014 was \$95 million compared to \$4 million for the same period in 2013. The increase in income tax expense was primarily due to an increase in income before taxes mainly due to higher electricity spot market prices and trading revenue.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital include funds generated from operations, bank financing, credit facilities provided by the OEFC, and capital market financing. These sources are used for multiple purposes including: to invest in plants and technologies; to fund obligations such as contributions to the pension fund and the Used Fuel Fund and the Decommissioning Segregated Fund (together the Nuclear Funds); and to service and repay long-term debt.

Changes in cash and cash equivalents for the three months ended March 31, 2014 and 2013 are as follows:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2014	2013
Cash and cash equivalents, beginning of period	562	413
Cash flow provided by operating activities	428	245
Cash flow used in investing activities	(385)	(393)
Cash flow provided by financing activities	150	295
Net increase	193	147
Cash and cash equivalents, end of period	755	560

For a discussion regarding cash flow provided by operating activities and FFO Interest Coverage, refer to the discussion under the *Highlights* section.

Investing Activities

Cash flow used in investing activities during the three months ended March 31, 2014 decreased by \$8 million compared to the same quarter in 2013. This decrease was primarily due to lower capital expenditures for the Niagara Tunnel project which was declared in-service in March 2013 and the Lower Mattagami River project. This was partially offset by higher expenditures for the Darlington Refurbishment project.

OPG's forecast capital expenditures for 2014 are approximately \$1.8 billion, which includes amounts for hydroelectric development and nuclear refurbishment.

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 2014, OPG expects to renew and extend both tranches to May 2019. As at March 31, 2014, there were no outstanding borrowings under the bank credit facility.

As at March 31, 2014, OPG maintained \$25 million of short-term, uncommitted overdraft facilities, and \$374 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, 2014, a total of \$328 million of Letters of Credit had been issued. This included \$302 million for the supplementary pension plans, \$25 million for general corporate purposes, and \$1 million related to the operation of the PEC.

The Company has an agreement, which expires November 30, 2014, to sell an undivided co-ownership interest of up to \$250 million in its current and future accounts receivable to an independent trust. As at March 31, 2014, of the \$302 million of Letters of Credit issued for the supplementary pension plans, \$80 million were issued under this agreement.

OPG also maintains a Niagara Tunnel project credit facility with the OEFC for an amount up to \$1.6 billion. As at March 31, 2014, advances under this facility were \$1,065 million, with no new borrowing during the first quarter of

2014. OPG's borrowing under this facility is limited to the cost of the project. This credit facility expires on December 31, 2014.

The Lower Mattagami Energy Limited Partnership maintains a \$600 million bank credit facility to support the funding requirements of the Lower Mattagami River project. The facility consists of two tranches. The first tranche of \$300 million has a maturity date of August 17, 2018. The second tranche of \$300 million has a maturity date of August 17, 2015. As at March 31, 2014, \$182 million of commercial paper was outstanding under this program.

As at March 31, 2014, OPG's long-term debt outstanding was \$5,604 million, including \$5 million due within one year. OPG entered into an agreement with the OEFC in December 2013 for a \$500 million general corporate credit facility. As of March 31, 2014, there were no outstanding borrowings under this credit facility. This credit facility expires on December 31, 2014.

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)</i>	As At	
	March 31 2014	December 31 2013
Property, plant and equipment - net	16,976	16,738
The increase was primarily due to construction in progress additions for the refurbishment of the Darlington Nuclear GS and Lower Mattagami project. This was partially offset by depreciation expense during the first quarter of 2014.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	13,678	13,496
The increase was primarily due to earnings on the Nuclear Funds, contributions to the Used Fuel Fund, partially offset by reimbursements of expenditures on nuclear fixed asset removal and nuclear waste management.		
Fixed asset removal and nuclear waste management liabilities	16,456	16,257
The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		
Long-term accounts payable and accrued charges	556	653
The decrease was primarily due to a decrease of \$94 million in the fair value of the derivative liability embedded in the Bruce Lease.		

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 that OPG undertakes include guarantees, which provide financial or performance assurance to third-parties on behalf of certain subsidiaries, and long-term fixed price 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, 2013. A discussion of recent accounting pronouncements is included in OPG's interim consolidated financial statements for the first quarter of 2014 under the heading *Changes in Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2013 annual MD&A.

Exemptive Relief for Reporting under US GAAP

During the first quarter of 2014, OPG received exemptive relief from the OSC requirements of section 3.2 of National Instrument 52-107 *Acceptable Accounting Policies and Auditing Standards*. The exemption allows OPG to file consolidated financial statements based on US GAAP without becoming a Securities and Exchange Commission registrant, or issuing public debt. The exemption will terminate on the earliest of the following:

- January 1, 2019
- 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 International Financial Reporting Standards (IFRS) specific to entities with rate-regulated activities.

This exemption replaces the exemptive relief received by OPG from the OSC in December 2011. The 2011 exemption allowed OPG to file consolidated financial statements based on US GAAP for financial years that began on or after January 1, 2012, but before January 1, 2015.

As a result of OPG's 2011 decision to adopt US GAAP, as required by the FAA regulation, OPG's plan to convert to IFRS, effective January 1, 2012, was discontinued. Prior to the adoption of US GAAP as the basis for OPG's financial reporting, the Company had planned to adopt IFRS effective January 1, 2012. OPG had substantively completed its IFRS conversion project, which included separate diagnostic, development, and implementation phases, when it suspended the project and began the evaluation of converting to US GAAP in the fourth quarter of 2011. If a future transition to IFRS is required, conversion work can effectively be restarted with sufficient lead time to evaluate and conclude on changes that occurred subsequent to the decision to suspend the project.

RISK MANAGEMENT

This risk management disclosure should be read in conjunction with the *Risk Management* section included in OPG's 2013 annual MD&A which provides a detailed discussion of OPG's governance structure, inherent risks, and activities associated with identifying and managing risks. The following discussion provides an update of OPG's risk management activities.

Financial Risks

Commodity Markets

Changes in the market price of electricity or of the 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.

OPG's revenue from its unregulated assets is also affected by changes in the market or spot price of electricity. The majority of this exposure will cease to exist with the implementation of a regulated price for 48 of OPG's currently

unregulated hydroelectric facilities, which have been prescribed for rate regulation in accordance with amended *Ontario Regulation 53/05*, effective July 1, 2014.

The percentages hedged of OPG's expected generation, fuel requirements, and emission 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.

	2014 ¹	2015	2016
Estimated generation output hedged ²	89%	98%	100%
Estimated fuel requirements hedged ³	81%	71%	66%
Estimated nitric oxide emission requirement hedged ⁴	100%	100%	100%
Estimated sulphur dioxide emission requirement hedged ⁴	100%	100%	100%

¹ Includes forecast for the remainder of the year.

² Represents the portion of megawatt-hours of expected future generation production which is subject to regulated prices established by the OEB, agreements with the Independent Electricity System Operator (IESO), OEFC, and OPA, or other electricity contracts which are used as hedges.

³ Represents the approximate portion of megawatt-hours of expected generation production and year-end inventory targets from each type of facility (nuclear and thermal) for which OPG has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel in inventories in a given year is attributed to the next year for the purpose of measuring hedge ratios.

