ONTARIO POWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2012 FIRST QUARTER FINANCIAL RESULTS

[Toronto]: Ontario Power Generation Inc. ("OPG" or the "Company") today reported its financial and operating results for the three months ended March 31, 2012. Net income for the first quarter of 2012 was $154 million compared to $153 million for same quarter in 2011.

Tom Mitchell, President and CEO of OPG said, "The Company had a successful first quarter in holding down costs while reliably and safely providing almost 60 per cent of the power produced in the province."

"I understand that Ontarians are concerned about their electricity bills. I can assure them that OPG continues to look at internal cost savings in order to continue to moderate its impact on the total bill for consumers."

"The average revenue that OPG received for a kilowatt hour of electricity in the first quarter of 2012 was 5.0 cents. This is slightly below the average revenue that we received in the same period a year earlier of 5.2 cents, and it is well below the prices currently paid by consumers under Ontario's regulated price plan, which range from 6.5 cents to 11.7 cents per kilowatt hour."

Mr. Mitchell noted the following regarding the performance recognition for OPG's largest nuclear station, "I am very pleased to share that in March, our Darlington nuclear station received its best ever safety and performance peer review by the World Association of Nuclear Operators ("WANO"). In its review, WANO found twelve different areas of strength, which they noted as worthy of international benchmarking – including our response to the Fukushima nuclear event last year. This achievement demonstrates our strong focus on safety and our commitment to performance excellence and reliability. It was a tremendous opportunity to receive feedback and continue to further improve our performance to the benefit of the people of Ontario."

Highlights

Net income for the first quarter of 2012 of $154 million increased by $1 million compared to the first quarter of 2011. The increase in net income was primarily a result of higher earnings from the Nuclear Fixed Assets Removal and Nuclear Waste Management Funds ("Nuclear Funds") primarily due to a greater increase in the valuation levels of global equity markets, and lower operations, maintenance, and administration ("OM&A") costs primarily due to the impact of deferral and variance accounts established by the Ontario Energy Board. The increase in net income was partially offset by the impact of lower spot market electricity prices for production from unregulated hydroelectric stations, and higher depreciation and amortization expenses.

OPG's income before interest and income taxes from the electricity generation business segments was $157 million for the first quarter of 2012 compared to $244 million for the same period in 2011. This decrease in income from the electricity generation business segments was primarily due to lower Ontario spot electricity market prices and higher depreciation and amortization expenses, partially offset by lower OM&A costs. The Regulated – Nuclear Waste Management business segment recorded income before interest and income taxes of $24 million for the first quarter of 2012 compared to a loss before interest and income taxes of $34 million for the same period in 2011. This increase was primarily due to higher earnings from the Nuclear Funds in 2012.

Total electricity generated during the first quarter of 2012 of 22.0 TWh was slightly lower than the 22.2 TWh produced in the first quarter of 2011. The slight decrease was primarily due to lower unregulated hydroelectric generation as a result of below normal precipitation and water flows across the northwestern Ontario river systems, largely offset by an increase in regulated hydroelectric generation due to higher water flows on the St. Lawrence River.

The capability factor at the Darlington nuclear station was 95.6 per cent in the first quarter of 2012 compared to 97.9 per cent for the same quarter in 2011, and reflected a marginal increase in unplanned outage days. The Pickering stations had a 77.0 per cent capability factor compared to 78.0 per cent in the first quarter of 2011, primarily as a result of higher planned outage days. The availability of OPG's regulated and unregulated hydroelectric generating stations remained at high levels. The Start Guarantee at the thermal generating stations for the first quarter of 2012 was 94.1 per cent, which was consistent with the result for the same period in 2011. The high Start Guarantee for the first quarter of 2012 and 2011 reflects the ability of the thermal generating stations to respond to market requirements when needed.

Generation Development

OPG is undertaking a number of generation development projects to support Ontario's long-term electricity supply requirements. The status of these capacity expansion or life extension projects is as follows:

Nuclear

- For the refurbishment of the Darlington generating station, OPG awarded the Retube and Feeder Replacement contract on March 1, 2012. The contract is one of several contracts that will be awarded. The next major contract to be awarded is the Turbine/Generator contract. Construction on the Darlington Energy Complex ("Complex") remains on target for occupancy in the fall of 2013. The Complex will house the full-scale reactor mock-up, a warehouse, and office space to support the Darlington Refurbishment project.

- In May 2012, the federal government approved the Darlington New Nuclear Project Environmental Assessment ("EA"). The approval of the EA provides independent review and confirmation that the project will not result in any significant adverse environmental impacts, given mitigation.

- OPG is continuing to undertake a coordinated set of initiatives to evaluate the opportunity to continue the safe and reliable operation of Units 5 to 8 at the Pickering nuclear generating station for approximately an additional four to six years beyond its nominal end of life. OPG completed the necessary inspection and equipment improvements of the Unit 8 reactor in May 2012 and began planning work for the Unit 7 outage. OPG expects to complete the necessary work by the end of 2012 to demonstrate, with sufficient confidence, that the pressure tubes will achieve the additional life as predicted.

Hydroelectric

- The installation of the permanent concrete liner, as well as other lining and grouting activities continues at the Niagara Tunnel. The tunnel is expected to be completed within the approved budget of $1.6 billion, and by the approved completion date of December 2013. As at March 31, 2012, the life-to-date capital expenditures were $1.2 billion.

- The Lower Mattagami River project continues to progress. During the first quarter of 2012, concrete work was in progress at the Smoky Falls, Little Long and Harmon sites. Cofferdam installation continued at the Kipling site. The project is expected to be completed within the approved budget of $2.6 billion by the approved completion date of June 2015. As at March 31, 2012, the life-to-date capital expenditures were $897 million.

Thermal

- OPG and the Ontario Power Authority ("OPA") are in the final stages of negotiating the Atikokan Biomass Energy Supply Agreement, and in the early stages of negotiating an Energy Supply Agreement for the Thunder Bay thermal generating station. OPG is continuing to proceed with related detailed engineering work to burn biomass at the Atikokan generating station and natural gas at the Thunder Bay generating station.

- As outlined in Ontario's Long-Term Energy Plan and Supply Mix Directive to the OPA, OPG continues to explore the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, with an option for co-firing with biomass, if required for system reliability.

FINANCIAL AND OPERATIONAL HIGHLIGHTS [1]

(millions of dollars – except where noted)	Three Months Ended March 31 2012	2011
Earnings		
Revenue	**1,199**	1,284
Fuel expense	**192**	166
Gross margin	**1,007**	1,118
Operations, maintenance and administration	**635**	708
Depreciation and amortization	**189**	148
Accretion on fixed asset removal and nuclear waste management liabilities	**187**	173
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(210)**	(138)
Other net expenses	**7**	1
Income before interest and income taxes	**199**	226
Net interest expense	**32**	38
Income tax expense	**13**	35
Net income	**154**	153
Income before interest and income taxes		
Generating segments	**157**	244
Nuclear Waste Management segment	**24**	(34)
Other segment	**18**	16
Total income before interest and income taxes	**199**	226
Cash flow		
Cash flow provided by operating activities	**111**	403
Electricity generation (TWh)		
Regulated – Nuclear	**12.5**	12.6
Regulated – Hydroelectric	**4.9**	4.6
Unregulated – Hydroelectric	**3.6**	4.0
Unregulated – Thermal	**1.0**	1.0
Total electricity generation	**22.0**	22.2
Average sales prices and average revenue (¢/kWh)		
Regulated – Nuclear Generation	**5.5**	5.5
Regulated – Hydroelectric	**3.5**	3.6
Unregulated – Hydroelectric	**2.2**	3.3
Unregulated – Thermal	**2.0**	3.1
Average revenue for all electricity generators serving Ontario, including OPG [2]	**7.3**	6.9
Average revenue for OPG [3]	**5.0**	5.2
Nuclear unit capability factor (per cent)		
Darlington	**95.6**	97.9
Pickering	**77.0**	78.0
Availability (per cent)		
Regulated – Hydroelectric	**92.2**	92.0
Unregulated– Hydroelectric	**92.0**	93.9
Start Guarantee (per cent)		
Unregulated – Thermal	**94.1**	93.8 [4]
Return on equity for the twelve months ended March 31, 2012 and December 31, 2011 (per cent) [5]	**4.0**	4.0
Funds from operations interest coverage for the twelve months ended March 31, 2012 and December 31, 2011 (times) [5]	**3.1**	3.1

1 OPG has adopted United States generally accepted accounting principles ("US GAAP") for the presentation of its consolidated financial statements, effective January 1, 2012. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to US GAAP.
2 Computed as the total of average hourly Ontario spot electricity market price and average global adjustment payments.
3 Includes other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton, and Lennox generating stations and revenue from Hydroelectric Energy Supply Agreements for the hydroelectric generating stations.
4 As estimated.
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 March 31, 2012, 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 March 31, 2012, 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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ONTARIOPOWER GENERATION

2012 FIRST QUARTER REPORT

CONTENTS

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 condensed interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months ended March 31, 2012. 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, 2011, which were prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

As approved by the Ontario Securities Commission, OPG has adopted United States generally accepted accounting principles ("US GAAP") for the presentation of its consolidated financial statements, -effective January 1, 2012. The approval applies to the financial years that begin on or after January 1, 2012, but before January 1, 2015. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to US GAAP. Information for the comparative periods that has been adjusted to US GAAP is labeled "adjusted". In addition, certain of the 2011 comparative amounts have been reclassified to conform to the 2012 presentation consistent with US GAAP. The US GAAP transition adjustments and a summary of changes to significant accounting policies under US GAAP are presented in OPG's first quarter unaudited condensed interim consolidated financial statements. OPG's unaudited condensed interim consolidated financial statements are prepared in accordance with US GAAP and are presented in Canadian dollars. This MD&A is dated May 23, 2012.

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,* and therefore, 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, asset performance, fixed asset removal and nuclear waste management, 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, spot electricity market prices, proposed new legislation, the ongoing evolution of the Ontario electricity industry, US GAAP, 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's focus is on the efficient generation and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province").

As at March 31, 2012, OPG's electricity generating portfolio had an in-service capacity of 19,051 megawatts ("MW"). OPG operates three nuclear generating stations, five thermal generating stations, 65 hydroelectric generating stations, and two wind power turbines. In addition, OPG and TransCanada Energy Ltd. co-own the Portlands Energy Centre ("PEC") gas-fired combined cycle generating station. OPG and ATCO Power Canada Ltd. co-own the Brighton Beach gas-fired combined cycle generating station ("Brighton Beach"). The income of the co-owned facilities is reflected in other income. 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. These co-owned facilities and leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2011 annual MD&A under the heading, *Business Segments*.

The in-service generating capacity by business segment as of March 31, 2012 and December 31, 2011 is as follows:

	As at	
(MW)	**March 31 2012**	**December 31 2011**
Regulated – Nuclear Generation	**6,606**	6,606
Regulated – Hydroelectric	**3,312**	3,312
Unregulated – Hydroelectric	**3,684**	3,684
Unregulated – Thermal	**5,447**	5,447
Other	**2**	2
Total	**19,051**	19,051

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 heading, *Discussion of Operating Results by Business Segment*.

(millions of dollars – except where noted)	**Three Months Ended March 31** **2012**	**2011** *(adjusted)*
Revenue	**1,199**	1,284
Fuel expense	**192**	166
Gross margin	**1,007**	1,118
Expenses		
Operations, maintenance and administration	**635**	708
Depreciation and amortization	**189**	148
Accretion on fixed asset removal and nuclear waste management liabilities	**187**	173
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(210)**	(138)
Restructuring	**1**	-
Property and capital taxes	**14**	8
	816	899
Income before other income, interest and income taxes	**191**	219
Other income	**(8)**	(7)
Net interest expense	**32**	38
Income tax expense	**13**	35
Net income	**154**	153
Electricity production (TWh)	**22.0**	22.2
Cash flow		
Cash flow provided by operating activities	**111**	403

Net income for the three months ended March 31, 2012 was $154 million compared to $153 million for the same period in 2011, an increase of $1 million. Income before income taxes for the three months ended March 31, 2012 was $167 million compared to $188 million for the same period in 2011, a decrease of $21 million.

OPG's income before income taxes from the electricity generation business segments was $157 million for the first quarter of 2012 compared to $244 million for the same period in 2011. The decrease in income from the electricity generation business segments was primarily due to lower Ontario spot electricity market prices and higher depreciation and amortization expenses, partially offset by lower operations maintenance and administration ("OM&A") costs. OM&A expenses for the first quarter of 2012 decreased by $73 million compared to the same quarter in 2011. The Regulated – Nuclear Waste Management business segment recorded income before income taxes of $24 million for the first quarter of 2012 compared to a loss before income taxes of $34 million for the first quarter of 2011. This increase was primarily due to higher earnings from the Decommissioning Segregated Fund ("Decommissioning Fund") primarily due to a greater increase in the valuation levels of global equity markets in the first quarter of 2012 compared to the same period in 2011.

The following is a summary of the factors impacting OPG's results for the three months ended March 31, 2012 compared to results for the same period in 2011, on a before-tax basis:

(millions of dollars)	**Electricity Generation Segments**[1]	**Regulated Nuclear Waste Management Segment**	**Other**[2]	**Total**
Income (loss) before income taxes for three months ended March 31, 2011 *(adjusted)*	**244**	**(34)**	**(22)**	**188**
Changes in gross margin:				
Change in electricity sales price:				
Regulated generation segments	(4)	-	-	(4)
Unregulated – Hydroelectric	(41)	-	-	(41)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	(6)	-	-	(6)
Regulated – Hydroelectric	7	-	-	7
Unregulated – Hydroelectric	(9)	-	-	(9)
Decrease in thermal gross margin due to lower electricity sales prices, lower revenue from the contingency support agreement primarily due to the closure of Units 1 and 2 at the Nanticoke generating station in December 2011, and higher fuel and fuel-related costs, partially offset by higher ancillary revenues	(22)	-	-	(22)
Increase in fuel expense for the Regulated – Nuclear segment primarily due to higher used fuel storage and disposal costs as a result of the 2011 update of the estimate for nuclear fixed asset removal and nuclear waste management liabilities, net of the impact of the Bruce Lease Net Revenues Variance Account	(16)	-	-	(16)
Other changes in gross margin	(20)	12	(12)	(20)
	(111)	12	(12)	(111)
Changes in OM&A expenses:				
Lower expenditures at OPG's nuclear generating stations related to outage activities, partially offset by an increase in project costs	5	-	-	5
Lower expenditures at OPG's thermal generating stations primarily due to the continuation of the vacancy and overtime management program, and reduced scope of work associated with changing operating profiles and the unit closures at the Nanticoke generating station in 2011	6	-	-	6
Impact of the recognition of a regulatory asset related to the US GAAP Deferral Account authorized by the OEB during the first quarter of 2012	40	-	-	40
Decrease (increase) in pension and OPEB costs largely as a result of the impact of the regulatory variance account related to these costs, partially offset by the impact of lower discount rates for 2012	18	(1)	1	18
Other changes in OM&A expenses	4	(11)	11	4
	73	(12)	12	73
Increase in earnings from the Nuclear Funds	-	117	-	117
Impact of the Bruce Lease Net Revenues Variance Account on earnings from the Nuclear Funds	-	(45)	-	(45)
(Increase) decrease in depreciation expense primarily due to the impact on fixed assets of the 2011 update of the estimate for nuclear fixed asset removal and nuclear waste management liabilities, net of the impact of the Bruce Lease Net Revenues Variance Account, partially offset by lower depreciation expense for OPG's thermal generating stations	(19)	-	3	(16)
Increase in amortization expense related to the amortization of regulatory balances primarily as a result of the OEB's decision effective March 1, 2011	(25)	-	-	(25)
Increase in accretion expense primarily due to an increase in the present value of the liabilities for nuclear fixed asset removal and nuclear waste management as a result of the estimate update recognized in 2011, net of the impact of the Bruce Lease Net Revenues Variance Account	-	(14)	-	(14)
Other changes	(5)	-	5	-
Income (loss) before income taxes for the three months ended March 31, 2012	**157**	**24**	**(14)**	**167**

[1] Electricity generation segments include results of the Regulated – Nuclear Generation, Regulated – Hydroelectric, Unregulated – Hydroelectric, and Unregulated – Thermal segments.