⁴ Represents the approximate portion of megawatt-hours of expected thermal production for which OPG has purchased, been allocated or granted emission allowances and Emission Reduction Credits to meet OPG's obligations under *Ontario Regulation 397/01*.

Foreign Exchange and Interest Rate Markets

OPG's earnings and cash flows can be affected by movements in the US dollar relative to the Canadian dollar, and by prevailing interest rates on its borrowings and investment programs.

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 are primarily denominated in US dollars. In addition, the market price of electricity in Ontario is influenced by the exchange rate as a result of the interaction between the Ontario and neighbouring US interconnected electricity markets. The Ontario electricity spot market is also influenced by US dollar denominated commodity prices for natural gas which is used in electricity generation. 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, 2014, OPG had total foreign exchange contracts outstanding with a notional value of US \$22 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to refinance existing debt and/or undertake new financing. The management of these risks is undertaken by 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 new financing. As at March 31, 2014, OPG had interest rate swap contracts outstanding for hedging interest rate risk with a notional principal of \$100 million.

Trading

OPG's financial performance can be affected by its trading activities.

OPG's trading operations are closely monitored and total exposures are measured and reported to senior management on a daily basis. One of the metrics used to measure the financial risk of this trading activity is Value at Risk (VaR). For the first quarter of 2014, the utilization of VaR averaged \$1.4 million, compared to an average of \$0.1 million for the first quarter of 2013. The increase in VaR utilization was primarily due to increased volatility in the Ontario and Northeastern US energy markets stemming from the unseasonably cold temperatures during the first

quarter of 2014. As a result, OPG increased its trading activities to capitalize on the wider trading margin between the Ontario and Northeastern US energy markets.

Credit

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

OPG manages its exposure to various suppliers or counterparties by evaluating their financial condition and ensuring that appropriate collateral, or other forms of security, are held by OPG. OPG's credit exposure relating to energy markets transactions as at March 31, 2014 was \$483 million, including \$429 million to the IESO. Over 95 percent of the remaining \$54 million exposure is related to investment grade counterparties.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

During the most recent interim period, there have been no changes in the Company's policies and procedures and other processes that comprise its internal controls over financial reporting, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

QUARTERLY FINANCIAL HIGHLIGHTS

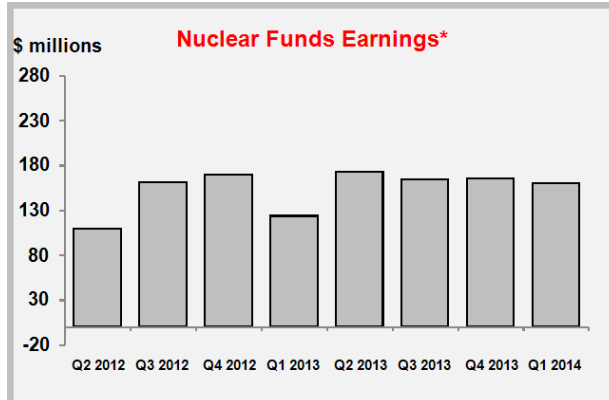
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2014	December 31 2013	September 30 2013	June 30 2013
Revenue	1,387	1,174	1,244	1,190
Net income attributable to the Province	242	4	30	73
Net income per common share (<i>dollars</i>)	\$0.94	\$0.02	\$0.12	\$0.28

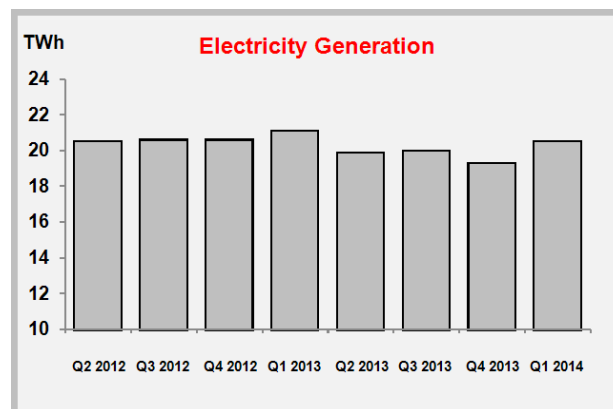
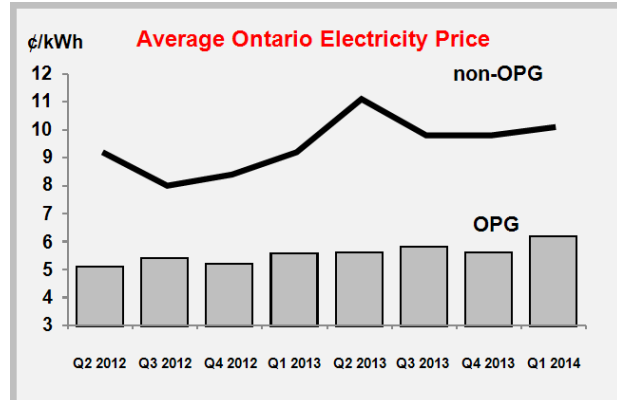
<i>(millions of dollars – except where noted) (unaudited)</i>	March 31 2013	December 31 2012	September 30 2012	June 30 2012
Revenue	1,255	1,195	1,213	1,125
Net income attributable to the Province	28	31	139	43
Net income per common share (<i>dollars</i>)	\$0.11	\$0.12	\$0.54	\$0.17

Trends

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are 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.



*net of regulatory variance account



Additional items which affected net income in certain quarters above are described in OPG's 2013 annual MD&A under the heading, *Quarterly Financial Highlights*.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A and unaudited interim consolidated financial statements. 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, interim consolidated financial statements and the notes thereto 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 a measure consistent with the corporate strategy to operate on a financially sustainable basis. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with US GAAP, but as an indicator of operating performance.

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

(1) **ROE** is defined as net income attributable to the Province divided by average equity attributable to the Province excluding AOCI, for the period. ROE is measured over a 12-month period. The definition of ROE was refined as of January 1, 2014 as a result of the non-controlling interest established, which reflects equity contributions made by the Amisk-oo-Skow Finance Corporation, a corporation wholly-owned by the Moose Cree First Nation to the Lower Mattagami Limited Partnership in the first quarter of 2014.

(2) **FFO 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 includes net interest expense plus interest income, interest capitalized to fixed and intangible assets, interest related to regulatory assets and liabilities, and interest on pension and OPEB projected benefit obligations less expected return on pension plan assets for the period.

FFO Interest Coverage is measured over a period of twelve months and is calculated as follows:

	For the twelve months ended	
	March 31	December 31
(millions of dollars – except where noted)	2014	2013
FFO before interest		
Cash flow provided by operating activities	1,357	1,174
Add: Interest paid	266	255
Less: Interest capitalized to fixed and intangible assets	(122)	(127)
Add: Changes to non-cash working capital balances	(288)	(239)
FFO before interest	1,213	1,063
Adjusted Interest Expense		
Net interest expense	73	86
Add: Interest income	11	10
Add: Interest capitalized to fixed and intangible assets	122	127
Add: Interest related to regulatory assets and liabilities	89	66
Add: Interest on pension and OPEB projected benefit obligation less expected return on pension plan assets	114	92
Adjusted Interest Expense	409	381
FFO Interest Coverage (times)	3.0	2.8

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

(4) **Earnings** are defined as net income.

Additional information about OPG, including its Annual Information Form, annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2013 and notes thereto can be found on SEDAR at www.sedar.com.

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ONTARIO POWER GENERATION INC.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
MARCH 31, 2014



INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31		
<i>(millions of dollars except where noted)</i>		
	2014	2013
Revenue (Note 12)	1,387	1,255
Fuel expense (Note 12)	149	183
Gross margin (Note 12)	1,238	1,072
Expenses		
Operations, maintenance and administration (Note 12)	670	700
Depreciation and amortization	181	242
Accretion on fixed asset removal and nuclear waste management liabilities	196	189
Earnings on nuclear fixed asset removal and nuclear waste management funds	(160)	(124)
Property and capital taxes	11	15
Income from investments subject to significant influence	(13)	(10)
Restructuring	2	2
	887	1,014
Income before other loss, interest, and income taxes	351	58
Other loss	1	1
Income before interest and income taxes	350	57
Net interest expense (Note 5)	12	25
Income before income taxes	338	32
Income tax expense	95	4
Net income	243	28
Net income attributable to the Province	242	28
Net income attributable to non-controlling interests (Note 16)	1	-
Basic and diluted net income per common share (dollars)	0.94	0.11
Common shares outstanding (millions)	256.3	256.3

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31		
<i>(millions of dollars)</i>		
	2014	2013
Net income	243	28
Other comprehensive income, net of income taxes <i>(Note 7)</i>		
Net (loss) gain on derivatives designated as cash flow hedges ¹	(1)	2
Reclassification to income of losses from cash flow hedges ²	3	7
Reclassification to income of amounts related to pension and other post-employment benefits ³	9	10
Other comprehensive income for the period	11	19
Comprehensive income	254	47
Comprehensive income attributable to the Province	253	47
Comprehensive income attributable to non-controlling interests	1	-

¹ Net of income tax recoveries of \$1 million and income tax expense of \$1 million for the three months ended March 31, 2014 and 2013, respectively.

² Net of income tax expenses of nil for the three months ended March 31, 2014 and 2013.

³ Net of income tax expenses of \$4 million for each the three months ended March 31, 2014 and 2013.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 <i>(millions of dollars)</i>	2014	2013
Operating activities		
Net income	243	28
Adjust for non-cash items:		
Depreciation and amortization	181	242
Accretion on fixed asset removal and nuclear waste management liabilities	196	189
Earnings on nuclear fixed asset removal and nuclear waste management funds	(160)	(124)
Pension and other post-employment benefit costs <i>(Note 8)</i>	116	118
Deferred income taxes and other accrued charges	45	11
Provision for restructuring	1	2
Mark-to-market on derivative instruments	(98)	(86)
Provision for used nuclear fuel and low and intermediate level waste	27	25
Regulatory assets and liabilities	46	25
Provision for materials and supplies	5	4
Other	(3)	(4)
	599	430
Contributions to nuclear fixed asset removal and nuclear waste management funds	(34)	(39)
Expenditures on fixed asset removal and nuclear waste management	(46)	(46)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	24	18
Contributions to pension funds and expenditures on other post-employment benefits and supplementary pension plans	(104)	(103)
Expenditures on restructuring	(2)	(1)
Net changes to other long-term assets and liabilities	11	55
Net changes to non-cash working capital balances <i>(Note 13)</i>	(20)	(69)
Cash flow provided by operating activities	428	245
Investing activities		
Investment in property, plant and equipment and intangible assets	(385)	(393)
Cash flow used in investing activities	(385)	(393)
Financing activities		
Issuance of long-term debt	-	295
Issuance of short-term notes	522	-
Repayment of short-term notes	(372)	-
Cash flow provided by financing activities	150	295
Net increase in cash and cash equivalents	193	147
Cash and cash equivalents, beginning of period	562	413
Cash and cash equivalents, end of period	755	560

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	March 31 2014	December 31 2013
Assets		
Current assets		
Cash and cash equivalents	755	562
Receivables from related parties <i>(Note 14)</i>	423	402
Other accounts receivable and prepaid expenses	179	148
Nuclear fixed asset removal and nuclear waste management funds <i>(Notes 6 and 12)</i>	16	25
Fuel inventory <i>(Note 12)</i>	361	390
Materials and supplies <i>(Note 12)</i>	91	95
Regulatory assets <i>(Note 3)</i>	230	306
Income taxes recoverable	-	51
Deferred income taxes	7	-
	2,062	1,979
Property, plant and equipment <i>(Note 12)</i>	24,818	24,441
Less: accumulated depreciation	7,842	7,703
	16,976	16,738
Intangible assets <i>(Note 12)</i>	409	402
Less: accumulated amortization	346	343
	63	59
Other assets		
Nuclear fixed asset removal and nuclear waste management funds <i>(Notes 6 and 12)</i>	13,662	13,471
Long-term materials and supplies <i>(Note 12)</i>	325	330
Regulatory assets <i>(Note 3)</i>	5,085	5,094
Investments subject to significant influence <i>(Note 15)</i>	362	359
Other long-term assets	63	61
	19,497	19,315
	38,598	38,091

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at <i>(millions of dollars)</i>	March 31 2014	December 31 2013
Liabilities		
Current liabilities		
Accounts payable and accrued charges	938	1,026
Deferred revenue due within one year	12	12
Long-term debt due within one year <i>(Note 4)</i>	5	5
Short-term debt	182	32
Regulatory liabilities <i>(Note 3)</i>	12	16
Income tax payable	33	-
Deferred income taxes	-	14
	1,182	1,105
Long-term debt <i>(Note 4)</i>	5,599	5,620
Other liabilities		
Fixed asset removal and nuclear waste management liabilities <i>(Notes 6 and 12)</i>	16,456	16,257
Pension liabilities	2,731	2,741
Other post-retirement benefit liabilities	2,657	2,628
Long-term accounts payable and accrued charges	556	653
Deferred revenue	188	180
Deferred income taxes	606	565
Regulatory liabilities <i>(Note 3)</i>	8	8
	23,202	23,032
Equity		
Common shares ¹	5,126	5,126
Retained earnings	4,134	3,892
Accumulated other comprehensive loss <i>(Note 7)</i>	(673)	(684)
Equity attributable to the Province	8,587	8,334
Equity attributable to non-controlling interests <i>(Note 16)</i>	28	-
Total Equity	8,615	8,334
	38,598	38,091

¹ 256,300,010 common shares outstanding at a stated value of \$5,126 million as at March 31, 2014 and December 31, 2013.

Commitments and Contingencies *(Notes 4, 8, 10 and 11)*

See accompanying notes to the interim consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Three Months Ended March 31		
<i>(millions of dollars)</i>	2014	2013
Common shares	5,126	5,126
Retained earnings		
Balance at beginning of period	3,892	3,757
Net income attributable to the Province	242	28
Balance at end of period	4,134	3,785
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	(684)	(979)
Other comprehensive income	11	19
Balance at end of period	(673)	(960)
Equity attributable to the Province	8,587	7,951
Equity attributable to non-controlling interests (Note 16)		
Balance at beginning of period	-	-
Capital contribution from non-controlling interests	27	-
Net income attributable to non-controlling interests	1	-
Balance at end of period	28	-
Total equity	8,615	7,951

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2014 and 2013

1. BASIS OF PRESENTATION

These interim consolidated financial statements for the three months ended March 31, 2014 include the accounts of Ontario Power Generation Inc. (OPG or 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 interests. These interim consolidated financial statements have been prepared and presented in accordance with United States generally accepted accounting principles (US GAAP) and the rules and regulations of the United States Securities and Exchange Commission for interim financial statements. These interim 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, 2013. All dollar amounts are presented in Canadian dollars.