[2] Other includes results of the Other category in OPG's segmented statements of income, inter-segment eliminations, and net interest expense.

Electricity Generation

OPG's electricity generation for the three months ended March 31, 2012 and 2011 was as follows:

(TWh)	Three Months Ended March 31 2012	2011
Regulated – Nuclear Generation	**12.5**	12.6
Regulated – Hydroelectric	**4.9**	4.6
Unregulated – Hydroelectric	**3.6**	4.0
Unregulated – Thermal	**1.0**	1.0
Total electricity generation	**22.0**	22.2

Total electricity generated during the first quarter of 2012 from OPG's generating stations was 22.0 terawatt hours ("TWh") compared to 22.2 TWh during the same quarter in 2011. The decrease in electricity generation was primarily due to a decrease in electricity generation from the Unregulated – Hydroelectric segment, partially offset by higher electricity generation from the Regulated – Hydroelectric segment.

Electricity generation from the Unregulated – Hydroelectric segment decreased by 0.4 TWh during the first quarter of 2012 compared to the same quarter in 2011. The decrease was as a result of below normal precipitation and water flows across the northwestern Ontario river systems and lower production by an estimated 0.2 TWh as a result of surplus baseload generation ("SBG") conditions. The higher generation from the Regulated – Hydroelectric segment during the first quarter of 2012 compared to the same quarter in 2011 was primarily due to higher water flows on the St. Lawrence River.

Average Sales Prices and Average Revenue

The weighted average Ontario spot electricity market price, average revenue per kilowatt hour ("kWh") for all electricity generators serving Ontario, and OPG's average revenue per kWh from generation paid through the regulated prices, cost recovery or energy supply agreements and the Ontario electricity market, by reportable electricity generation segment, for the three months ended March 31, 2012 and 2011, were as follows:

(¢/kWh)	Three Months Ended March 31 2012	2011
Weighted average hourly Ontario spot electricity market price ("HOEP")	**2.1**	3.3
Regulated – Nuclear Generation	**5.5**	5.5
Regulated – Hydroelectric	**3.5**	3.6
Unregulated – Hydroelectric	**2.2**	3.3
Unregulated – Thermal	**2.0**	3.1
Average revenue for all electricity generators serving Ontario, including OPG [1]	**7.3**	6.9
Average revenue for OPG [2]	**5.0**	5.2

[1] Computed as the total of average hourly Ontario spot electricity market price and average global adjustment payments.
[2] Includes other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton and Lennox generating stations, and revenue from Hydroelectric Energy Supply Agreements for the hydroelectric generating stations. Had these other energy revenues been excluded, OPG's average revenue would have been 4.4¢/kWh and 4.6¢/kWh for the three months ended March 31, 2012 and 2011, respectively.

The average sales prices for the Regulated – Nuclear Generation segment and the Regulated – Hydroelectric segment for the three months ended March 31, 2012 reflects the OEB's March 2011 decision establishing new regulated prices effective March 1, 2011, as discussed in OPG's 2011 annual MD&A under the heading, *Recent Developments*.

The decrease in average sales prices for OPG's unregulated segments for the three months ended March 31, 2012 compared to the same period in 2011 was primarily due to the impact of lower Ontario spot electricity market prices.

The weighted average HOEP was 2.1¢/kWh for the three months ended March 31, 2012 compared to 3.3¢/kWh for the three months ended March 31, 2011. The decrease in the average Ontario spot market price for 2012 compared to 2011 was primarily due to lower natural gas prices and lower Ontario market demand, slightly offset by lower nuclear generation in Ontario.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2012 was $111 million compared to $403 million for the three months ended March 31, 2011. The decrease in cash flow during the first quarter of 2012 compared to the same quarter in 2011 was primarily due to lower cash receipts from electricity generation during the first quarter of 2012, an increase in pension contributions during the first quarter of 2012, and lower cash receipts resulting from a reduction in revenues from technical services provided to third parties.

Recent Developments

Provincial Budget 2012

In March 2012, the Ontario Minister of Finance presented the 2012 Ontario Budget (the "Budget"), which includes proposed changes that could impact OPG. OPG intends to participate in and support the assessment of such proposed changes, including any required stakeholder interactions.

In the Budget, it was recognized that OPG and Hydro One Inc. are aggressively driving greater efficiencies in their operations. The government announced that it will initiate an independent review of OPG and Hydro One to examine operations to determine further efficiencies and benchmark the companies against comparable entities.

To help mitigate cost impacts to ratepayers from new investments, the Province is setting out a plan to improve efficiency and reduce costs in the electricity sector. The government plans to move forward with a comprehensive review of the electricity sector and its various agencies.

The Budget also identified sustainability and affordability as key pillars of any public sector pension system, which could result in changes to the existing pension system. The government stated that it expects single-employer pension plans to move to a 50-50 cost sharing formula for ongoing contributions within five years. Employers would continue to be responsible for plan deficits. The government has stated that it will support efforts to convert current single-employer defined benefit public sector pension plans to jointly sponsored plans with equal cost sharing. The government also announced that it intends to remove a barrier to the creation of new jointly sponsored pension plans specific to the electricity sector, following consultation with stakeholders.

Power Workers' Union Collective Agreement

OPG and the Power Workers' Union reached an agreement for a new collective agreement which took effect on April 1, 2012. The new agreement has a three-year term from April 1, 2012 to March 31, 2015.

OPG's Application for New Regulated Prices

OPG is preparing for its next OEB application, while continuing to be mindful of the potential impact on Ontario electricity prices. The timing and scope of OPG's next application is subject to a number of factors, including OPG's revenue requirement and sufficient return on its assets, and outstanding balances in regulatory variance and deferral accounts authorized by the OEB. OPG's thorough assessment of the scope of the next application also includes consideration of deferring aspects of the application including the Niagara Tunnel project to more closely coincide with the approved completion date of this project in 2013.

OPG's Accounting Order Application for the US GAAP Deferral Account

In December 2011, OPG filed an application with the OEB for an accounting order establishing a deferral account to record the financial impacts resulting from the transition to and implementation of US GAAP. The OEB granted OPG's request authorizing the Impact for USGAAP Deferral Account (the "US GAAP Deferral Account") in its decision and order issued on March 2, 2012. The balance in the account will be reviewed by the OEB as part of OPG's application for regulated prices. In its decision and order, the OEB stated that the disposition of the account is subject to the OEB's approval of OPG's use of US GAAP for regulatory purposes. OPG is required to seek the OEB's approval to use US GAAP for regulatory purposes in its application for new regulated prices.

The US GAAP Deferral Account is in effect from January 1, 2012 to the effective date of the OEB's next order establishing OPG's regulated prices. To reflect the OEB's decision authorizing the account, OPG recorded a regulatory asset of $40 million during the first quarter of 2012 related to the deferral account with a corresponding reduction to OM&A expenses. This amount represents the regulated portion of the increase in the liability for certain OPEB costs as a result of the transition to US GAAP recognized by OPG as of January 1, 2011, and for the period from January 1, 2011 to March 31, 2012.

VISION, 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 vision is to be a leader in Ontario's transition to a more sustainable energy future. OPG's mission is to be Ontario's low cost electricity generator of choice. OPG is focused on three corporate strategies – performance excellence, project excellence, and financial sustainability.

The following sections provide an update to OPG's disclosures related to performance excellence, project excellence, and financial sustainability, and should be read in conjunction with OPG's 2011 annual MD&A. Detailed discussion of OPG's commitment to its three corporate strategies is included in the 2011 annual MD&A under the headings *Performance Excellence, Project Excellence,* and *Financial Sustainability*.

Performance Excellence

OPG's business segments and corporate groups are guided by the Company's commitment to performance excellence in the areas of generation, the environment, and safety.

Nuclear Generating Assets

In the first quarter of 2012, OPG began the execution of its 20-day mid-cycle outage strategy at Pickering Unit 1 to allow for corrective and preventive maintenance, and to contribute to the improved long-term equipment reliability of the unit. On April 7, 2012, OPG successfully completed this first planned 20-day mid-cycle outage at Unit 1.

Darlington received its best ever safety and performance peer review by the World Association of Nuclear Operators ("WANO"). In its review, WANO found twelve different areas of strength, which they noted as worthy of international benchmarking – including our response to the Fukushima nuclear event last year. This achievement demonstrates OPG's strong focus on safety and our commitment to performance excellence and reliability.

Beginning in 2012, the Pickering stations are managed as a six-unit site through the operational amalgamation of the Pickering A and B generating stations. Work continues toward achieving a fully integrated six-unit site by the end of the second quarter of 2012. Review of the Pickering Continued

Operations Plan and the Sustainable Operations Plan by Canadian Nuclear Safety Commission ("CNSC") staff is in progress and OPG is engaged in ongoing discussions with the CNSC as part of their review of these documents.

Hydroelectric Generating Assets

OPG plans to increase the capacity of and maintain the hydroelectric generating assets through the refurbishment or replacement of existing turbine runners, generators, transformers, and protections and controls. This includes increasing the capacity and efficiency at certain stations by approximately 20 MW over the next five years. OPG is also planning to repair, rehabilitate, or replace a number of aging civil structures in the next five years.

OPG is planning to complete major equipment overhauls and rehabilitation work at several stations during 2012. This includes a generator replacement at the Mountain Chute generating station, a mechanical overhaul at the Sir Adam Beck 1 generation station, a penstock replacement at the Matabitchuan generating station, and headgate refurbishments at the Arnprior generating station.

Thermal Generating Assets

Consistent with Ontario's Long-Term Energy Plan (the "Energy Plan") released in November 2010 and the Supply Mix Directive issued to the OPA in February 2011, OPG removed from service two coal-fired units at the Nanticoke generating station on December 31, 2011. The early closure of these coal-fired units, in advance of the December 31, 2014 target deadline, has resulted in staff reductions of 290 at the Nanticoke generating station and will continue to result in reduced payments to OPG from the Ontario Electricity Financial Corporation ("OEFC") under the contingency support agreement. OPG continues to evaluate the schedule for the remaining coal units while assessing the impact on staff and fuel inventories.

Environmental Performance

During the first quarter of 2012, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the three months ended March 31, 2012, CO_2 emissions from OPG's thermal stations were 1.15 million tonnes compared to 1.16 million tonnes for the same period in 2011. Acid gas (SO_2 and NO_x) emissions were 4.6 gigagrams and 3.9 gigagrams for the three months ended March 31, 2012 and 2011, respectively.

OPG's disclosures relating to environmental policies and procedures, and environmental risks are provided in the 2011 annual MD&A.

Safety

OPG is committed to achieve its goal of zero injuries through further development of a strong safety culture and continuous improvement in safety management systems.

An area of improvement in 2012 includes an employee focus on situational awareness, which involves assessing and controlling new hazards associated with changing or unexpected conditions at the work site. Key elements of this cultural improvement initiative, which was rolled out to employees in the first quarter of 2012, include providing clear expectations from management and a comprehensive communication campaign to increase knowledge and skills in the area of situational awareness. In addition, work continues in 2012 to improve work protection processes used to isolate equipment for maintenance activities.

Project Excellence

OPG is pursuing a number of generation development projects that are consistent with the Energy Plan. OPG's major projects include nuclear station refurbishment, new nuclear generation, Pickering Units 5 – 8 Continued Operations, new hydroelectric generation and plant upgrades, and the potential conversion of some of the coal-fired generating units to alternative fuels.

Darlington Refurbishment Project

In March 2012, OPG awarded the Retube and Feeder Replacement ("RFR") contract, which is one of several contracts that will be awarded for the refurbishment of the Darlington generating station. The next major contract to be awarded is the Turbine/Generator contract.

Construction on the Darlington Energy Complex ("Complex") remains on schedule for occupancy in the fall of 2013. The Complex will house the full scale reactor mock-up, which will be fabricated and installed under the RFR contract, a warehouse, and office space to support the Darlington Refurbishment project.

Comments generated by the CNSC during the Integrated Safety Review ("ISR") sufficiency review have been received and responses were provided to the CNSC. The ISR is on track for completion by mid-2013.

In addition, during March 2012, OPG responded to comments from the CNSC on the Darlington Refurbishment Project Environmental Assessment. Follow-up discussions with the CSNC are expected in support of the CNSC issuing their draft Screening Report for public review, which is targeted for June 2012.

New Nuclear Units

In May 2012, the federal government approved the Darlington New Nuclear Project Environmental Assessment ("EA"). The approval of the EA provides independent review and confirmation that the project will not result in any significant adverse environmental impacts, given mitigation.

Pickering Units 5 – 8 Continued Operations

Work continues on the coordinated set of initiatives to evaluate the opportunity to continue the safe and reliable operation of Units 5 to 8 at the Pickering generating station, for approximately an additional four to six years beyond its nominal end of life. In May 2012, OPG executed the planned outage on the Unit 8 reactor by completing the necessary inspection and equipment improvements. In addition, planning for the Unit 7 outage, which is scheduled for the fall of 2012, and work on the remaining operating units continued. By the end of 2012, OPG expects to have completed the necessary work to demonstrate with sufficient confidence that the pressure tubes will achieve the additional life as predicted.

Deep Geologic Repository for Low and Intermediate Level Waste

The detailed design phase of the Deep Geologic Repository project for the long-term management of low and intermediate level waste from OPG-owned nuclear generating stations continues. At the end of the first quarter of 2012, approximately 50 percent of the detailed design phase was completed.

In February 2012, the Joint Review Panel announced the start of the six month public review period on the Environmental Impact Statement ("EIS"), Preliminary Safety Report ("PSR"), and Technical Support Documents ("TSDs"). In the first quarter of 2012, OPG and the Nuclear Waste Management Organization ("NWMO") briefed the Joint Review Panel on the nature of the project and the organization of material in the EIS, PSR and TSDs. OPG also received the first set of Information Requests ("IRs") on the documents and provided responses. Additional IRs from the Joint Review Panel are expected during 2012.

Niagara Tunnel

The tunnel boring machine ("TBM") mining activity and TBM disassembly have been completed. Lining installation activities at the Niagara Tunnel continue. Installation of the lower one-third of the permanent concrete lining resumed on February 2, 2012 and reached 8,538 metres at March 31, 2012. This work had been temporarily interrupted to do reinforcement repair work in the 6,050 metre area of the tunnel. At March 31, 2012, restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining was at 6,250 metres. Installation of the upper two-thirds of the concrete lining has progressed 5,588 metres. Contact grouting to fill the space between the concrete lining and impermeable membrane has progressed 3,562 metres, and pre-stress grouting to complete the attachment of the concrete liner with the surrounding rock was at 1,650 metres.