Certain of the 2013 comparative amounts have been reclassified from financial statements previously presented to conform to the 2014 consolidated financial statement presentation.

Effective January 1, 2014, OPG revised the composition of its reportable business segments to reflect changes in its generation portfolio and its internal reporting. Information for the comparative period has been adjusted to reflect the changes to the reportable business segments. For further discussion, refer to Note 12, *Business Segments*.

Use of Management Estimates

The preparation of 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 during the reporting periods. Management evaluates the Company's estimates on an ongoing basis based on historical experience, current conditions and assumptions believed to be reasonable at the time the assumption is made, with any adjustments recognized in income in the period incurred. Significant estimates are included in the determination of pension and other post-employment benefits (OPEB), asset retirement obligations, income taxes (including deferred income taxes), contingencies, regulatory assets and liabilities, valuation of derivative instruments, depreciation and amortization, and inventories. Actual results may differ significantly from these estimates.

Seasonal Operations

OPG's quarterly results are affected by changes in demand primarily resulting from variations in seasonal weather conditions. Historically, OPG's revenues are 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. Regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, cost recovery contracts and energy supply agreements, and OPG's hedging strategies significantly reduce the impact of seasonal price fluctuations on the results of operations.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Recent Accounting Pronouncements

Investment Companies

Effective January 1, 2014, OPG adopted the updated Accounting Standards Codification (ASC) Topic 946, *Financial Services – Investment Companies*. Based on the amended scope of the standard, certain entities and funds including the Decommissioning Segregated Fund (Decommissioning Fund) and the Used Fuel Segregated Fund (Used Fuel Fund) (together the Nuclear Funds) are treated as investment companies for accounting purposes. As the investments of these funds are already recorded at fair value, there were no measurement differences upon adoption of this update. OPG has provided the required additional disclosures in Note 6 of these interim consolidated financial statements.

3. REGULATORY ASSETS AND LIABILITIES

The regulatory assets and liabilities recorded as at March 31, 2014 and December 31, 2013 are as follows:

<i>(millions of dollars)</i>	March 31 2014	December 31 2013
Regulatory assets		
<i>Variance and deferral accounts as authorized by the Ontario Energy Board (OEB)</i>		
Pension and OPEB Cost Variance Account	753	667
Bruce Lease Net Revenues Variance Account	297	353
Nuclear Liability Deferral Account	266	254
Capacity Refurbishment Variance Account	128	100
Tax Loss Variance Account	94	124
Nuclear Development Variance Account	57	57
Other variance and deferral accounts	121	128
	1,716	1,683
Pension and OPEB Regulatory Asset (Note 8)	3,103	3,158
Deferred Income Taxes	496	559
Total regulatory assets	5,315	5,400
Less: current portion	230	306
Non-current regulatory assets	5,085	5,094
Regulatory liabilities		
<i>Variance and deferral accounts as authorized by the OEB</i>		
Other variance and deferral accounts	20	24
Total regulatory liabilities	20	24
Less: current portion	12	16
Non-current regulatory liabilities	8	8

As at March 31, 2014 and December 31, 2013, regulatory assets for other variance and deferral accounts included the Nuclear Deferral and Variance Over/Under Recovery Variance Account, the Hydroelectric Surplus Baseload Generation Variance Account, the Hydroelectric Water Conditions Variance Account, the Impact for USGAAP Deferral Account, and other variance accounts authorized by the OEB. As at March 31, 2014 and December 31,

2013, regulatory liabilities for other variance and deferral accounts included the Income and Other Taxes Variance Account and other variance accounts authorized by the OEB.

4. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	March 31 2014	December 31 2013
Notes payable to the Ontario Electricity Financial Corporation (OEFC)	3,965	3,965
UMH Energy Partnership debt	193	193
Lower Mattagami Energy Limited Partnership debt <i>(Note 16)</i>	1,446	1,467
	5,604	5,625
Less: due within one year	5	5
Long-term debt	5,599	5,620

5. SHORT-TERM DEBT AND NET INTEREST EXPENSE

The Lower Mattagami Energy Limited Partnership (LME) maintains a \$600 million bank credit facility to support the funding requirements of the Lower Mattagami River project. The facility consists of two tranches. The first tranche of \$300 million has a maturity date of August 17, 2018. The second tranche of \$300 million has a maturity date of August 17, 2015. As at March 31, 2014, \$182 million of commercial paper was outstanding under this program (as at December 31, 2013 – \$32 million).

The following table summarizes net interest expense:

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2014	2013
Interest on long-term debt	72	66
Interest on short-term debt	1	1
Interest income	(3)	(2)
Interest capitalized to property, plant and equipment and intangible assets	(35)	(40)
Interest related to regulatory assets and liabilities ¹	(23)	-
Net interest expense	12	25

¹ Includes interest to recognize the cost of financing related to regulatory assets and liabilities and interest deferred in the Capacity Refurbishment Variance Account and the Bruce Lease Net Revenues Variance Account.

6. 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, 2014 and December 31, 2013 consist of the following:

<i>(millions of dollars)</i>	March 31 2014	December 31 2013
Liability for nuclear used fuel management	10,086	9,957
Liability for nuclear decommissioning and low and intermediate level waste management	6,012	5,946
Liability for non-nuclear fixed asset removal	358	354
Fixed asset removal and nuclear waste management liabilities	16,456	16,257

Nuclear Funds

Beginning January 1, 2014, the Company applied ASC 946 for all investments owned by the Decommissioning Fund and the Used Fuel Fund. OPG's consolidated financial statements retained investment company accounting for the Nuclear Funds. The adoption of investment company accounting for the Nuclear Funds did not result in an effect on net income or change in net assets from operations as investments held by OPG's Nuclear Funds continue to be recorded at fair value.

The policy for distinguishing the nature and type of investments made by OPG which retain investment company accounting from other investments made by OPG is that these investments have the attributes of an investment company in accordance with ASC 946 as amended by Accounting Standards Update 2013-08, *Financial Services – Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*.

The historical cost, gross unrealized aggregate appreciation and depreciation of investment, gross unrealized foreign exchange gains and fair value of the Nuclear Funds as of March 31, 2014 are summarized as follows:

<i>(millions of dollars)</i>	Decommissioning Fund	Used Fuel Fund ¹	Total
Historical cost	5,837	7,633	13,470
Unrealized gains			
Gross unrealized aggregate appreciation	1,041	1,233	2,274
Gross unrealized aggregate depreciation	(98)	(101)	(199)
Gross unrealized foreign exchange gains	98	142	240
	6,878	8,907	15,785
Due to Province	(845)	(1,262)	(2,107)
Total fair value	6,033	7,645	13,678
Less: current portion	9	7	16
Non-current fair value	6,024	7,638	13,662

¹ The Ontario NFWA Trust represented \$2,913 million as at March 31, 2014 of the Used Fuel Fund on a fair value basis.

The historical cost, gross unrealized aggregate appreciation and depreciation of investment, gross unrealized foreign exchange gains and fair value of the Nuclear Funds as of December 31, 2013 are summarized as follows:

<i>(millions of dollars)</i>	Decommissioning Fund	Used Fuel Fund ¹	Total
Historical cost	5,571	7,240	12,811
Unrealized gains			
Gross unrealized aggregate appreciation	1,111	1,365	2,476
Gross unrealized aggregate depreciation	(118)	(136)	(254)
Gross unrealized foreign exchange gains	27	50	77
	6,591	8,519	15,110
Due to Province	(624)	(990)	(1,614)
Fair value	5,967	7,529	13,496
Less: current portion	12	13	25
Non-current fair value	5,955	7,516	13,471

¹ The Ontario NFWA Trust represented \$2,668 million as at December 31, 2013 of the Used Fuel Fund on a fair value basis.

Net realized and unrealized gains or losses from investments for the three months ended March 31, 2014 are summarized as follows:

<i>(millions of dollars)</i>	Decommissioning Fund	Used Fuel Fund	Total
Net realized gains			
Realized gains	204	293	497
Realized foreign exchange gains	25	24	49
Net realized gains	229	317	546
Net unrealized gains (losses)			
Unrealized losses	(50)	(97)	(147)
Unrealized foreign exchange gains	71	92	163
Net unrealized gains (losses)	21	(5)	16

Net realized and unrealized gains or losses from investments for the three months ended March 31, 2013 are summarized as follows:

<i>(millions of dollars)</i>	Decommissioning Fund	Used Fuel Fund	Total
Net realized gains			
Realized gains	43	53	96
Realized foreign exchange losses	(3)	(1)	(4)
Net realized gains	40	52	92
Net unrealized gains			
Unrealized gains	180	241	421
Unrealized foreign exchange losses	(5)	(10)	(15)
Net unrealized gains	175	231	406

7. 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:

<i>(millions of dollars)</i>	Three Months Ended March 31, 2014		
	Unrealized Gains and Losses on Cash Flow Hedges ¹	Pension and OPEB ¹	Total ¹
AOCL, beginning of period	(129)	(555)	(684)
Net loss on cash flow hedges	(1)	-	(1)
Amounts reclassified from AOCL	3	9	12
Other comprehensive income for the period	2	9	11
AOCL, end of period	(127)	(546)	(673)

¹ All amounts are net of income taxes.

<i>(millions of dollars)</i>	Three Months Ended March 31, 2013		
	Unrealized Gains and Losses on Cash Flow Hedges ¹	Pension and OPEB ¹	Total ¹
AOCL, beginning of period	(156)	(823)	(979)
Net gain on cash flow hedges	2	-	2
Amounts reclassified from AOCL	7	10	17
Other comprehensive income for the period	9	10	19
AOCL, end of period	(147)	(813)	(960)

¹ All amounts are net of income taxes.

The significant amounts reclassified out of each component of AOCL, net of income taxes, during the three months ended March 31, 2014 and 2013 are as follows:

<i>(millions of dollars)</i>	Amount Reclassified from AOCL		Statement of Income Line Item
	2014	2013	
Amortization of losses from cash flow hedges			
Losses	3	7	Net interest expense
Amortization of amounts related to pension and OPEB			
Actuarial gains and past service costs	13	14	See (1) below
Income tax recoveries	(4)	(4)	
	9	10	
Total reclassifications for the period	12	17	

¹ These AOCL components are included in the computation of pension and OPEB costs (see Note 8 for additional details).

8. PENSION AND OPEB

OPG's total benefit costs for the three months ended March 31, 2014 and 2013 are as follows:

<i>(millions of dollars)</i>	Registered Pension Plans		Supplementary Pension Plans		OPEB	
	2014	2013	2014	2013	2014	2013
<i>Components of Cost Recognized</i>						
Current service costs	59	73	2	2	16	26
Interest on projected benefit obligation	165	147	4	3	34	36
Expected return on plan assets, net of expenses	(157)	(162)	-	-	-	-
Amortization of net actuarial loss ¹	65	61	1	2	2	12
Cost recognized ²	132	119	7	7	52	74

¹ The amortization of net actuarial loss is recognized as an increase to other comprehensive income. This increase in the first quarter of 2014 was partially offset by a decrease in the Pension and OPEB Regulatory Asset of \$55 million (three months ended March 31, 2013 – \$61 million).

² These pension and OPEB costs for the three months ended March 31, 2014 exclude the reduction of costs resulting from the recognition of additions to the regulatory assets for the Pension and OPEB Cost Variance Account and the Impact for USGAAP Deferral Account of \$75 million and nil (three months ended March 31, 2013 – \$82 million and nil, respectively).

An actuarial valuation of the OPG registered pension plan was completed as of January 1, 2011. The next actuarial valuation for funding purposes must have an effective date no later than January 1, 2014 and be filed by September 30, 2014.

9. DERIVATIVES

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in market interest rates on debt expected to be issued in the future, and movements in foreign currency that affect its 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 is undertaken by 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.

The LME has entered into forward start interest rate swaps to hedge against the effect of future changes in interest rates for long-term debt for the Lower Mattagami River project.

Electricity price risk for the Company is the potential for adverse movements in the market price of electricity. Exposure to electricity price risk is reduced as a result of regulated prices and other contractual arrangements for a significant portion of OPG's business. The majority of this exposure should be mitigated with the implementation of a regulated price for OPG's 48 hydroelectric stations which have been prescribed for rate regulation effective July 1, 2014.

The conditional reduction to revenue in the future, embedded in the terms of the Bruce Power lease agreement (Bruce Lease), is treated as a derivative. Assumptions related to future electricity prices impact the valuation of the derivative liability embedded in the Bruce Lease.

OPG's foreign exchange exposure is attributable to two primary factors: United States (US) dollar denominated transactions such as the purchase of fuels; and the influence of US dollar denominated commodity prices on Ontario

electricity market prices. OPG enters into foreign exchange derivatives and agreements with major financial institutions, when necessary, in order to manage the Company's exposure to foreign currency movements.

The majority of OPG's revenues are derived from sales through the Independent Electricity System Operator (IESO) administered spot market. Although the credit exposure to the IESO represents a significant portion of OPG's accounts receivable, the Company's management accepts this risk due to the IESO's primary role in the Ontario electricity market. The remaining receivables exposure is to a diverse group of generally high quality counterparties. OPG's allowance for doubtful accounts as at March 31, 2014 was less than \$1 million.

The following is a summary of OPG's derivative instruments:

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Balance Sheet Line Item
As at March 31, 2014				
Derivative embedded in the Bruce Lease	n/a	6 years	(252)	Long-term accounts payable and accrued charges
Other derivative instruments	various	various	(5)	Various
Total derivatives			(257)	

<i>(millions of dollars except where noted)</i>	Notional Quantity	Terms	Fair Value	Balance Sheet Line Item
As at December 31, 2013				
Derivative embedded in the Bruce Lease	n/a	6 years	(346)	Long-term accounts payable and accrued charges
Other derivative instruments	various	various	(8)	Various
Total derivatives			(354)	

Existing net losses of \$19 million deferred in AOCL as at March 31, 2014 are expected to be reclassified to net income within the next 12 months.