The Niagara Tunnel is expected to be completed within the approved budget of $1.6 billion and the approved project completion date of December 2013. Upon completion of the project, the average annual generation from the Sir Adam Beck generating stations will increase by approximately 1.6 TWh. The capital project expenditures for the three months ended March 31, 2012 were $59 million and the life-to-date capital expenditures were $1,203 million.

Lower Mattagami

The Lower Mattagami River project is expected to increase the capacity of the four generating stations on the Lower Mattagami River by 438 MW. During the first quarter of 2012, concrete work was in progress at the intake, powerhouse, and service areas at the Smoky Falls site. At the Little Long and Harmon sites, concrete operations are in progress in the powerhouse area. The cofferdam installation continues at the Kipling site.

The capital project expenditures for the three months ended March 31, 2012 were $131 million and the life-to-date capital expenditures were $897 million. The project is expected to be completed within the approved budget of $2.6 billion and by the approved completion date of June 2015.

Conversion of Coal-Fired Units

The strategy to convert coal-fired units to alternative fuels continues to advance and is reflective of the changing operating environment in Ontario. This includes the phase-out of coal-fired generation and conversion of units to alternative fuels such as biomass, natural gas and gas-biomass dual-fuelled. Before OPG can proceed with unit conversions, a mechanism is required for recovery of capital and ongoing costs.

OPG and the OPA are in the final stages of negotiation for the Atikokan Biomass Energy Supply Agreement with respect to the conversion of the Atikokan generating station to biomass fuel. OPG continues to proceed with related detailed engineering and the negotiation of key contracts, including fuel supply and engineering, procurement, and construction.

OPG and the OPA are in the early stages of negotiation of the Thunder Bay Energy Supply Agreement with respect to the conversion of the Thunder Bay generating station to natural gas, while OPG continues to proceed with detailed engineering. OPG has begun the procurement process with a request for proposal for engineering, procurement and construction services. Additionally, OPG is continuing work associated with the required gas infrastructure and Union Gas continues its public process for pipeline routing to the generating station.

As outlined in the Energy Plan and Supply Mix Directive, OPG is also exploring the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, with an option for co-firing with biomass, if required for Ontario's system reliability. Union Gas continues its technical and environmental studies and public consultation for the identification of a pipeline route to Nanticoke, given the long lead-time required for a Nanticoke gas pipeline. Similar pipeline routing studies also continue at Lambton.

Financial Sustainability

OPG's priority, as a commercial enterprise, is to achieve and maintain a level of performance to secure its long-term financial sustainability and to maintain the value of its assets for its Shareholder – the Province. Inherent in this priority are the objectives of: earning an appropriate return on its generating assets; identifying and exploring efficiency improvement opportunities; and ensuring a strong balance sheet that enhances OPG's ability to finance its operations and projects. OPG has employed a number of strategies to achieve a sustainable level of financial performance.

To support the objective of earning an appropriate return on its unregulated assets, OPG continues to negotiate energy supply agreements with the OPA. Negotiation for the Atikokan Biomass Energy Supply Agreement to convert the Atikokan generating station to biomass fuel is in the final stages. The Thunder Bay Energy Supply Agreement to convert the Thunder Bay generating station is in the early stages of negotiation.

During the first quarter of 2012, OPG continued to focus on cost reductions and efficiencies, and implemented a number of initiatives to enhance efficiency through improved processes and streamlined governance. Effective May 2012, a new centre-led organizational structure was implemented. OPG expects to reduce headcount by approximately 1,000 employees over the next three years through attrition. To allow OPG to continue to moderate electricity prices, OPG will continue to implement further organizational realignment and additional transformation initiatives.

On April 23, 2012, OPG successfully issued senior notes totalling $225 million, with a maturity date of 2052, in support of the Lower Mattagami River project. Further discussion of OPG's operating cash flows and financing activities during the first quarter of 2012 is provided under the heading, *Liquidity and Capital Resources*.

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, and environmental performance. OPG evaluates the performance of its generating stations using a number of key performance indicators, which vary depending on the generating technology. These indicators are defined in the 2011 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section. Updates to OPG's key performance indicators from those disclosed in the 2011 annual MD&A are discussed below.

Thermal Equivalent Force Outage Rate and Start Guarantee

Given continued changes in the electricity market in Ontario, the main focus of the thermal business is for its generating units to be available when needed. While the industry standard Equivalent Forced Outage Rate ("EFOR") measure continues to be monitored by the Thermal business within the context of its business strategy, beginning in 2012, OPG has also adopted Start Guarantee as a key thermal reliability measure. Start Guarantee represents the ratio of the number of times thermal units successfully start compared to the number of starts requested by the Independent Electricity System Operator ("IESO"). Start Guarantee performance was monitored in 2011 in anticipation of this change.

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 defined as FFO before interest divided by Adjusted Interest Expense and is measured over a period of twelve months. See *Liquidity and Capital Resources – FFO Interest Coverage*, and *Supplementary Non-GAAP Financial Measures – FFO Interest Coverage*, for further details.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

This section summarizes OPG's key results by segment for the three months ended March 31, 2012 and 2011. The following table provides a summary of revenue, earnings, and electricity generation by business segment:

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2012**	**2011** *(adjusted)*
Revenue		
Regulated – Nuclear Generation	**773**	787
Regulated – Nuclear Waste Management	**24**	12
Regulated – Hydroelectric	**178**	184
Unregulated – Hydroelectric	**98**	149
Unregulated – Thermal	**132**	146
Other	**18**	18
Elimination	**(24)**	(12)
	1,199	1,284
Income (loss) before other income, interest and income taxes		
Regulated – Nuclear Generation	**89**	105
Regulated – Nuclear Waste Management	**24**	(34)
Regulated – Hydroelectric	**96**	96
Unregulated – Hydroelectric	**4**	65
Unregulated – Thermal	**(32)**	(21)
Other	**10**	8
	191	219
Electricity generation (TWh)		
Regulated – Nuclear Generation	**12.5**	12.6
Regulated – Hydroelectric	**4.9**	4.6
Unregulated – Hydroelectric	**3.6**	4.0
Unregulated – Thermal	**1.0**	1.0
Total electricity generation	**22.0**	22.2

Regulated – Nuclear Generation Segment

(millions of dollars)	Three Months Ended March 31 2012	2011 *(adjusted)*
Regulated generation sales	**692**	693
Variance accounts	**46**	25
Other	**35**	69
Total revenue	**773**	787
Fuel expense	**75**	62
Variance accounts	**(4)**	(7)
Total fuel expense	**71**	55
Gross margin	**702**	732
Operations, maintenance and administration	**462**	531
Depreciation and amortization	**144**	89
Property and capital taxes	**7**	7
Income before interest and income taxes	**89**	105

Income before interest and income taxes from the Regulated – Nuclear generation segment for the first quarter of 2012 was $89 million compared to $105 million for the same period in 2011. The decrease in income before interest and income taxes was primarily due to higher depreciation and amortization expenses and a decrease in gross margin. This decrease in income was partially offset by lower OM&A expenses.

The increase in depreciation and amortization expenses of $55 million during the first quarter of 2012 compared to the same period in 2011 was primarily due to higher amortization expense related to the recovery of regulatory balances as a result of the OEB's March 2011 decision on new regulated prices effective March 1, 2011, and an increase in fixed asset balances as a result of the 2011 update of the estimate for nuclear fixed asset removal and nuclear waste management liabilities ("Nuclear Liabilities"), net of the effect of the Bruce Lease Net Revenues Variance Account. The update of the estimate of the Nuclear Liabilities related to the Ontario Nuclear Funds Agreement ("ONFA") Reference Plan update process.

The decrease in gross margin was primarily due to an increase in fuel expense resulting from an increase in costs associated with used fuel storage and disposal, mainly as a result of the 2011 update of the estimate of the Nuclear Liabilities. Gross margin was also affected by the impact of the regulatory variance accounts.

The OEB's March 2011 decision resulted in the cessation of additions to the Tax Loss Variance Account effective March 1, 2011, resulting in a decrease in income for the three months ended March 31, 2012 compared to the same period in 2011. This decrease in income was partially offset by the impact of the regulatory asset related to the under recovery of approved nuclear variance and deferral account balances.

In addition, the decrease in other revenue was also due to the increase in the fair value of the derivative liability embedded in the terms of the Bruce Power lease agreement ("Bruce Lease"). The conditional reduction to revenue in the future, embedded in the terms of the Bruce Lease, is treated as a derivative and is measured at fair value. The changes in fair value for this derivative are recognized in the consolidated statements of income. As a result of a decrease in the expected future annual arithmetic average of the HOEP during the three months ended March 31, 2012, the fair value of the derivative liability increased by $40 million at March 31, 2012. Since the changes in the fair value of this derivative are recorded in non-electricity generation revenue with a corresponding change in the regulatory asset related to the Bruce Lease Net Revenues Variance Account, there is no income impact related to the change in the fair value of the derivative liability.

OM&A expenses for the three months ended March 31, 2012 were $462 million compared to $531 million during the same period in 2011. The decrease in OM&A expenses of $69 million was primarily due to lower pension and OPEB costs resulting from the impact of the Pension and OPEB Cost Variance Account and the US GAAP Deferral Account, partially offset by an increase in pension and OPEB costs primarily as a result of lower discount rates for 2012. The OEB issued a decision and order in June 2011 that established the Pension and OPEB Cost Variance Account effective March 1, 2011. In addition, OM&A expenses decreased due to lower outage costs and a decrease in costs for new nuclear generation development and capacity refurbishment activities, net of the impact of related variance accounts, partially offset by higher project costs.

The unit capability factors for the Darlington generating station, the Pickering generating stations and the Production Unit Energy Cost ("PUEC") for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31	
	2012	**2011** *(adjusted)*
Unit Capability Factor *(%)*		
Darlington	**95.6**	97.9
Pickering	**77.0**	78.0
Nuclear PUEC *($/MWh)*	**41.09**	44.92

The lower capability factor at the Darlington generating station for the three months ended March 31, 2012 compared to the same period in 2011 was primarily due to an increase in unplanned outage days. For the three months ended March 31, 2012, the lower capability factor at the Pickering generating stations compared to the same period in 2011 reflected higher planned outage days, partially offset by lower unplanned outage days.

The decrease in Nuclear PUEC for the three months ended March 31, 2012 compared to the same period in 2011 was primarily due to lower OM&A expenses.

Regulated – **Nuclear Waste Management Segment**

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Revenue	**24**	12
Operations, maintenance and administration	**26**	14
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**184**	170
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(210)**	(138)
Income (loss) before interest and income taxes	**24**	(34)

Income before interest and income taxes for the Regulated – Nuclear Waste Management segment was $24 million in the first quarter of 2012 compared to a loss before interest and income taxes of $34 million in the first quarter of 2011. The increase in income for the three months ended March 31, 2012 compared to the same period in 2011 was primarily due to higher earnings from the Decommissioning Fund, partially offset by higher accretion expense.

Earnings from the Used Fuel Segregated Fund ("Used Fuel Fund") and Decommissioning Fund (together "Nuclear Funds") for the three months ended March 31, 2012 were $210 million compared to

$138 million during the same period in 2011. The earnings from the Nuclear Funds, before the impact of the Bruce Lease Net Revenues Variance Account, were $258 million for the three months ended March 31, 2012 compared to $141 million for the same period in 2011, an increase of $117 million. The increase in earnings from the Nuclear Funds was primarily due to higher earnings from the Decommissioning Fund resulting from a greater increase in the valuation levels of global equity markets in the first quarter of 2012 compared to the same period in 2011. In the first quarter of 2012, OPG recorded a decrease to the Bruce Lease Net Revenues Variance Account regulatory asset of $48 million, compared to a decrease of $3 million for the same period in 2011, which resulted in a decrease to the total reported earnings from the Nuclear Funds.

The increase in accretion expense in the first quarter of 2012 compared to the first quarter of 2011 was primarily due to an increase in the present value of the Nuclear Liabilities as a result of the 2011 update of the estimate of the liabilities.

Regulated – Hydroelectric Segment

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Regulated generation sales[1]	**169**	168
Variance accounts	**3**	10
Other	**6**	6
Total revenue	**178**	184
Fuel expense	**54**	49
Variance accounts	**(1)**	1
Total fuel expense	**53**	50
Gross margin	**125**	134
Operations, maintenance and administration	**21**	26
Depreciation and amortization	**8**	14
Property and capital taxes	**-**	(2)
Income before interest and income taxes	**96**	96

[1] During the three months ended March 31, 2012 and 2011, the Regulated – Hydroelectric segment generation sales included revenue of $2 million related to the hydroelectric incentive mechanism approved by the OEB.

For the three months ended March 31, 2012 and 2011, income before interest and income taxes for the Regulated – Hydroelectric segment was $96 million. Gross margin decreased by $9 million during the first quarter of 2012 compared to the first quarter of 2011. This decrease was primarily due to the OEB's March 2011 decision resulting in the cessation of additions to the Tax Loss Variance Account effective March 1, 2011 and lower prices during the first quarter of 2012, partially offset by the impact of higher generation volume.

The income before interest and income taxes for the first quarter of 2012 compared to the same quarter of 2011 was also impacted by a decrease in amortization expense related to regulatory balances, as a result of the OEB's March 2011 decision, and lower OM&A expenses. The decrease in OM&A expenses was primarily due to lower pension and OPEB costs resulting from the impact of the Pension and OPEB Cost Variance Account and the US GAAP Deferral Account, partially offset by higher pension and OPEB costs during the first quarter of 2012 largely as a result of lower discount rates for 2012.

The availability, EFOR and OM&A expense per MWh for the Regulated – Hydroelectric segment for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31	
	2012	**2011**
Availability *(%)*	**92.2**	92.0
EFOR *(%)*	**2.0**	0.9
Regulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**4.29**	5.65

The availability for the regulated hydroelectric stations was 92.2 percent during the first quarter of 2012 compared to 92.0 percent during the first quarter of 2011. The increase in availability was primarily due to a decrease in planned outages during the first quarter of 2012 compared to the same quarter in 2011, partially offset by an unplanned outage at the Sir Adam Beck Pump generating station. While the unplanned outage during the first quarter of 2012 resulted in an increase in EFOR, the outage did not result in any loss of production. The high availability reflects the continuing strong performance of these regulated hydroelectric stations.

The decrease in OM&A expense per MWh in the first quarter of 2012 compared to the same quarter in 2011 was due to lower OM&A expenses and higher generation.

Unregulated – Hydroelectric Segment

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Spot market sales	**80**	132
Other	**18**	17
Total revenue	**98**	149
Fuel expense	**20**	20
Gross margin	**78**	129
Operations, maintenance and administration	**56**	51
Depreciation and amortization	**18**	16
Property and capital taxes	**-**	(3)
Income before interest and income taxes	**4**	65

Income before interest and income taxes for the first quarter of 2012 was $4 million compared to $65 million for the same period in 2011. Gross margin decreased by $51 million during the first quarter of 2012 compared to the first quarter of 2011 primarily due to a decrease in revenue from spot market sales.

Revenue from spot market sales decreased by $52 million during the first quarter of 2012 compared to the first quarter of 2011 primarily due to the impact of lower weighted average HOEP during the first quarter of 2012. Weighted average HOEP for the first quarter of 2012 and 2011 was 2.1 ¢/kWh and 3.3 ¢/kWh, respectively. The gross margin also decreased in the first quarter of 2012 compared to the same period in 2011 due to lower electricity generation related to unfavourable water conditions.

OM&A expenses increased by $5 million for the first quarter of 2012 compared to the same period in 2011 primarily due to higher pension and OPEB costs in 2012, largely as a result of lower discount rates for 2012.

The availability, EFOR and OM&A expense per MWh for Unregulated – Hydroelectric segment for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31	
	2012	**2011**
Availability *(%)*	**92.0**	93.9
EFOR *(%)*	**2.8**	0.3
Unregulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**15.56**	12.75

The availability for the unregulated hydroelectric stations was 92.0 percent during the first quarter of 2012 compared to 93.9 percent during the first quarter of 2011. EFOR in the first quarter of 2012 was 2.8 percent compared to 0.3 percent during the same quarter in 2011. The decrease in availability and increase in EFOR were primarily due to an increase in unplanned outage activities at certain generating stations during the first quarter of 2012. Although these unplanned outages resulted in a decrease in availability and an increase in EFOR, they did not result in any loss of production. The high availability reflected the continuing strong performance of the unregulated hydroelectric stations.

The increase in OM&A expense per MWh for the three months ended March 31, 2012 compared to the same period in 2011 was due to the impact of lower generation and higher OM&A expenses.

Unregulated – Thermal Segment

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011** *(adjusted)*
Spot market sales	**19**	30
Contingency support agreement	**83**	89
Other	**30**	27
Total revenue	**132**	146
Fuel expense	**48**	41
Gross margin	**84**	105
Operations, maintenance and administration	**94**	98
Depreciation and amortization	**14**	21
Accretion on fixed asset removal liabilities	**3**	3
Property and capital taxes	**4**	4
Restructuring	**1**	-
Loss before other losses, interest and income taxes	**(32)**	(21)
Other losses	**-**	1
Loss before interest and income taxes	**(32)**	(22)

Loss before interest and income taxes for the three months ended March 31, 2012 was $32 million compared to $22 million for the same period in 2011. The increase in the loss before interest and income taxes was primarily due to a lower gross margin, partially offset by a decrease in OM&A and depreciation expenses during the first quarter of 2012 compared to the same quarter in 2011.

Gross margin decreased during the three months ended March 31, 2012 compared to the same period in 2011 primarily as a result of lower electricity sales prices, lower revenue from the contingency support agreement primarily due to the closure of Units 1 and 2 at the Nanticoke generating station in December 2011, and higher fuel and fuel related costs, partially offset by higher ancillary revenues.

The reduction in OM&A expenses for the three months ended March 31, 2012 compared to the same period in 2011 was primarily due to the continuation of the vacancy and overtime management program, the reduced scope of work associated with changing operating profiles, and the unit closures at the Nanticoke generating station in 2011.

The decrease in depreciation and amortization expenses during the first quarter of 2012 compared to the first quarter of 2011 was primarily due to the recognition of accelerated depreciation during 2011 related to the unit closures in 2011.

Restructuring charges of $1 million were recorded during the first quarter of 2012 due to the recognition of relocation costs of staff related to the unit closures at the Nanticoke generating station in 2011.

The Start Guarantee, EFOR, and OM&A expense per MW for the Unregulated – Thermal segment for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31	
	2012	**2011**
Start Guarantee *(%)*	**94.1**	93.8[1]
EFOR *(%)*	**7.0**	7.8
Unregulated – Thermal OM&A expense per MW *($000/MW)*	**69.0**	62.0

[1] As estimated.

The EFOR during the first quarter of 2012 was 7.0 percent compared to 7.8 percent for the same quarter in 2011. The decrease was primarily due to a lower number of unplanned outage days at the Nanticoke and Lambton generating stations. The unplanned outage days are managed through the implementation of a management strategy, which entails managing outage expenditures, duration, and scope, while ensuring the units are available as required during a period of reduced production.

The Start Guarantee for the first quarter of 2012 was 94.1 percent, which was consistent with the result for the same period in 2011. The high Start Guarantee for the first quarter of 2012 and 2011 reflects the ability of the thermal generating stations to respond to market requirements when needed.

The increase in OM&A expense per MW during the three months ended March 31, 2012 compared to the same period in 2011 reflected the reduction in OPG's thermal generating capacity resulting from the two unit closures at the Nanticoke generating station in late 2011, partially offset by lower OM&A expenses in the first quarter of 2012.

Other

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011** *(adjusted)*
Revenue	**18**	18
Operations, maintenance and administration	**-**	-
Depreciation and amortization	**5**	8
Property and capital taxes	**3**	2
Income before other income, interest and income taxes	**10**	8
Other income	**(8)**	(8)
Income before interest and income taxes	**18**	16

Income before interest and income taxes for the Other category during the first quarter of 2012 was $18 million compared to $16 million during the same quarter in 2011. The increase in income was primarily due to lower depreciation expense.

Interconnected purchases and sales, including those to be physically settled, and unrealized mark-to-market gains and losses on energy trading contracts, are disclosed on a net basis in the consolidated statements of income. For the three months ended March 31, 2012, if disclosed on a gross basis, revenue and power purchases would have increased by $13 million (three months ended March 31, 2011 – $28 million).

Income Taxes

Income tax expense for the three months ended March 31, 2012 was $13 million compared to income tax expense of $35 million for the same period in 2011. The decrease in income tax expense was largely due to lower income before earnings from the Nuclear Funds in 2012. Earnings from the Nuclear Funds are not taxable until withdrawn.

Return on Equity

Return on 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, 2012 and December 31, 2011 was 4.0 percent. ROE was unchanged due to slightly higher net income offset by higher average shareholder's equity excluding accumulated other comprehensive income for the twelve months ended March 31, 2012 compared to the twelve months ended December 31, 2011. OPG's relatively low ROE is due in part to the high equity component included in the Company's capital structure.

ROE is not a measurement in accordance with US GAAP and should not be considered as an alternative measure to net income, cash flows from operating activities, or any other measure of performance under US GAAP. The definition of ROE can be found under the heading, *Supplementary Non-GAAP Financial Measures.*

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the OEFC, and capital market financing. These sources are utilized for multiple purposes including: investments in plants and technologies; funding obligations such as contributions to the pension funds and the Nuclear Funds; and to service and repay long-term debt.

Changes in cash and cash equivalents for the three months ended March 31, 2012 and 2011 are as follows:

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011** *(adjusted)*
Cash and cash equivalents, beginning of period	**630**	269
Cash flow provided by operating activities	**111**	403
Cash flow used in investing activities	**(312)**	(283)
Cash flow provided by financing activities	**87**	4
Net (decrease) increase	**(114)**	124
Cash and cash equivalents, end of period	**516**	393

Operating Activities

Cash flow provided by operating activities for the three months ended March 31, 2012 was $111 million compared to $403 million for the three months ended March 31, 2011. The decrease in cash flow during the first quarter of 2012 compared to the same quarter in 2011 was primarily due to lower cash receipts from electricity generation and an increase in pension contributions during the first quarter of 2012, and lower cash receipts resulting from a reduction in revenues from technical services provided to third parties.

Investing Activities

Cash flow used in investing activities during the three months ended March 31, 2012 was $312 million compared to $283 million for the same quarter in 2011. The increase in cash flow used in investing activities during the first quarter of 2012 compared to the first quarter of 2011 was primarily due to higher expenditures for the Darlington Refurbishment project and other nuclear projects, partially offset by lower capital expenditures for the Niagara Tunnel project.

OPG's forecast capital expenditures for 2012 are approximately $1.6 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 May 2012, OPG renewed and extended both tranches to May 20, 2017. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at March 31, 2012, no commercial paper was outstanding under this program, and there were no outstanding borrowings under the bank credit facility as at March 31, 2012.

As at March 31, 2012, OPG maintained $25 million of short-term, uncommitted overdraft facilities, and $353 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 purposes. As at March 31, 2012, there was a total of $305 million of Letters of Credit issued, which included $287 million for the supplementary pension plans, $17 million for general corporate purposes and $1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest up to $250 million in its current and future accounts receivable to an independent trust which expires August 31, 2013. As at March 31, 2012 there were no amounts outstanding under this agreement. As at December 31, 2011, short term debt included $50 million outstanding under this agreement.

OPG also maintains a Niagara Tunnel project credit facility for an amount up to $1.6 billion. As at March 31, 2012, advances under this facility were $915 million, including $40 million of new borrowing during the first quarter of 2012.

The Lower Mattagami Energy Limited Partnership ("LME") maintains a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. As at March 31, 2012, $107 million of commercial paper was outstanding under this program. In 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at March 31, 2012, there were no outstanding borrowings under this credit facility. On April 23, 2012, the LME issued senior notes totalling $225 million with a maturity date of 2052 and an effective interest rate of 4.3 percent.

As at March 31, 2012, OPG's long-term debt outstanding was $4,784 million. To ensure that adequate financing resources were available beyond its $1 billion commercial paper program backed by the revolving committed bank credit facility, OPG reached an agreement with the OEFC in April 2012 for a $400 million credit facility and refinanced $200 million of notes under this facility in the second quarter.

Maintaining an investment grade credit rating is essential for corporate liquidity and future capital market access. The cost and availability of financing are influenced by credit ratings, which are an indicator of the creditworthiness of a particular company, security or obligation. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets.

In April 2012, Standard & Poor's affirmed the long-term credit rating on OPG at A- with a stable outlook and the commercial paper rating at A-1 (low). In March 2012, Dominion Bond Rating Service affirmed the long-term credit rating on OPG at A (low) and the commercial paper rating at R-1 (low) with a stable outlook.

FFO Interest Coverage

FFO Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. FFO Interest Coverage for the twelve months ended March 31, 2012 and December 31, 2011 was 3.1 times. The FFO Interest Coverage was unchanged due to higher FFO before interest, offset by higher Adjusted Interest Expense. FFO before interest for the twelve months ended March 31, 2012 compared to the twelve months ended December 31, 2011 increased due to an increase in cash flow provided by operating activities excluding changes to non-cash working capital balances.

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

BALANCE SHEET HIGHLIGHTS

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

(millions of dollars)	As At March 31 2012	 December 31 2011 (adjusted)	Explanation of change
Nuclear fixed asset removal and nuclear waste management funds *(current and non-current portions)*	**12,200**	11,898	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.
Regulatory assets *(current and non-current portions)*	**5,056**	5,017	The increase was primarily due to additions to the Pension and OPEB Cost Variance Account, the recognition of a regulatory asset for the US GAAP Deferral Account and the increase in the regulatory asset for deferred income taxes, partially offset by the amortization of regulatory assets based on the OEB's March 2011 decision, and a decrease in the regulatory asset related to pension and OPEB for amounts that were reclassified from accumulated other comprehensive loss as components of benefit costs.
Pension liabilities	**2,754**	2,847	The decrease in the pension liabilities was primarily due to contributions to the pension funds during the first quarter of 2012, partially offset by the recognition of pension costs. The increase in OPEB liabilities was primarily due to the impact of costs recognized related to the OPEB plans. Under US GAAP the pension and OPEB liabilities are based on the funded status of the pension and OPEB plans, which is measured as the difference between the fair value of the plan assets and the benefit obligations related to the plans.
Other post employment benefit liabilities	**2,655**	2,616	

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's consolidated financial statements or are recorded in the Company's consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities 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 under Canadian GAAP are outlined in Note 3 to the audited 2011 annual consolidated financial statements as at and for the year ended December 31, 2011. As a result of the conversion to US GAAP effective January 1, 2012, significant changes to accounting policies and transition impact are disclosed in Notes 2 and 18 to the unaudited condensed interim consolidated financial statements, respectively, as at and for the three months ended March 31, 2012.

Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgment and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions.

RISK MANAGEMENT

A detailed discussion of OPG's governance structure, inherent risks and activities associated with identifying and managing risks can be found in the 2011 annual MD&A. This risk management disclosure should be read in conjunction with the *Risk Management* section included in OPG's 2011 annual MD&A. The following discussion provides an update of OPG's risk management activities since the 2011 annual disclosure.

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 percentages of OPG's expected generation, fuel requirements and emission requirements hedged are shown below. These amounts are based on yearly forecasts of generation and supply mix, and as such, are subject to change as these forecasts are updated.

	2012[4]	2013	2014
Estimated generation output hedged [1]	82%	81%	82%
Estimated fuel requirements hedged [2]	70%	59%	56%
Estimated nitric oxide ("NO") emission requirement hedged [3]	100%	100%	100%
Estimated SO_2 emission requirement hedged [3]	100%	100%	100%

[1] Represents the portion of megawatt-hours of expected future generation production which is subject to regulated prices established by the OEB, agreements with the IESO, OEFC and OPA, or other electricity contracts which are used as hedges.
[2] Represents the approximate portion of megawatt-hours of expected generation production (and thermal year end inventory targets) from each type of facility (thermal and nuclear) 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.
[3] 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 Environmental Regulations 397/01.
[4] Includes forecast for the remainder of the year.

Foreign Exchange and Interest Rate Markets

OPG's earnings and cash flows can be impacted by movements in the United States 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 purchased for nuclear generating stations are paid in US dollars. The magnitude of the impact of this volatility is largely a function of the quantity of the fuels purchased. In addition to this exposure, the market price of electricity in Ontario is influenced by the exchange rate because of the interaction between the Ontario and neighbouring US interconnected electricity markets. In order 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, 2012, OPG had total foreign exchange contracts outstanding with a notional value of USD$ 76 million.

The majority of OPG's existing debt is at fixed interest rates. Interest rate risk arises with the need to undertake new financing and with the potential addition of variable rate debt. 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, 2012, OPG had total interest rate swap contracts outstanding with a notional principal of $720 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. The metric used to measure the financial risk of this trading activity is known as "Value at Risk" or "VaR", which is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For the first quarter of 2012, the utilization of VaR ranged between nil and $0.2 million, compared to a utilization of $0.3 million for the first quarter of 2011.

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 the financial condition of all counterparties 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, 2012 was $376 million, including $352 million to the IESO. Over 50 percent of the remaining $24 million exposure related to investment grade counterparties.

Regulatory Risks

Rate Regulation

Significant uncertainties remain regarding the outcome of rate proceedings, which determine the regulated prices for OPG's rate regulated operations.

In April 2011, OPG filed a notice of appeal with the Divisional Court of Ontario (the "Court") related to the part of the OEB's March 2011 decision disallowing recovery of a portion of OPG's nuclear compensation costs in new regulated prices established effective March 1, 2011. This matter was heard in October 2011 with supplemental submissions in January 2012. In its decision released in February 2012, the Court dismissed the appeal by a 2 to 1 majority. OPG is seeking leave to appeal the Court's decision to the Ontario Court of Appeal.

OPG is in the process of determining the timing and scope of its next OEB application.

Enterprise-Wide Risks

Electricity Demand and Supply

Challenging Ontario electricity market conditions could impact OPG's revenue.

Lower demand, combined with increased baseload generating sources, could result in SBG conditions. As a result of these conditions, OPG may reduce generation from hydroelectric generating units by spilling water, and if required, reduce generation output of nuclear units. These actions may result in a decline in OPG's revenue. The frequency and magnitude of SBG conditions depend upon various factors such as electricity demand and the amount of supply of baseload generation, including renewable energy generation. The OEB has authorized the Hydroelectric Surplus Baseload Generation Variance Account, effective March 1, 2011, which may mitigate the financial impact of foregone production at OPG's regulated hydroelectric facilities due to SBG conditions.