10. FAIR VALUE MEASUREMENTS

Fair value is the value that a financial instrument can be closed out or sold, in an arm's length transaction with a willing and knowledgeable counterparty.

OPG is required to classify fair value measurements using a fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The level within which the financial asset or liability is classified is determined based on the attribute of significance to the inputs to the fair value measurement. The fair value hierarchy has the following levels:

- Level 1: Valuation of inputs is based on unadjusted quoted market prices observed in active markets for identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Valuation is based on inputs for the asset or liability that are not based on observable market data.

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

For financial instruments which do not have quoted market prices 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 at the dates of the interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. Pooled fund investments are valued at the unit values supplied by the pooled fund administrators. The unit values represent the underlying net assets at fair values, determined using closing market prices. Valuation models use general assumptions and market data and therefore do not reflect the specific risks and other factors that would affect a particular instrument's fair value. The methodologies used for calculating the fair value adjustments are reviewed on an ongoing basis to ensure that they remain appropriate. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. Specific valuation techniques were 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.

Transfers into, out of, or between levels are deemed to have occurred on the date of the event or change in circumstances that caused the transfer to occur.

The Company is required to determine the fair value of all its financial instruments. The following is a summary of OPG's financial instruments as at March 31, 2014 and December 31, 2013:

<i>(millions of dollars except where noted)</i>	Fair Value	Carrying Value ¹	Balance Sheet Line Item
As at March 31, 2014			
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	13,678	13,678	Nuclear fixed asset removal and nuclear waste management funds
Payable related to cash flow hedges	(55)	(55)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(252)	(252)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(6,105)	(5,604)	Long-term debt
Other financial instruments	4	4	Various
As at December 31, 2013			
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	13,496	13,496	Nuclear fixed asset removal and nuclear waste management funds
Payable related to cash flow hedges	(56)	(56)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(346)	(346)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,955)	(5,625)	Long-term debt
Other financial instruments	1	1	Various

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

The fair value of 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.

The following tables present financial assets and liabilities measured at fair value in accordance with the fair value hierarchy as at March 31, 2014 and December 31, 2013:

<i>(millions of dollars)</i>	March 31, 2014			Total
	Level 1	Level 2	Level 3	
Assets				
Decommissioning Fund	3,161	2,591	281	6,033
Used Fuel Fund	604	6,992	49	7,645
Other financial instruments	4	12	16	32
Total	3,769	9,595	346	13,710
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(252)	(252)
Other financial instruments	(14)	(14)	-	(28)
Total	(14)	(14)	(252)	(280)
Net assets	3,755	9,581	94	13,430

<i>(millions of dollars)</i>	December 31, 2013			Total
	Level 1	Level 2	Level 3	
Assets				
Decommissioning Fund	3,005	2,715	247	5,967
Used Fuel Fund	526	6,961	42	7,529
Other financial instruments	5	3	12	20
Total	3,536	9,679	301	13,516
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(346)	(346)
Other financial instruments	(8)	(11)	-	(19)
Total	(8)	(11)	(346)	(365)
Net assets (liabilities)	3,528	9,668	(45)	13,151

During the three months ended March 31, 2014, there were no transfers between Level 1 and Level 2. In addition, there were no transfers into and out of Level 3.

The following tables present the changes in OPG's assets and liabilities measured at fair value based on Level 3:

<i>(millions of dollars)</i>	For the three months ended March 31, 2014			
	Decom- missioning Fund	Used Fuel Fund	Derivative Embedded in the Bruce Lease ¹	Other financial instruments
Opening balance, January 1, 2014	247	42	(346)	12
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds ¹	14	2	-	-
Unrealized gains included in revenue	-	-	94	1
Realized losses included in revenue	-	-	-	(2)
Purchases	29	5	-	5
Sales	(1)	-	-	-
Settlements	(8)	-	-	-
Closing balance, March 31, 2014	281	49	(252)	16

¹ Total gains (losses) exclude the impact of regulatory assets and liabilities.

Derivative Embedded in the Bruce Lease

Due to a significant unobservable input used in the pricing model of the Bruce Lease embedded derivative, the measurement of the liability is classified within Level 3.

The following table presents the quantitative information about the Level 3 fair value measurement of the Bruce Lease embedded derivative as at March 31, 2014:

<i>(millions of dollars except where noted)</i>	Fair Value	Valuation Technique	Unobservable Input	Range
Derivative embedded in the Bruce Lease	(252)	Option model	Risk Premium ¹	0% - 30%

¹ Represents the range of premiums used in the valuation analysis that OPG has determined market participants would use when pricing the derivative.

The term related to the derivative embedded in the Bruce Lease is based on the remaining service lives, for accounting purposes, for certain units of the Bruce generating stations. OPG's exposure to changes in the fair value of the Bruce Lease embedded derivative is mitigated as part of the OEB regulatory process, since the revenue from the lease of the Bruce generating stations is included in the determination of regulated prices and is subject to the Bruce Lease Net Revenues Variance Account. As such, the pre-tax income statement impact, as a result of changes in the derivative liability, is offset by the pre-tax income statement impact of the Bruce Lease Net Revenues Variance Account.

Nuclear Funds

Nuclear Funds investments classified as Level 3 consist of real estate and infrastructure investments within the alternative investment portfolio. The fair value of the investments within the Nuclear Funds' alternative investment portfolio is determined using appropriate valuation techniques, such as recent arm's length market transactions, reference to current fair values of other instruments that are substantially the same, discounted cash flow analyses, third-party independent appraisals, valuation multiples, or other valuation methods. Any control, size, liquidity or other discount premiums on the investments are considered in the determination of fair value.

The process of valuing investments for which no published market price exists is based on inherent uncertainties and the resulting values may differ from values that would have been used had a ready market existed for the investments. The values may also differ from the prices at which the investments may be sold.

The following are the classes of investments within the Nuclear Funds that are reported on the basis of net asset value as at March 31, 2014:

<i>(millions of dollars except where noted)</i>	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure	384	212	n/a	n/a
Real Estate	316	350	n/a	n/a
Pooled Funds				
Short-term Investments	10	n/a	Daily	1 - 5 Days
Fixed Income	571	n/a	Daily	1 - 5 Days
Equity	660	n/a	Daily	1 - 5 Days
Total	1,941	562		

The fair value of the above investments is classified as either Level 2 or Level 3.

Infrastructure

This class includes investments in funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments such as energy, transportation, and utilities.

The fair values of investments in this class have been estimated using the Nuclear Funds' ownership interest in partners' capital and/or underlying investments held by subsidiaries of an infrastructure fund.

The investments in the respective infrastructure funds are not redeemable. However, the Nuclear Funds may transfer any of its partnership interests/shares to another party, as stipulated in the partnership agreements and/or shareholders' agreements. Distributions from each infrastructure fund will be received based on the operations of the underlying investments and/or as the underlying investments of the infrastructure funds are liquidated. It is not possible to estimate when the underlying assets of the infrastructure funds will be liquidated. However, the infrastructure funds have a maturity end period ranging from 2019 to 2025.

Real Estate

This class includes investment in institutional-grade real estate property located in Canada. The investment objective is to provide a stable level of income with the opportunity for long-term capital appreciation.