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. This financial information has been prepared in accordance with US GAAP for quarters beginning on or after OPG's US GAAP transition date of January 1, 2011 and in accordance with Canadian GAAP for preceding quarters.

(millions of dollars – except where noted)	**March 31 2012**	**December 31 2011** *(adjusted)*	**September 30 2011** *(adjusted)*	**June 30 2011** *(adjusted)*
Revenue	**1,199**	1,228	1,250	1,202
Net income (loss)	**154**	230	(154)	109
Net income (loss) per share	**$0.60**	$0.90	$(0.60)	$0.43

(millions of dollars – except where noted)	**March 31 2011** *(adjusted)*	**December 31 2010** *(Canadian GAAP – unadjusted)*	**September 30 2010** *(Canadian GAAP – unadjusted)*	**June 30 2010** *(Canadian GAAP – unadjusted)*
Revenue	1,284	1,323	1,391	1,210
Net income (loss)	153	202	333	(29)
Net income (loss) per share	$0.60	$0.79	$1.29	$(0.11)

OPG's quarterly results are impacted 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.

Additional items which impacted net income (loss) in certain quarters above are described in OPG's 2011 annual MD&A under the heading, *Quarterly Financial Highlights*.

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, 2011 and notes thereto can be found on SEDAR at www.sedar.com.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income in accordance with US GAAP, OPG's MD&A, unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2012 and 2011, and the notes thereto, present certain non-GAAP financial measures. 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 in making operating decisions and assessing its performance. Readers of the MD&A, 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 divided by average shareholder's equity excluding accumulated other comprehensive income, for the period. ROE is measured over a 12-month period.

(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 applied to regulatory assets and liabilities, and interest on pension and OPEB projected benefit obligations less expected return on plan assets for the period.

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

(millions of dollars – except where noted)	**For the twelve months ended March 31 2012**	**December 31 2011** *(adjusted)*
FFO before interest		
Cash flow provided by operating activities	**887**	1,179
Add: Interest paid	**234**	238
Less: Interest capitalized to fixed and intangible assets	**(95)**	(86)
Add: Changes to non-cash working capital balances	**146**	(166)
FFO before interest	**1,172**	1,165
Adjusted Interest Expense		
Net interest expense	**148**	154
Add: Interest income	**10**	9
Add: Interest capitalized to fixed and intangible assets	**95**	86
Add: Interest applied to regulatory assets and liabilities	**10**	9
Add: Interest on projected benefit obligation less expected return on plan assets	**119**	120
Adjusted Interest Expense	**382**	378
FFO Interest Coverage *(times)*	**3.1**	3.1

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

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

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INTERIM CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2012**	**2011** *(as adjusted – Note 18)*
Revenue *(Note 13)*	**1,199**	1,284
Fuel expense *(Note 13)*	**192**	166
Gross margin *(Note 13)*	**1,007**	1,118
Expenses *(Note 13)*		
Operations, maintenance and administration	**635**	708
Depreciation and amortization *(Note 3)*	**189**	148
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 7)*	**187**	173
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**(210)**	(138)
Property and capital taxes	**14**	8
Restructuring *(Note 17)*	**1**	-
	816	899
Income before other income, interest and income taxes	**191**	219
Other income *(Note 16)*	**(8)**	(7)
Income before interest and income taxes	**199**	226
Net interest expense *(Note 6)*	**32**	38
Income before income taxes	**167**	188
Income tax expense *(Note 8)*	**13**	35
Net income	**154**	153
Basic and diluted income per common share *(dollars)*	**0.60**	0.60
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 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Net income	**154**	153
Other comprehensive income, net of income taxes		
Net gain on derivatives designated as cash flow hedges[1]	**15**	6
Reclassification to income of losses on derivatives designated as cash flow hedges[2]	**2**	1
Reclassification to income of amounts related to pension and other post employment benefits[3]	**7**	4
Other comprehensive income for the period	**24**	11
Comprehensive income	**178**	164

[1] Net of income tax expenses of $3 million and nil for the three months ended March 31, 2012 and 2011, respectively.
[2] Net of income tax expenses of nil for the three months ended March 31, 2012 and 2011.
[3] Net of income tax expenses of $2 million and $1 million for the three months ended March 31, 2012 and 2011, respectively.

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Operating activities		
Net income	**154**	153
Adjust for non-cash items:		
Depreciation and amortization *(Note 3)*	**189**	148
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 7)*	**187**	173
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**(210)**	(138)
Pension and other post employment benefit costs *(Note 9)*	**72**	130
Deferred income taxes and other accrued charges	**(7)**	(90)
Mark-to-market on derivative instruments	**40**	6
Provision for used nuclear fuel and low and intermediate level waste	**24**	12
Regulatory assets and liabilities	**(42)**	(85)
Other	**12**	(10)
	419	299
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(61)**	(63)
Expenditures on fixed asset removal and nuclear waste management *(Note 7)*	**(39)**	(38)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**17**	13
Contributions to pension funds and expenditures on other post employment benefits and supplementary pension plans	**(171)**	(87)
Expenditures on restructuring *(Note 17)*	**(4)**	(10)
Net changes to other long-term assets and liabilities	**2**	29
Net changes to non-cash working capital balances *(Note 14)*	**(52)**	260
Cash flow provided by operating activities	**111**	403
Investing activities		
Proceeds from sale of long-term investments	**21**	-
Investment in property, plant and equipment and intangible assets	**(333)**	(283)
Cash flow used in investing activities	**(312)**	(283)
Financing activities		
Issuance of long-term debt *(Note 5)*	**40**	190
Repayment of long-term debt *(Note 5)*	**-**	(187)
Net increase in short-term debt *(Note 6)*	**47**	1
Cash flow provided by financing activities	**87**	4
Net (decrease) increase in cash and cash equivalents	**(114)**	124
Cash and cash equivalents, beginning of period	**630**	269
Cash and cash equivalents, end of period	**516**	393

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31** **2012**	**December 31** **2011** *(as adjusted – Note 18)*
Assets		
Current assets		
Cash and cash equivalents	**516**	630
Receivables from related parties *(Note 15)*	**396**	468
Other accounts receivable and prepaid expenses	**137**	58
Nuclear fixed asset removal and nuclear waste management funds	**-**	20
Fuel inventory	**603**	655
Materials and supplies	**75**	82
Regulatory assets *(Note 4)*	**253**	299
Income taxes recoverable	**81**	58
Deferred income taxes *(Note 8)*	**45**	42
	2,106	2,312
Property, plant and equipment *(Note 3)*	**21,439**	21,110
Less: accumulated depreciation	**6,631**	6,477
	14,808	14,633
Intangible assets *(Note 3)*	**365**	363
Less: accumulated amortization	**316**	313
	49	50
Other assets		
Nuclear fixed asset removal and nuclear waste management funds *(Note 7)*	**12,200**	11,878
Long-term materials and supplies	**376**	380
Regulatory assets *(Note 4)*	**4,803**	4,718
Investments subject to significant influence *(Note 2)*	**391**	395
Other long-term assets	**58**	77
	17,828	17,448
	34,791	34,443

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2012**	**December 31 2011** *(as adjusted – Note 18)*
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(Note 15)*	**741**	825
Short-term debt *(Note 6)*	**107**	60
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(Note 5)*	**403**	403
Regulatory liabilities *(Note 4)*	**94**	130
	1,357	1,430
Long-term debt *(Note 5)*	**4,381**	4,341
Other liabilities		
Fixed asset removal and nuclear waste management liabilities *(Note 7)*	**14,571**	14,392
Pension liabilities	**2,754**	2,847
Other post employment benefit liabilities	**2,655**	2,616
Long-term accounts payable and accrued charges	**563**	546
Deferred revenue	**128**	120
Deferred income taxes *(Note 8)*	**548**	501
Regulatory liabilities *(Note 4)*	**30**	24
	21,249	21,046
Shareholder's equity		
Common shares[1]	**5,126**	5,126
Retained earnings	**3,544**	3,390
Accumulated other comprehensive loss	**(866)**	(890)
	7,804	7,626
	34,791	34,443

[1] 256,300,010 common shares outstanding at a stated value of $5,126 million as at March 31, 2012 and December 31, 2011; unlimited authorized shares without nominal or par value.

Commitments and Contingencies *(Notes 5, 6, 9, 10, and 12)*

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2012**	**2011** *(as adjusted – Note 18)*
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**3,390**	3,066
Net income	**154**	153
Balance at end of period	**3,544**	3,219
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	**(890)**	(567)
Other comprehensive income for the period	**24**	11
Balance at end of period	**(866)**	(556)
Total shareholder's equity at end of period	**7,804**	7,789

See accompanying notes to the interim consolidated financial statements

1. Basis of Presentation

These condensed interim consolidated financial statements for the three months ended March 31, 2012 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. For prior reporting periods up to and including the year ended December 31, 2011, Ontario Power Generation Inc. ("OPG" or the "Company") prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") as determined in Part V of the Canadian Institute of Chartered Accountants' Handbook – Accounting. These condensed interim consolidated financial statements do not contain all of the disclosures required by US GAAP for annual financial statements. Accordingly, they should be read in conjunction with the annual consolidated financial statements of OPG as at and for the year ended December 31, 2011, which were prepared in accordance with Canadian GAAP, and Note 18 to these condensed interim consolidated financial statements, detailing the impact of OPG's transition from Canadian GAAP to US GAAP and related reconciliation information. All dollar amounts are presented in Canadian dollars.

Certain of the 2011 comparative amounts have been reclassified from financial statements previously presented to conform to the 2012 consolidated financial statement presentation. These reclassifications, along with the US GAAP reconciliations, are presented in Note 18, *US GAAP Transition*.

2. Summary of Significant Accounting Policies

OPG's significant accounting policies under Canadian GAAP are outlined in Note 3 to the audited 2011 annual consolidated financial statements. Significant changes to accounting policies resulting from OPG's conversion to US GAAP effective January 1, 2012 are discussed below.

Consolidation

The condensed interim consolidated financial statements of the Company include the accounts of OPG and its majority-owned subsidiaries, and a variable interest entity ("VIE") where OPG is the primary beneficiary. All significant intercompany balances and intercompany transactions have been eliminated on consolidation.

Where OPG does not control an investment, but has significant influence over operating and financing policies of the investee, the investment is accounted for under the equity method. OPG co-owns the Portlands Energy Centre ("PEC") gas-fired combined cycle generating station with TransCanada Energy Ltd. and co-owns the Brighton Beach gas-fired combined cycle generating station with ATCO Power Canada Ltd. OPG accounts for its 50 percent ownership interest in each of these jointly controlled entities under the equity method.

The cost method of accounting is used for investments where OPG does not have significant influence over the operating and financing policies of the investee.

Variable Interest Entities

OPG performs ongoing analysis to assess whether it holds any VIEs. VIEs of which OPG is deemed to be the primary beneficiary are consolidated. The primary beneficiary of a VIE has both the power to direct the activities of the entity that most significantly impact its economic performance and the obligation to absorb losses of the entity that could potentially be significant to the Company. In circumstances where OPG is not deemed to be the primary beneficiary, the VIE is not recorded in OPG's consolidated financial statements.

In 2002, OPG and other Canadian nuclear waste producers established the Nuclear Waste Management Organization ("NWMO") in accordance with the Nuclear Fuel Waste Act ("NFWA"). The primary long-term mandate of the NWMO is to implement an approach to address the management of used nuclear fuel. In addition to the above mandate, the NWMO provides project management services for OPG's Deep Geologic Repository Project for Low and Intermediate Level Waste and other nuclear lifecycle liability management services. OPG has the majority of voting rights at the Board of Directors and members' level. In addition, the NFWA also requires the nuclear fuel waste owners to establish and make payments into trust funds for the purpose of funding the implementation of the long term management plan. OPG currently provides funding for approximately 90 percent of the NWMO's management approach to the long-term management of nuclear used fuel. As a result, OPG will absorb a majority of the NWMO's expected losses in the event of any shortfall through future funding. Therefore, OPG holds a variable interest in the NWMO of which it is the primary beneficiary. Accordingly, the applicable amounts in the accounts of the NWMO, after elimination of all significant intercompany transactions, are consolidated.

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 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 upon 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") costs and obligations, asset retirement obligations ("AROs"), 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.

Inventories

Inventory, consisting of fuel and materials and supplies, is measured at the lower of cost and market. Fuel inventory is valued at weighted average cost. Materials and supplies are valued at average cost.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The review is based on the presence of impairment indicators such as the future economic benefit of the assets and external market conditions. The net carrying amount of assets is considered impaired if it exceeds the sum of the estimated undiscounted cash flows expected to result from the asset's use and eventual disposition. In cases where the sum of the undiscounted expected future cash flows is less than the carrying amount, an impairment loss is recognized equal to the amount by which the carrying amount exceeds the fair value. Fair value is determined using expected discounted cash flows when quoted market prices are not available. The impairment is recognized in income in the period in which it is identified.

The carrying value of investments accounted for under the equity method are reviewed for the presence of any indicators of impairment. If an impairment exists and is determined to be other-than-temporary, an impairment charge is recognized equal to the amount by which the carrying value exceeds the investment's fair value.

Derivatives

All derivatives, including embedded derivatives that must be separately accounted for, generally are classified as held-for-trading and recorded at fair value in the consolidated balance sheets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Derivatives qualify for hedge accounting if they meet stringent documentation requirements and the derivative instrument that is designated as a hedge is expected to effectively hedge the identified risk throughout the life of the hedged item. At the inception of a hedging relationship, OPG documents the relationship between the hedging instrument and the hedged item, its risk management objective and its strategy for undertaking the hedge. A documented assessment is made, both at the inception of a hedge and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Specifically for cash flow hedges, the portion of the derivative gain or loss that is effective in offsetting the change in the cost or value of the underlying exposure is deferred in accumulated other comprehensive income ("AOCI") and later reclassified into net income when the underlying transaction occurs. Gains and losses on interest rate hedges are recorded as an adjustment to interest expense for the debt being hedged. Gains and losses that do not meet the effectiveness criteria are recorded in net income in the period incurred. When such a derivative instrument hedge ceases to be effective as a hedge, any associated deferred gains or losses are recognized in income in the current period. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income.

Some of OPG's unregulated generation is exposed to changes in electricity prices associated with a wholesale spot market for electricity in Ontario. All derivative contracts not designated as hedges are recorded on the balance sheet as derivative assets or liabilities at fair value with changes in fair value recorded in the Other category revenue (refer to Note 10).

OPG utilizes emission allowances to manage emissions within the prescribed regulatory limits. Emission allowances are obtained from the Province of Ontario (the "Province"). The historical cost of allowances is held in inventory and charged to OPG's operations at average cost as part of fuel expense, as required.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly arm's-length transaction between market participants at the measurement date. Fair value measurements are required to reflect the assumptions that market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique, such as a pricing model, and the risks inherent in the inputs to the model. OPG uses a fair value hierarchy, grouping financial assets and liabilities into three levels based on the relative objectivity of the inputs used to measure fair value, with Level 1 representing the highest. Refer to Note 11 for a discussion of fair value measurements and the fair value hierarchy.

Leases

Leases are evaluated and classified as either operating or capital leases for financial reporting purposes. Capital leases, which transfer substantially all of the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Capital leases are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits incidental to ownership of the asset are classified as operating leases. Operating lease payments, other than contingent rentals, are recognized as an expense in the consolidated statements of income on a straight-line basis over the lease term. Where the amount of rent expense recognized is less than the actual rental payments, the excess payment amount is recorded as deferred revenue and included in liabilities on the consolidated balance sheets.

Pension and Other Post Employment Benefits

OPG's post employment benefit programs include a contributory defined benefit registered pension plan, a defined benefit supplementary pension plan, group life insurance, health care and long-term disability ("LTD") benefits. Post employment benefit programs are also provided by the NWMO. Information on the Company's post employment benefit programs is presented on a consolidated basis.

OPG accrues its obligations under pension and OPEB plans. The obligations for pension and other post retirement benefits ("OPRB") are determined using the projected benefit method pro-rated on service. The obligation for LTD benefits is determined using the projected benefit method on a terminal basis. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions, experience gains or losses, salary levels, inflation, and cost escalation. Pension and OPEB costs and obligations are determined annually by an independent actuary using management's best estimate assumptions.

Assumptions are significant inputs to actuarial models that measure pension and OPEB obligations and related effects on operations. Two critical assumptions – discount rate and inflation – are important elements in the determination of benefit costs and obligations. In addition, the expected return on plan assets is a critical assumption in the determination of registered pension plan costs. These assumptions, as well as other assumptions involving demographic factors such as retirement age, mortality, and employee turnover, are evaluated periodically by management in consultation with an independent actuary. During the evaluation process, the assumptions are updated to reflect past experience and expectations for the future. Actual results in any given year will often differ from actuarial assumptions because of economic and other factors. In accordance with US GAAP, for pension and OPRB, the impact of these updates and differences on the respective benefit obligations is accumulated and amortized over future periods; for LTD benefits, the impact of these updates and differences is immediately recognized in OPEB costs in the period incurred.

The discount rates used by OPG in determining projected benefit obligations and the costs for the Company's employee benefit plans are based on representative AA corporate bond yields. The respective discount rates enable OPG to calculate the present value of the expected future cash flows on the measurement date. A lower discount rate increases the benefit obligations and increases benefit costs. The expected rate of return on plan assets is based on current and expected asset allocation, as well as the long-term historical risks and returns associated with each asset class within the plan portfolio. A lower expected rate of return on plan assets increases pension cost.

Pension fund assets include equity securities and corporate and government debt securities, real estate and other investments which are managed by professional investment managers. The fund does not invest in equity or debt securities issued by OPG. Pension fund assets are valued using market-related values for purposes of determining the amortization of actuarial gains or losses and the expected return on plan assets. The market-related value recognizes gains and losses on equity assets relative to a six percent assumed real return over a five-year period.

Pension and OPEB costs include current service costs, interest costs on the obligations, the expected return on pension plan assets, adjustments for plan amendments and adjustments for actuarial gains or losses, which result from changes in assumptions and experience gains and losses. Past service costs arising from pension and OPRB plan amendments are amortized on a straight-line basis over the expected average remaining service life to full eligibility of the employees covered by the plan. Past service costs arising from amendments to LTD benefits are immediately recognized in OPEB costs in the period incurred. Due to the long-term nature of pension and OPRB liabilities, the excess of the net cumulative unamortized gain or loss, over 10 percent of the greater of the benefit obligation and the market-related value of the plan assets, is amortized over the expected average remaining service life, since OPG expects to realize the associated economic benefit over that period.

Upon transition to US GAAP, OPG recognized on its January 1, 2011 balance sheet the funded status of its defined benefit plans. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis.

Previously unamortized actuarial losses and past service costs in respect of pension and OPRB were recognized at the date of transition in equity as part of AOCI, net of income taxes. After transition, gains or losses and past service costs or credits that arise during the year and are not recognized immediately as components of benefit costs are recognized as increases or decreases in Other Comprehensive Income ("OCI"). These unamortized amounts in AOCI are subsequently reclassified and recognized as components of benefit costs as discussed above.

On transition to US GAAP, OPG recorded an offsetting regulatory asset for the portion of the adjustments to AOCI recognized on January 1, 2011 that is attributable to the regulated operations in order to reflect the expected recovery of these amounts through future regulated prices charged to customers. After transition, for the recoverable portion attributable to regulated operations, OPG records a corresponding change in this regulatory asset for the amount of the increases or decreases in OCI and for the reclassification of AOCI into benefit costs during the period.

When the recognition of the transfer of employees and employee-related benefits gives rise to both a curtailment and a settlement, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's liability.

Income Taxes and Investment Tax Credits

Under the *Electricity Act, 1998*, OPG is required to make payments in lieu of corporate income taxes and, up to June 30, 2010, capital taxes to the Ontario Electricity Financial Corporation ("OEFC"). These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Taxation Act, 2007* (Ontario), as modified by the *Electricity Act, 1998* and related regulations. This effectively results in OPG paying taxes similar to what would be imposed under the federal and Ontario tax acts.

OPG follows the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are determined based on differences between the accounting and tax bases of assets and liabilities and measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in tax rates is included in income in the period the change is enacted.

If management determines that it is more likely than not that some, or all, of a deferred income tax asset will not be realized, a valuation allowance is recorded to report the balance at the amount expected to be realized.

OPG recognizes deferred income taxes associated with its rate regulated operations and records an offsetting regulatory asset or liability for the deferred income taxes that are expected to be recovered or refunded through future regulated prices charged to customers.

Tax benefits associated with income tax positions taken, or expected to be taken, in a tax return and investment tax credits are recorded only when the more likely than not recognition threshold is satisfied. Tax benefits and investment tax credits recognized are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Investment tax credits are recorded as a reduction to income tax expense.

OPG classifies interest and penalties associated with unrecognized tax benefits as income tax expense.

Seasonal Operations

OPG's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Primarily during the first and third quarters of a fiscal year, OPG's revenues are impacted as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Regulated prices for most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that OPG operates, the contingency support agreement with the OEFC, and OPG's hedging strategies significantly reduce the impact of seasonal price fluctuations on the results of operations.

Recent Accounting Pronouncements

Presentation of Comprehensive Income

Effective January 1, 2012, OPG adopted the amendments to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income.* The amended standard requires entities to report components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. OPG will continue to report the components of comprehensive income in a separate but consecutive statement.

Fair Value Measurements

Effective January 1, 2012, OPG adopted the amendments to ASC Topic 820, *Fair Value Measurements and Disclosures.* The amendment does not change the items measured at fair value but establishes common requirements for measuring fair value and for disclosing information about fair value measurements. The adoption did not have an impact on OPG's results of operations or financial position.

3. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expenses consist of the following:

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011** *(as adjusted – Note 18)*
Depreciation	**143**	127
Amortization of intangible assets	**4**	4
Amortization of regulatory assets and liabilities (*Note 4*)	**42**	17
	189	148

Interest capitalized to construction and development in progress at an average rate of five percent during the three months ended March 31, 2012 (three months ended March 31, 2011 – five percent) was $27 million (three months ended March 31, 2011 – $18 million).

The following US GAAP disclosures relating to intangible assets for the year ended December 31, 2011 are presented in these interim consolidated financial statements. These disclosures provide a better understanding of the impact of the adoption of US GAAP on OPG's previously reported audited 2011 annual financial statement amounts.

The estimated aggregate amortization expense for intangible assets currently recognized for each of the five succeeding years is as follows:

(millions of dollars)	**2012**	**2013**	**2014**	**2015**	**2016**
Amortization expense	13	10	7	5	2

4. REGULATORY ASSETS AND LIABILITIES

The regulatory assets and liabilities recorded as at March 31, 2012 and December 31, 2011 are as follows:

(millions of dollars)	**March 31 2012**	**December 31 2011** *(as adjusted – Note 18)*
Regulatory assets		
Variance and deferral accounts as authorized by the OEB		
Bruce Lease Net Revenues Variance Account	**176**	196
Tax Loss Variance Account	**394**	425
Pension and OPEB Cost Variance Account	**145**	96
Impact for USGAAP Deferral Account	**40**	-
Other variance and deferral accounts	**51**	48
	806	765
Pension and OPEB Regulatory Asset *(Note 9)*	**3,514**	3,553
Deferred Income Taxes *(Note 8)*	**736**	699
Total regulatory assets	**5,056**	5,017
Less: current portion	**253**	299
Non-current regulatory assets	**4,803**	4,718
Regulatory liabilities		
Variance and deferral accounts as authorized by the OEB		
Income and Other Taxes Variance Account	**47**	49
Nuclear Development Variance Account	**37**	55
Other variance and deferral accounts	**40**	50
Total regulatory liabilities	**124**	154
Less: current portion	**94**	130
Non-current regulatory liabilities	**30**	24

As at March 31, 2012 and December 31, 2011, regulatory assets for other variance and deferral accounts included the Ancillary Services Net Revenue Variance Account, the Nuclear Liability Deferral Account, the Nuclear Fuel Cost Variance Account, and other variance and deferral accounts authorized by the Ontario Energy Board ("OEB"). As at March 31, 2012 and December 31, 2011, regulatory liabilities for other variance and deferral accounts included the Hydroelectric Water Conditions Variance Account, the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account, and other variance and deferral accounts authorized by the OEB.

Regulatory assets and liabilities representing variance and deferral account balances approved for disposition by the OEB are classified as current if they are expected to be recovered from, or refunded to, ratepayers within twelve months after each reporting period, based on recovery periods established by the OEB. All other regulatory asset and liability balances are classified as non-current on the consolidated balance sheets.

The changes in the regulatory assets and liabilities during the three months ended March 31, 2012 and the year ended December 31, 2011 are as follows:

(millions of dollars)	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Pension and OPEB Cost Variance**	**Impact for USGAAP Deferral**	**Pension and OPEB Regulatory Asset**	**Deferred Income Taxes**	**Income and Other Taxes Variance**	**Nuclear Development Variance**	**Other Variance and Deferral (net)**
Regulatory assets (liabilities), January 1, 2011 *(as adjusted – Note 18)*	250	492	-	-	2,254	727	(40)	(111)	9
Change during the year	56	33	95	-	1,299	(28)	(26)	7	11
Interest	3	7	1	-	-	-	(1)	(1)	-
Amortization during the year	(113)	(107)	-	-	-	-	18	50	(22)
Regulatory assets (liabilities), December 31, 2011 *(as adjusted – Note 18)*	196	425	96	-	3,553	699	(49)	(55)	(2)
Change during the period	13	-	48	40	(39)	37	(3)	3	9
Interest	1	1	1	-	-	-	-	-	-
Amortization during the period	(34)	(32)	-	-	-	-	5	15	4
Regulatory assets (liabilities), March 31, 2012	**176**	**394**	**145**	**40**	**3,514**	**736**	**(47)**	**(37)**	**11**

Pension and OPEB Regulatory Asset

The regulated prices established by the OEB for generation from OPG's regulated facilities using a forecast cost of service methodology reflect amounts for pension and OPEB costs attributable to these facilities. These amounts are determined on the basis of the manner in which these costs are recognized in OPG's consolidated financial statements. Unamortized amounts in respect of OPG's pension and OPEB plans that are recognized in AOCI are not generally reflected in the regulated prices until these amounts are reclassified from AOCI and recognized as amortization components of the benefit costs in respect of these plans. As such, OPG recognizes an offsetting regulatory asset for the unamortized amounts that have not yet been reclassified from AOCI to benefit costs. The regulatory asset is reversed as underlying unamortized balances are amortized as components of the benefit costs.

During the three months ended March 31, 2012, OPG recorded a decrease of $39 million (year ended December 31, 2011 – an increase of $1,299 million) to the regulatory asset reflecting the net change in the unamortized amounts attributable to the regulated facilities not yet reclassified from AOCI to benefit costs, and a corresponding decrease of $39 million (year ended December 31, 2011 – an increase of $1,299 million) to OCI.

The recognition of previously unamortized actuarial net losses and past service costs on transition to US GAAP is discussed in Notes 2, 9 and 18. The AOCI amounts related to pension and OPEB plans are also presented in Note 9.

Impact for USGAAP Deferral Account

In December 2011, OPG filed an application with the OEB for an accounting order establishing a deferral account to record the financial impacts resulting from the transition to and implementation of US GAAP. The OEB granted OPG's request authorizing the Impact for USGAAP Deferral Account ("US GAAP Deferral Account") in its decision and order issued on March 2, 2012. The balance in the account will be reviewed by the OEB as part of OPG's application for regulated prices. In its decision and order, the OEB stated that the disposition of the account is subject to the OEB's approval of OPG's use of US GAAP for regulatory purposes. OPG is required to seek the OEB's approval to use US GAAP for regulatory purposes.

The US GAAP Deferral Account is in effect from January 1, 2012 to the effective date of the OEB's next order establishing OPG's regulated prices. To reflect the OEB's decision and authorization of the account, OPG recorded a regulatory asset of $40 million during the first quarter of 2012 related to the deferral account with a corresponding reduction to operations, maintenance and administration ("OM&A") expenses. This amount represents the regulated portion of the increase in the liability for certain OPEB costs as a result of the transition to US GAAP recognized by OPG as of January 1, 2011, and for the period from January 1, 2011 to March 31, 2012.

5. LONG-TERM DEBT

Long-term debt as at March 31, 2012 and December 31, 2011 consists of the following:

(millions of dollars)	**March 31 2012**	**December 31 2011** *(as adjusted – Note 18)*
Notes payable to the Ontario Electricity Financial Corporation	**4,015**	3,975
UMH Energy Partnership debt	**198**	198
Lower Mattagami Energy Limited Partnership debt	**571**	571
	4,784	4,744
Less: due within one year	**403**	403
Long-term debt	**4,381**	4,341

OPG also maintains a Niagara Tunnel project credit facility for an amount up to $1.6 billion. As at March 31, 2012, advances under this facility were $915 million, including $40 million of new borrowing during the first quarter of 2012.

OPG reached an agreement with the OEFC in April 2012 for a $400 million credit facility and refinanced $200 million of notes under this facility in the second quarter.

On April 23, 2012, the Lower Mattagami Energy Limited Partnership ("LME") issued senior notes totalling $225 million with a maturity date of 2052, and an effective and coupon interest rate of 4.3 percent and 4.2 percent, respectively.

6. SHORT-TERM DEBT AND NET INTEREST EXPENSE

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two $500 million multi-year term tranches. In May 2012, OPG renewed and extended both tranches to May 20, 2017. The total credit facility will continue to be used primarily as credit support for notes issued under OPG's commercial paper program. As at March 31, 2012, no commercial paper was outstanding under this program and there were no outstanding borrowings under the bank credit facility.

The LME maintains a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami River project and the commercial paper program. As at March 31, 2012, $107 million of commercial paper was outstanding under this program. In 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami River project. As at March 31, 2012, there were no outstanding borrowings under this credit facility.

The Company has an agreement to sell an undivided co-ownership interest up to $250 million in its current and future accounts receivable to an independent trust which expires August 31, 2013. The Company also retains an undivided co-ownership interest in the receivables sold to the trust. Under the agreement, OPG continues to service the receivables. The transfer provides the trust with ownership of a share of the payments generated by the receivables, computed on a monthly basis. The trust's recourse to the Company is generally limited to its income earned on the receivables. As at March 31, 2012, there were no amounts outstanding under this agreement. As at December 31, 2011, short-term debt included $50 million outstanding under this agreement and the corresponding accounts receivable of $50 million was recognized on OPG's consolidated balance sheet.

As at March 31, 2012, OPG maintained $25 million of short-term uncommitted overdraft facilities, and $353 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 purposes. As at March 31, 2012, there was a total of $305 million of Letters of Credit issued, which included $287 million for the supplementary pension plans, $17 million for general corporate purposes and $1 million related to the operation of the PEC.