The fair values of the investments in this class have been estimated using the net asset value of the Nuclear Funds' ownership interest in these investments.

The partnership investments are not redeemable. However, the Nuclear Funds may transfer any of their partnership interests to another party, as stipulated in the partnership agreement, with prior written consent of the other limited partners. For investments in private real estate corporations, shares may be redeemed through a pre-established redemption process. It is not possible to estimate when the underlying assets in this class will be liquidated.

Pooled Funds

This class represents investments in pooled funds, which primarily include a diversified portfolio of fixed income securities, issued mainly by Canadian corporations and diversified portfolios of US and Emerging Market listed equity and fixed income securities. 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 the net asset value per share of the investments.

There are no significant restrictions on the ability to sell investments in this class.

11. COMMITMENTS AND CONTINGENCIES

Litigation

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

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 on OPG and Bruce Power L.P. by British Energy Limited and British Energy International Holdings Limited (together British Energy). The British Energy claim against OPG pertains to corrosion in the Bruce Unit 8 Steam Generators, in particular, erosion of the support plates through which the boiler tubes pass. The claim amount includes \$65 million due to an extended outage to repair some of the alleged damage. The balance of the amount claimed is based on an increased probability the steam generators will have to be replaced or

the unit taken out of service prematurely. OPG leased the Bruce nuclear generating stations to Bruce Power L.P. in 2001.

British Energy is defending an arbitration commenced by some of the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the claimants when they purchased British Energy's interest in Bruce Power L.P. (the Arbitration). In the second quarter of 2012, the arbitrator released an interim award. The arbitrator found that British Energy was liable to the claimants for some of the damages they claimed. The arbitrator determined what elements of the claim British Energy was liable for, but did not award a specific amount in damages as it was found that further evidence from the parties is necessary to quantify the exact amount of the damages. If the parties to the Arbitration cannot agree on the quantum of damages, there will be further proceedings before the arbitrator to determine the amount. British Energy counsel has indicated that the damages payable to the claimants will likely be less than \$70 million.

Certain First Nations have commenced actions against OPG for interference with their respective reserve and traditional land rights. As well, OPG has been brought into certain actions by the First Nations against other parties as a third-party defendant. 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.

Environmental

Current operations are subject to regulation with respect to emissions to air, water, and land as well as other environmental matters by federal, provincial, and local authorities. The cost of obligations associated with current operations is provided for on an ongoing basis. Management believes it has made adequate provision in its interim consolidated financial statements to meet certain other environmental obligations. As at March 31, 2014, OPG's environmental liabilities were \$15 million (December 31, 2013 – \$15 million).

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, 2014, the total amount of guarantees OPG provided to these entities was \$77 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. The potential impact of the fair value of these guarantees to income has been estimated as at March 31, 2014 to be negligible. As at March 31, 2014, OPG does not expect to make any payments associated with these guarantees.

Contractual and Commercial Commitments

The Company's contractual obligations and other significant commercial commitments as at March 31, 2014 are as follows:

<i>(millions of dollars)</i>	2014	2015	2016	2017	2018	Thereafter	Total
Contractual obligations:							
Fuel supply agreements	146	209	164	143	125	159	946
Contributions under the Ontario Nuclear Funds Agreement (ONFA) ¹	104	143	150	163	193	2,706	3,459
Long-term debt repayment	5	571	273	1,103	398	3,254	5,604
Interest on long-term debt	182	256	242	223	167	2,104	3,174
Unconditional purchase obligations	74	97	8	-	-	-	179
Operating lease obligations	16	17	15	15	14	70	147
Commitments related to Darlington refurbishment ²	200	-	-	-	-	-	200
Operating licence	40	23	24	24	18	-	129
Pension contributions ³	225	-	-	-	-	-	225
Other	379	50	17	14	4	69	533
	1,371	1,366	893	1,685	919	8,362	14,596
Significant commercial commitments:							
Niagara Tunnel	4	-	-	-	-	-	4
Lower Mattagami	316	75	-	-	-	-	391
Atikokan	13	-	-	-	-	-	13
Total	1,704	1,441	893	1,685	919	8,362	15,004

¹ Contributions under the ONFA are based on the 2012 ONFA Reference Plan contribution schedule approved in 2012.

² Estimated currently committed costs to close the project, including demobilization of project staff and cancellation of existing contracts, and material orders.

³ 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, 2011. The next actuarial valuation of the OPG plan must have an effective date no later than January 1, 2014 and be filed by September 30, 2014. 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 2014 for the OPG registered pension plan are excluded due to significant variability in the assumption 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.

12. BUSINESS SEGMENTS

Effective January 1, 2014, OPG revised the composition of its reportable business segments to reflect changes in its generation portfolio and its internal reporting. These changes primarily reflect 48 of OPG's hydroelectric generating facilities being prescribed for rate regulation, effective July 1, 2014, and ending the use of coal at the Nanticoke and Lambton generating stations in 2013. OPG's reportable business segments, effective January 1, 2014, are as follows:

- Regulated – Nuclear Generation
- Regulated – Nuclear Waste Management
- Regulated – Hydroelectric
- Contracted Generation Portfolio
- Services, Trading, and other Non-Generation.

OPG's Regulated – Nuclear Generation and Regulated – Nuclear Waste Management segments are unchanged.

The Regulated – Hydroelectric segment continues to include the results of Sir Adam Beck 1, 2 and Pump generating station (GS), DeCew Falls 1 and 2, and the R.H. Saunders hydroelectric facilities. Beginning in the first quarter of

2014, this segment also includes the results of 48 hydroelectric stations which have been prescribed for rate regulation, effective July 1, 2014, under amended *Ontario Regulation 53/05*. The comparative information for the 48 hydroelectric stations, previously recorded under the Unregulated – Hydroelectric segment in OPG's first quarter 2013 MD&A and financial statements, has been reclassified to conform to this new presentation.

The Contracted Generation Portfolio segment includes the results of operating generation facilities that are not prescribed for rate regulation. The segment includes primarily generating facilities that are under an Energy Supply Agreement or other long-term generating contract with the Ontario Power Authority (OPA).

Activities of generating stations that are not currently subject to a contract or rate regulation, but are available to generate electricity for sale, if required, are also included in the Contracted Generation Portfolio segment. Since the Lambton GS and Nanticoke GS were generating electricity up to the end of 2013, the activities related to these stations for the comparative period are reported in the Contracted Generation Portfolio segment. Effective January 1, 2014, the activities related to the Lambton GS and Nanticoke GS are reported under the Services, Trading, and other Non-Generation business segment. These stations ended coal-fired operations as a result of the Shareholder declaration issued in March 2013 mandating that OPG end the use of coal at these stations by the end of 2013.

The Contracted Generation Portfolio segment also includes OPG's share of equity income from its 50 percent ownership interests in Portlands Energy Centre (PEC) and Brighton Beach. OPG's share of the in-service generating capacity and generation volume from its interests in PEC and Brighton Beach are also included in this segment.

The Services, Trading, and other Non-Generation segment is a non-generation segment and includes the revenue and expenses related to OPG's trading and other non-hedging activities. As part of these activities, OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities of typically one year or less in duration. These activities relate to electricity that is purchased and sold at the Ontario border, financial energy trades, sales of financial risk management products, and sales of energy-related products. In addition, OPG has a wholly owned trading subsidiary that transacts solely in the US market. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in the revenue of this segment. In addition, this segment includes revenue from real estate rentals and other unregulated service revenues. The above activities were previously reported in the other segment.