In addition, as at March 31, 2012, the NWMO has issued a Letter of Credit of $3 million for its supplementary pension plan. This amount is considered a restricted cash amount for the NWMO.

The following table summarizes the net interest expense for the three months ended March 31, 2012 and 2011:

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Interest on long-term debt	**63**	58
Interest on short-term debt	**2**	2
Interest income	**(3)**	(2)
Interest capitalized to property, plant and equipment and intangible assets	**(27)**	(18)
Interest applied to regulatory assets and liabilities	**(3)**	(2)
Net interest expense	**32**	38

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT LIABILITIES

The liabilities for fixed asset removal and nuclear waste management on a present value basis as at March 31, 2012 and December 31, 2011 consist of the following:

(millions of dollars)	**March 31 2012**	**December 31 2011** *(as adjusted – Note 18)*
Liability for nuclear used fuel management	**8,636**	8,523
Liability for nuclear decommissioning and low and intermediate level waste management	**5,600**	5,537
Liability for non-nuclear fixed asset removal	**335**	332
Fixed asset removal and nuclear waste management liabilities	**14,571**	14,392

The changes in the fixed asset removal and nuclear waste management liabilities for the three months ended March 31, 2012 and the year ended December 31, 2011 are as follows:

(millions of dollars)	**March 31 2012**	**December 31 2011** *(as adjusted – Note 18)*
Liabilities, beginning of period	**14,392**	12,718
Increase in liabilities due to accretion	**194**	704
Increase in liabilities resulting from the ONFA Reference Plan update process	**-**	934
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	**24**	55
Liabilities settled by expenditures on fixed asset removal and nuclear waste management	**(39)**	(172)
Change in the liabilities for non-nuclear fixed asset removal	**-**	153
Liabilities, end of period	**14,571**	14,392

For the three months ended March 31, 2012, expenditures on fixed asset removal and nuclear waste management include $16 million in funding to the NWMO related to OPG's nuclear fixed asset removal and nuclear waste management liabilities (December 31, 2011 – $53 million). OPG's cash and cash equivalents balance as at March 31, 2012 includes $9 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2011 – $10 million).

Ontario Nuclear Funds Agreement

OPG sets aside and invests funds held in segregated custodian and trustee accounts specifically for discharging its nuclear fixed asset removal and nuclear waste management liabilities in accordance with the Ontario Nuclear Funds Agreement ("ONFA") and the federal NFWA.

The nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds") as at March 31, 2012 and December 31, 2011 consist of the following:

	Fair Value	
(millions of dollars)	**March 31 2012**	**December 31 2011**
Decommissioning Segregated Fund	**5,544**	5,342
Used Fuel Segregated Fund[1]	**6,843**	6,509
Due (to) from Province – Used Fuel Segregated Fund	**(187)**	47
	6,656	6,556
	12,200	11,898

[1] The Ontario NFWA Trust represented $2,300 million as at March 31, 2012 (December 31, 2011 – $2,296 million) of the Used Fuel Segregated Fund on a fair value basis.

As required by the terms of the ONFA, the Province has provided a Provincial Guarantee to the Canadian Nuclear Safety Commission ("CNSC") since 2003, on behalf of OPG. The *Nuclear Safety and Control Act* (Canada) requires OPG to have sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial Guarantee provides for any shortfall between the long-term liabilities and the current market value of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, up to the value of the Provincial Guarantee. OPG pays the Province an annual guarantee fee of 0.5 percent of the amount of the Provincial Guarantee provided by the Province. The current value of the Provincial Guarantee of $1,545 million is in effect through to the end of 2012, when the next reference plan for the CNSC is planned to be approved. In January 2012, OPG paid a guarantee fee of $8 million based on a Provincial Guarantee amount of $1,545 million. OPG is having preliminary discussions with the CNSC on the process for submitting the required documentation for the 2013 – 2017 CNSC Financial Guarantee.

OPG's investments in the Nuclear Funds are classified as held-for-trading and are measured at fair value with realized and unrealized gains and losses recognized in OPG's interim consolidated financial statements.

The earnings on the Nuclear Funds are as follows:

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Decommissioning Segregated Fund	**215**	90
Used Fuel Segregated Fund	**43**	51
Bruce Lease Net Revenues Variance Account *(Note 4)*	**(48)**	(3)
Total earnings	**210**	138

8. Income Taxes

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

During the three months ended March 31, 2012, OPG recorded an increase to the deferred income tax liability for the deferred income taxes that are expected to be recovered or refunded through regulated prices charged to customers of $37 million. Since these deferred income taxes are expected to be recovered through future regulated prices, OPG has recorded a corresponding increase to the regulatory asset for deferred income taxes. As a result, the deferred income taxes for the three months ended March 31, 2012 were not impacted.

The amount of cash income taxes paid during the three months ended March 31, 2012 was $24 million (three months ended March 31, 2011 – nil).

The following US GAAP disclosures relating to income taxes for the year ended December 31, 2011 are presented in these interim consolidated financial statements. These disclosures provide a better understanding of the impact of the adoption of US GAAP on OPG's previously reported audited 2011 annual financial statement amounts.

The following table summarizes the deferred income tax liabilities recorded for the rate regulated operations that are expected to be recovered through future regulated prices:

(millions of dollars)	**2011** *(as adjusted – Note 18)*
January 1:	
Deferred income tax liabilities on temporary differences related to regulated operations	559
Deferred income tax liabilities resulting from the regulatory asset for deferred income taxes	168
	727
Changes during the year:	
Decrease in deferred income tax liabilities on temporary differences related to regulated operations	(21)
Decrease in deferred income tax liabilities resulting from the regulatory asset for deferred income taxes	(7)
Balance at December 31	699

A reconciliation between the statutory and the effective rate of income taxes is as follows:

(millions of dollars)	**December 31 2011** *(as adjusted – Note 18)*
Income before income taxes	311
Combined Canadian federal and provincial statutory enacted income tax rates	28.0%
Statutory income tax rates applied to accounting income	87
Increase (decrease) in income taxes resulting from:	
Income tax components of the regulatory variance and deferral accounts	24
Non-taxable income items	(13)
Change in income tax positions	(64)
Regulatory asset for deferred income taxes	16
Scientific Research and Experimental Development Investment tax credits	(55)
Other	(22)
	(114)
Income tax recovery	(27)
Effective rate of income taxes	(8.7%)

Significant components of the income tax expense (recovery) are presented in the table below:

(millions of dollars)	**December 31 2011** *(as adjusted – Note 18)*
Current income tax (recovery) expense:	
Current payable	65
Change in income tax positions	(64)
Income tax components of the regulatory variance and deferral accounts	34
Scientific Research and Experimental Development Investment tax credits	(55)
Other	(23)
	(43)
Deferred income tax (recovery) expense:	
Change in temporary differences	10
Income tax components of the regulatory variance and deferral accounts	(10)
Regulatory asset for deferred income taxes	16
	16
Income tax recovery	(27)

The income tax effects of temporary differences that give rise to deferred income tax assets and liabilities as at December 31, 2011 are as follows:

(millions of dollars)	**December 31 2011** *(as adjusted – Note 18)*
Deferred income tax assets:	
Fixed asset removal and nuclear waste management liabilities	3,589
Other liabilities and assets	1,653
Future recoverable Ontario minimum tax	13
	5,255
Deferred income tax liabilities:	
Property, plant and equipment and intangible assets	(1,400)
Nuclear fixed asset removal and nuclear waste management funds	(2,974)
Other liabilities and assets	(1,340)
	(5,714)
Net deferred income tax liabilities	(459)
Represented by:	
Current portion – asset	42
Long-term portion – liability	(501)
	(459)

The tax benefit associated with an income tax position is recognized only when it is more likely than not that such a position will be sustained by the taxing authorities based on the technical merits of the position. The current and deferred income tax impact is equal to the largest amount, considering possible settlement outcomes, that is greater than 50 percent likely of being realized upon settlement with the taxing authorities.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(millions of dollars)	
Opening balance, January 1, 2011	130
Additions based on tax positions related to the current year	5
Additions for tax positions of prior years	11
Reductions for tax positions of prior years	(26)
Decreases due to lapse of statute of limitations	(40)
Settlements	(4)
Other	(8)
Closing balance, December 31, 2011	68

As at December 31, 2011, OPG's unrecognized tax benefits were $68 million (excluding interest and penalties), all of which, if recognized, would affect OPG's effective tax rate. Changes in unrecognized tax benefits over the next twelve months cannot be predicted with certainty.

OPG recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As at December 31, 2011, OPG has recorded interest on unrecognized tax benefits of $31 million.

OPG considers its significant tax jurisdiction to be Canada. OPG remains subject to income tax examination for years after 2002.

9. Pension and Other Post Employment Benefits

OPG's total benefit costs for the three month periods ended March 31, 2012 and 2011 are as follows:

	For the three months ended March 31					
	Registered Pension Plans		**Supplementary Pension Plans**		**Other Post Employment Benefits**	
(millions of dollars)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Components of Cost Recognized						
Current service costs	**66**	52	**2**	2	**21**	19
Interest on projected benefit obligation	**157**	151	**3**	3	**35**	33
Expected return on plan assets net of expenses	**(167)**	(158)	**-**	-	**-**	-
Amortization of past service costs[1]	**-**	3	**-**	-	**-**	1
Amortization of net actuarial loss[1]	**39**	17	**1**	1	**8**	6
Cost recognized [2]	**95**	65	**6**	6	**64**	59

[1] The amortization of past service costs and net actuarial loss is recognized as an increase to OCI. This increase is partially offset by the impact of the Pension and OPEB Regulatory Asset as discussed in Note 4.

[2] These pension and OPEB costs for the three months ended March 31, 2012 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 US GAAP Deferral Account of $53 million and $40 million, respectively. The US GAAP Deferral Account is discussed in Note 4.

An actuarial valuation of the OPG registered pension plan was completed as of January 1, 2011. For 2012, OPG's contribution is expected to be $370 million. The estimated contribution for 2013 of $315 million reflects a decrease in the voluntary contribution. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis. OPG will continue to assess the requirements for contributions to the pension plan. The next actuarial valuation for funding purposes must have an effective date no later than January 1, 2014.

The following US GAAP disclosures relating to pension and OPEB for the year ended December 31, 2011 are presented in these interim consolidated financial statements. These disclosures provide a better understanding of the impact of the adoption of US GAAP on OPG's previously reported audited 2011 annual financial statement amounts.

Fund Assets

The OPG registered pension fund investment guidelines are stated in an approved Statement of Investment Policies and Procedures ("SIPP"). The SIPP is reviewed and approved by OPG's Board of Directors at least annually and includes a discussion regarding investment objectives and beliefs, asset mix and rebalancing, and the basis for measuring the performance of the pension fund assets.

In accordance with the SIPP, investment allocation decisions are made with a view to achieve OPG's objective to meet obligations of the plan as they come due. The pension fund assets are invested in two categories of asset classes. The first category is liability hedging assets, which are intended, over the long run, to hedge the inflation and interest rate sensitivity of the plan liabilities. The second category is return enhancing assets, which are intended, over the long run, to obtain higher investment returns compared to the returns expected for liability hedging assets.

To achieve the above objective, OPG has adopted the following long-term asset mix and allowable ranges:

	Minimum	Target	Maximum
Asset Class			
Fixed income securities	26%	36%	46%
Equity securities	44%	54%	64%
Alternative investments	0%	10%	20%

The plan may enter into derivative securities, such as interest rate swaps and forward foreign exchange contracts, for risk management purposes, where such activity is consistent with its investment objective.

Significant Concentrations of Risk in Fund Assets

The assets of the pension fund are diversified to limit the impact of any individual investment. The pension fund is diversified across multiple asset classes. Fixed income securities are diversified among Canadian structured, real return, and corporate bonds, and an interest rate overlay hedging program. Equity securities are diversified across Canadian, US and non-North American stocks. There are real estate and infrastructure portfolios that are less than two percent of the total pension fund assets. Investments in the above asset classes are further diversified across funds, investment managers, strategies, vintages, sectors and geographies, depending on the specific characteristics of each asset class.

Credit risk is primarily within the plan's allocation to fixed income securities. Credit risk is governed by the SIPP, which requires fixed income securities to comply with various investment constraints that ensure prudent diversification and prescribed minimum required credit rating quality.

Risk Management

Risk management oversight within the pension fund includes but is not limited to the following activities:

- Periodic asset/liability management and strategic asset allocation studies;
- Monitoring of funding levels and funding ratios;
- Monitoring compliance with asset allocation guidelines and investment management agreements;
- Monitoring asset class performance against asset class benchmarks; and
- Monitoring investment manager performance against benchmarks.

Expected Rate of Return on Plan Assets

The expected rate of return on plan assets is based on current and expected asset allocation as well as long-term historical risks and returns associated with each asset class within the plan portfolio. The asset management decisions consider the economic liabilities of the plan.

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 instruments into three levels based on the significance of inputs used in measuring the fair value of the financial instruments. Refer to Note 11 for a detailed discussion of fair value measurements and the fair value hierarchy.

The following table presents pension plan assets measured at fair value in accordance with the fair value hierarchy:

	December 31, 2011			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	132	92	-	224
Short-term investments	-	6	-	6
Fixed income				
Corporate debt securities	-	277	-	277
Non-US government bonds	-	2,301	-	2,301
Equities				
Canadian	1,841	-	-	1,841
US	1,552	-	-	1,552
Foreign	1,572	-	-	1,572
Pooled funds	3	1,664	7	1,674
Infrastructure	-	-	86	86
Real estate	-	-	52	52
Other	-	3	-	3
	5,100	4,343	145	9,588[1]

[1] The table above excludes pension fund receivables and payables.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 for the year ended December 31, 2011:

	For the year ended December 31, 2011			
(millions of dollars)	**Pooled Funds**	**Infrastructure**	**Real Estate**	**Total**
Opening balance, January 1, 2011	-	39	3	42
Total realized and unrealized gains	-	6	-	6
Purchases, sales, and settlements	7	41	49	97
Closing balance, December 31, 2011	7	86	52	145

During the year ended December 31, 2011, there were no transfers between Level 1 and Level 2. A $9 million transfer occurred from Level 1 to Level 3 as an investment is no longer actively traded.

Plan Costs and Liabilities

The following table provides the pension and OPEB liabilities and their classification on the consolidated balance sheet:

	For the year ended December 31, 2011		
(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
Current liabilities	-	(7)	(92)
Non-current liabilities	(2,593)	(254)	(2,616)
Total liabilities	(2,593)	(261)	(2,708)

The following pension and OPEB costs are recognized in the consolidated statement of income:

(as adjusted – Note 18)	For the year ended December 31, 2011		
(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
Components of Cost Recognized			
Current service costs	210	9	76
Interest on projected benefit obligation	603	13	133
Expected return on plan assets net of expenses	(629)	-	-
Amortization of past service costs	10	-	2
Amortization of net actuarial loss	66	2	22
Recognition of LTD net actuarial loss	-	-	13
Cost recognized[1]	260	24	246

[1] Excluding the reduction of costs of $74 million due to the impact of the Pension and OPEB Cost Variance Account.

The accumulated benefit obligations for the registered pension plans and supplementary pension plans as at December 31, 2011 are $11,029 million and $216 million, respectively. The accumulated benefit obligation differs from the projected benefit obligation in that the accumulated benefit obligation includes no assumption about future compensation levels.