Information for the comparative period has been adjusted to reflect the changes to OPG's reportable business segments and is labeled "adjusted".

Segment (Loss) Income for the Three Months Ended March 31, 2014 <i>(millions of dollars)</i>	Nuclear Generation	Regulated Nuclear Waste Manage- ment	Hydro- electric	Unregulated Contracted Generation Portfolio	Services, Trading, and other Non- Generation	Elimination	Total
Revenue	708	29	496	93	89	(28)	1,387
Fuel expense	60	-	71	16	2	-	149
Gross margin	648	29	425	77	87	(28)	1,238
Operations, maintenance and administration	511	31	76	43	37	(28)	670
Depreciation and amortization	130	-	41	5	5	-	181
Accretion on fixed asset removal and nuclear waste management liabilities	-	192	-	2	2	-	196
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(160)	-	-	-	-	(160)
Property and capital taxes	7	-	-	1	3	-	11
Income from investments subject to significant influence	-	-	-	(13)	-	-	(13)
Restructuring	-	-	-	-	2	-	2
Other loss	-	-	1	-	-	-	1
(Loss) Income before interest and income taxes	-	(34)	307	39	38	-	350

Segment (Loss) Income for the Three Months Ended March 31, 2013 <i>(millions of dollars)</i> <i>(adjusted)</i>	Regulated			Unregulated			Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Contracted Generation Portfolio	Services, Trading, and other Non- Generation	Elimination	
Revenue	735	25	317	182	20	(24)	1,255
Fuel expense	62	-	70	51	-	-	183
Gross margin	673	25	247	131	20	(24)	1,072
Operations, maintenance and administration	527	27	73	96	1	(24)	700
Depreciation and amortization	156	-	46	35	5	-	242
Accretion on fixed asset removal and nuclear waste management liabilities	-	185	-	4	-	-	189
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(124)	-	-	-	-	(124)
Property and capital taxes	7	-	1	4	3	-	15
Income from investments subject to significant influence	-	-	-	(10)	-	-	(10)
Restructuring	-	-	-	2	-	-	2
Other loss (income)	-	-	2	(1)	-	-	1
(Loss) Income before interest and income taxes	(17)	(63)	125	1	11	-	57

Selected Consolidated Balance Sheet Information as at March 31, 2014 (millions of dollars)	Regulated			Unregulated		Total
	Nuclear Generation	Nuclear Waste Manage- ment	Hydro- electric	Contracted Generation Portfolio	Services, Trading, and other Non- Generation	
Segment property, plant and equipment in-service, net	4,782	-	7,596	1,078	338	13,794
Segment construction in progress	1,073	-	84	1,979	46	3,182
Segment property, plant and equipment, net	5,855	-	7,680	3,057	384	16,976
Segment intangible assets in-service, net	15	-	1	4	16	36
Segment development in progress	-	-	-	-	27	27
Segment intangible assets, net	15	-	1	4	43	63
Segment materials and supplies inventory, net:						
Current	91	-	-	-	-	91
Long-term	317	-	1	7	-	325
Segment fuel inventory	316	-	-	45	-	361
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	13,678	-	-	-	13,678
Fixed asset removal and nuclear waste management liabilities	-	(16,098)	-	(326)	(32)	(16,456)

Selected Consolidated Balance Sheet Information as at December 31, 2013 (millions of dollars) (adjusted)	Nuclear Generation	Regulated Nuclear Waste Manage- ment	Hydro- electric	Contracted Generation Portfolio	Unregulated Services, Trading, and other Non- Generation	Total
Segment property, plant and equipment in-service, net	4,864	-	7,624	921	189	13,598
Segment construction in progress	866	-	81	2,150	43	3,140
Segment property, plant and equipment, net	5,730	-	7,705	3,071	232	16,738
Segment intangible assets in-service, net	15	-	1	4	17	37
Segment development in progress	2	-	-	-	20	22
Segment intangible assets, net	17	-	1	4	37	59
Segment materials and supplies inventory, net:						
Current	94	-	-	1	-	95
Long-term	322	-	1	7	-	330
Segment fuel inventory	334	-	-	56	-	390
Nuclear fixed asset removal and nuclear waste management funds (current and non-current portions)	-	13,496	-	-	-	13,496
Fixed asset removal and nuclear waste management liabilities	-	(15,903)	-	(322)	(32)	(16,257)

13. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

<i>(millions of dollars)</i>	Three Months Ended March 31	
	2014	2013
Receivables from related parties	(21)	(32)
Other accounts receivable and prepaid expenses	(23)	(4)
Fuel inventory	29	32
Income taxes payable/recoverable	84	9
Materials and supplies	4	(11)
Accounts payable and accrued charges	(93)	(63)
	(20)	(69)

14. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, the OPA and the other successor entities of Ontario Hydro, including Hydro One Inc. (Hydro One), the IESO, and the OEFC, and jointly controlled entities. 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.

The related party balances, as at March 31, 2014 and December 31, 2013, are summarized below:

<i>(millions of dollars)</i>	2014	2013
Receivables from related parties		
Hydro One	5	2
IESO	391	317
OEFC	25	67
OPA	-	14
PEC	2	2
Accounts payable and accrued charges		
Hydro One	2	3
OEFC	28	51
Province	3	2

15. INVESTMENTS SUBJECT TO SIGNIFICANT INFLUENCE

Investments subject to significant influence consist of OPG's 50 percent ownership interest in the jointly controlled entities of PEC and Brighton Beach, which are accounted for using the equity method. Details of the balances as at March 31, 2014 and December 31, 2013 are as follows:

<i>(millions of dollars)</i>	2014	2013
PEC		
Current assets	36	19
Long-term assets	299	303
Current liabilities	(23)	(15)
Long-term liabilities	(4)	(4)
Brighton Beach		
Current assets	5	5
Long-term assets	193	196
Current liabilities	(12)	(11)
Long-term liabilities	(5)	(5)
Long-term debt	(127)	(129)
Investments subject to significant influence	362	359

16. NON-CONTROLLING INTEREST

Lower Mattagami Limited Partnership (LMLP) is an Ontario limited partnership between OPG and LM Extension Inc., a wholly owned subsidiary of OPG. The principal business of LMLP is the development, construction, ownership, operation and maintenance of hydroelectric generating facilities on the Lower Mattagami River. As incremental units are placed in-service, the Amisk-oo-Skow Finance Corporation, a corporation wholly owned by the Moose Cree First Nation (MCFN), may acquire up to a 25 percent interest in the assets through its investment in LMLP.

In January 2014, the first incremental unit at the Little Long GS was declared in-service as part of the Lower Mattagami River project. Subsequently, the MCFN, through its wholly owned corporation, acquired a 25 percent interest in the incremental assets through its investment in LMLP and made an equity contribution of \$27 million to LMLP in the first quarter of 2014. The equity contribution was comprised of a long-term debt repayment of \$21 million and a repayment of \$6 million representing other amounts owed by OPG. OPG consolidates the results of LMLP in its consolidated financial statements and the non-controlling interest represents MCFN's ownership interest in LMLP.