The following table provides the components of OPG's OCI related to pension and OPEB plans and the offsetting Pension and OPEB Regulatory Asset as discussed in Note 4:

	For the year ended December 31, 2011		
(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
Changes in plan assets and benefit obligations recognized in OCI			
Current year past service cost	-	-	1
Current year actuarial loss	1,454	28	224
Amortization of past service costs	(10)	-	(2)
Amortization of net actuarial loss	(66)	(2)	(22)
Total decrease in OCI	1,378	26	201
Less: Increase in Pension and OPEB Regulatory Asset *(Note 4)*	1,114	21	164
Net decrease in OCI	264	5	37

The following table provides the components of OPG's AOCI and the offsetting Pension and OPEB Regulatory Asset that have not yet been recognized as components of benefit costs as at December 31, 2011:

		December 31, 2011	
(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
Unamortized amounts recognized in AOCI			
Past service costs	-	-	13
Net actuarial loss	3,781	77	652
Total recognized in AOCI	3,781	77	665
Less: Pension and OPEB Regulatory Asset *(Note 4)*	2,970	61	522
Net recognized in AOCI	811	16	143

The following table provides the components of OPG's AOCI and the offsetting Pension and OPEB Regulatory Asset as at December 31, 2011 (included in the table above) that are expected to be amortized as components of benefit costs and recognized as increases to OCI and reductions in the Pension and OPEB Regulatory Asset in 2012:

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
Past service costs	-	-	2
Net actuarial loss	155	4	31
Total increase in AOCI	155	4	33
Less: Decrease in Pension and OPEB Regulatory Asset	125	3	27
Net increase in AOCI	30	1	6

Estimated future benefit payments to participants in the pension and OPEB plans based on the assumptions used to measure the benefit obligations as at December 31, 2011 are as follows:

(millions of dollars)	**Registered Pension Plans**	**Supplementary Pension Plans**	**Other Post Employment Benefits**
2012	478	7	91
2013	499	8	96
2014	530	8	101
2015	562	9	106
2016	594	9	112
2017 through 2021	3,471	54	648

10. 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 at OPG arises with the need to undertake new financing and with the addition of variable rate debt. 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.

OPG has entered into a number of forward start interest rate swap agreements to hedge against the effect of changes in interest rates for long-term debt for the Niagara Tunnel project. 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 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 dollar ("U.S. dollar") denominated transactions such as the purchase of fuels; and the influence of U.S. 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 at March 31, 2012 was less than $1 million.

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

(millions of dollars except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Balance Sheet Line Item**
As at March 31, 2012				
Commodity derivative instruments	**3.0 TWh**	**1 – 2 years**	**4**	Other accounts receivable and prepaid expenses
Foreign exchange derivative instruments	**76**	**within 1 year**	**-**	Other accounts receivable and prepaid expenses
Commodity derivative instruments	**0.4 TWh**	**1 – 2 years**	**(2)**	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	**720**	**1 – 12 years**	**(90)**	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**n/a**	**3 years**	**(226)**	Long-term accounts payable and accrued charges
Total derivatives			**(314)**	
As at December 31, 2011 *(as adjusted – Note 18)*				
Commodity derivative instruments	2.3 TWh	2 – 3 years	3	Other accounts receivable and prepaid expenses
Commodity derivative instruments	0.2 TWh	2 – 3 years	(1)	Accounts payable and accrued charges
Cash flow hedges – Forward start interest rate swaps	760	1 – 13 years	(115)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	n/a	3 years	(186)	Long-term accounts payable and accrued charges
Total derivatives			(299)	

The following table shows the amount related to derivatives recorded in AOCI and income for the three months ended March 31:

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Cash flow hedges		
Gain in OCI	**18**	6
Reclassification of losses to net interest expense	**2**	1
Commodity derivatives		
Realized losses in revenue	**(1)**	-
Unrealized gains in revenue	**1**	-
Embedded derivative		
Unrealized losses in revenue[1]	**(40)**	(7)

[1] Excludes the impact of the Bruce Lease Net Revenues Variance Account.

Existing net losses of $8 million deferred in AOCI as at March 31, 2012 are expected to be reclassified to net income within the next 12 months.

11. 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 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 which 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 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, which 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, 2012 and December 31, 2011:

(millions of dollars except where noted)	**Fair Value**	**Carrying Value**[1]	**Balance Sheet Line Item**
As at March 31, 2012			
Commodity derivative instruments	**4**	**4**	Other accounts receivable and prepaid expenses
Investments in OPG Ventures Inc.	**13**	**13**	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds	**12,200**	**12,200**	Nuclear fixed asset removal and nuclear waste management funds
Commodity derivative instruments	**(2)**	**(2)**	Accounts payable and accrued charges
Forward start interest rate swaps	**(90)**	**(90)**	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	**(4)**	**(4)**	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	**(226)**	**(226)**	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	**(5,340)**	**(4,784)**	Long-term debt
As at December 31, 2011 *(as adjusted – Note 18)*			
Commodity derivative instruments	3	3	Other accounts receivable and prepaid expenses
Investments in OPG Ventures Inc.	32	32	Other long-term assets
Nuclear fixed asset removal and nuclear waste management funds (includes current portion)	11,898	11,898	Nuclear fixed asset removal and nuclear waste management funds
Commodity derivative instruments	(1)	(1)	Accounts payable and accrued charges
Forward start interest rate swaps	(115)	(115)	Long-term accounts payable and accrued charges
Payable related to cash flow hedges	(4)	(4)	Long-term accounts payable and accrued charges
Derivative embedded in the Bruce Lease	(186)	(186)	Long-term accounts payable and accrued charges
Long-term debt (includes current portion)	(5,273)	(4,744)	Long-term debt

[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, 2012 and December 31, 2011:

	March 31, 2012			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Decommissioning Segregated Fund	**2,486**	**2,934**	**124**	**5,544**
Used Fuel Segregated Fund	**157**	**6,491**	**8**	**6,656**
Commodity derivative instruments	**1**	**2**	**1**	**4**
Investment in OPG Ventures Inc.	**-**	**-**	**13**	**13**
Total	**2,644**	**9,427**	**146**	**12,217**
Liabilities				
Derivative embedded in the Bruce Lease	**-**	**-**	**(226)**	**(226)**
Forward start interest rate swaps	**-**	**(90)**	**-**	**(90)**
Commodity derivative instruments	**-**	**(2)**	**-**	**(2)**
Total	**-**	**(92)**	**(226)**	**(318)**
Net assets (liabilities)	**2,644**	**9,335**	**(80)**	**11,899**

	December 31, 2011 *(as adjusted – Note 18)*			
(millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Decommissioning Segregated Fund	2,294	2,950	98	5,342
Used Fuel Segregated Fund	131	6,419	6	6,556
Commodity derivative instruments	-	1	2	3
Investment in OPG Ventures Inc.	16	-	16	32
Total	2,441	9,370	122	11,933
Liabilities				
Derivative embedded in the Bruce Lease	-	-	(186)	(186)
Forward start interest rate swaps	-	(115)	-	(115)
Commodity derivative instruments	-	(1)	-	(1)
Total	-	(116)	(186)	(302)
Net assets (liabilities)	2,441	9,254	(64)	11,631

During the three months ended March 31, 2012, 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:

	For the three months ended March 31, 2012				
(millions of dollars)	**Decom-missioning Segregated Fund**	**Used Fuel Segregated Fund**	**Investments in OPG Ventures Inc.**	**Derivative Embedded in the Bruce Lease[1]**	**Commodity Derivative Instruments**
Opening balance, January 1, 2012	**98**	**6**	**16**	**(186)**	**2**
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds[1]	**4**	**-**	**-**	**-**	**-**
Unrealized losses included in revenue	**-**	**-**	**(3)**	**(40)**	**-**
Realized losses included in revenue	**-**	**-**	**-**	**-**	**(1)**
Purchases	**22**	**2**	**-**	**-**	**-**
Sales	**-**	**-**	**-**	**-**	**-**
Issues	**-**	**-**	**-**	**-**	**-**
Settlements	**-**	**-**	**-**	**-**	**-**
Closing balance, March 31, 2012	**124**	**8**	**13**	**(226)**	**1**

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

	For the year ended December 31, 2011				
(millions of dollars)	**Decom-missioning Segregated Fund**	**Used Fuel Segregated Fund**	**Investments in OPG Ventures Inc.**	**Derivative Embedded in the Bruce Lease[1]**	**Commodity Derivative Instruments**
Opening balance, January 1, 2011	29	1	17	(163)	2
Unrealized gains included in earnings on nuclear fixed asset removal and nuclear waste management funds[1]	3	-	-	-	-
Unrealized gains (losses) included in revenue	-	-	3	(23)	-
Purchases	73	5	-	-	-
Sales	-	-	-	-	-
Issues	-	-	-	-	-
Settlements	(8)	-	(4)	-	-
Transfers into Level 3	1	-	-	-	-
Closing balance, December 31, 2011	98	6	16	(186)	2

[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, 2012:

(millions of dollars except where noted)	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Derivative embedded in the Bruce Lease	(226)	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 and may be revised at such time when the units' service lives are modified. 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 liability is offset by the pre-tax income statement impact of the Bruce Lease Net Revenues Variance Account.

Decommissioning Segregated Fund and Used Fuel Segregated Fund

Nuclear Fund investments classified as Level 3 consist of real estate and infrastructure investments within its 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, 2012:

(millions of dollars)	**Fair Value**	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice**
Infrastructure	174	178	n/a	n/a
Real Estate	92	298	n/a	n/a
Pooled Funds				
Short-term Investments	6	-	Daily	1-5 days
Fixed Income	765	-	Daily	1-5 days
Equity	1,215	-	Daily	1-5 days
Total	2,252	476		

Infrastructure

This class includes investments in infrastructure funds whose investment objective is to generate a combination of long-term capital appreciation and current income generally through investments in 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 can never be redeemed with the respective infrastructure funds. 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 2023.

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 partners' capital.

These investments can never be redeemed by the partnership. However, the Nuclear Funds may transfer any of their partnership interest to another party as stipulated in the partnership agreement with prior written consent of the other limited partners. 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 high interest income through professionally managed portfolios consisting of equity and fixed income securities issued by high quality long-term growth companies based in Canada, the United States and emerging markets.

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.

Investments in OPG Ventures Inc.

Significant Level 3 inputs used in the fair value measurement of the investments in OPG Ventures Inc. include recent comparable transactions, comparable benchmark information, bid/ask spread of similar transactions, and other relevant factors. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

12. 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 involved in arbitration with the current owners of Bruce Power L.P. regarding an alleged breach of British Energy's representations and warranties to the current owners when they purchased British Energy's interest in Bruce Power L.P. (the "Arbitration"). If British Energy is successful in defending against the Arbitration claim, they will not have suffered any damages to attempt to recoup from OPG. This Arbitration commenced on April 5, 2010. The Arbitration closing arguments were completed in the third quarter of 2011. It may take some time for the arbitrator to come to a decision after the completion of the closing arguments.

British Energy previously indicated that they did not require OPG or Bruce Power L.P. to actively defend the court action until the conclusion of the Arbitration. Although the Arbitration had not concluded, British Energy requested that OPG file a Statement of Defense. OPG and Bruce Power L.P. advised British Energy that if British Energy wishes the court action to proceed prior to the conclusion of the Arbitration, the defendants would bring a motion for a Stay of proceedings, a Dismissal of the current action or, in the alternative, a motion to extend the time for service of the Statement of Defense until the conclusion of the Arbitration. That motion was scheduled to be heard on March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

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. During 2011, a reduction of $19 million to the environmental liabilities was recognized related to the Regulated – Hydroelectric segment. As at March 31, 2012, OPG's environmental liabilities were $18 million (December 31, 2011 – $19 million).

Guarantees

The Company and one of its joint venture partners have jointly guaranteed the financial performance of a jointly owned entity related primarily to the payment of liabilities. As at March 31, 2012, OPG's share of the potential exposure under these guarantees is estimated to be $68 million. OPG may terminate some of these guarantees within a short time frame by providing written notice to the counterparties at any time; others have terms ending between 2016 and 2018. The fair value of these guarantees has been estimated as at March 31, 2012 to be negligible. As at March 31, 2012, 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, 2012 are as follows:

(millions of dollars)	**2012**[1]	**2013**	**2014**	**2015**	**2016**	**Thereafter**	**Total**
Contractual obligations:							
Fuel supply agreements	173	185	164	163	106	220	1,011
Contributions under the ONFA [2]	180	157	94	96	84	578	1,189
Long-term debt repayment	405	5	5	593	273	3,503	4,784
Interest on long-term debt	227	214	213	208	193	1,301	2,356
Unconditional purchase obligations	76	99	98	97	8	-	378
Operating lease obligations	11	17	16	17	18	-	79
Operating licence	27	36	36	1	1	-	101
Pension contributions [3]	225	315	-	-	-	-	540
Other	42	40	91	33	14	81	301
	1,366	1,068	717	1,208	697	5,683	10,739
Significant commercial commitments:							
Niagara Tunnel	128	37	-	-	-	-	165
Lower Mattagami	394	415	341	114	-	-	1,264
Total	1,888	1,520	1,058	1,322	697	5,683	12,168

1 Contractual obligations for 2012 cover the period from April 1, 2012 to December 31, 2012.
2 Contributions under the ONFA are based on the 2007 – 2011 reference plan approved in 2006.
3 The pension contributions include ongoing funding requirements, and additional funding requirements towards the deficit, in accordance with the actuarial valuations of the OPG and NWMO registered pension plans as at January 1, 2011. The next actuarial valuations of the OPG and NWMO plans must have effective dates no later than January 1, 2014 and 2012, respectively. 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 2013 are excluded due to significant variability in the assumptions required to project the timing of future cash flows. The amount of OPG's additional voluntary contribution, if any, is revisited on an annual basis.

The following US GAAP disclosures relating to lease commitments for the year ended December 31, 2011 are presented in these interim consolidated financial statements. These disclosures provide a better understanding of the impact of the adoption of US GAAP on OPG's previously reported audited 2011 annual financial statement amounts.

Lease Commitments

The Company is party to various leases for real estate and equipment under operating lease arrangements. Real estate and transport equipment base rent expense for the year ended December 31, 2011 was $17 million.

The Company leases Bruce A and B nuclear generating stations to Bruce Power L.P. until 2018, with Bruce Power L.P. having an option to renew for up to 25 years thereafter.

As per *Ontario Regulation 53/05* pursuant to the *Ontario Energy Board Act, 1998*, the difference between OPG's revenues, including lease revenues, and costs, including depreciation and amortization expenses, associated with its ownership of the Bruce A and B nuclear generating stations is included in the determination of OPG's nuclear regulated prices established by the OEB. These revenues and costs are determined on the basis of the manner in which they are recognized in OPG's consolidated financial statements. As the Bruce assets are not Prescribed Facilities under *Ontario Regulation 53/05*, the net book value of the Bruce assets is not included in the rate base.

During 2011, OPG recorded lease revenue related to the Bruce generating stations of $235 million, which included supplemental rent from Bruce Power L.P. of $184 million. The net book value of property, plant and equipment on lease to Bruce Power L.P. at December 31, 2011 was $1,317 million.

Base rent payments as stipulated in the lease agreement due to the Company from Bruce Power L.P. are as follows:

(millions of dollars)	
2012	**80**
2013	**81**
2014	**83**
2015	**85**
2016	**88**
	417

13. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended March 31, 2012 *(millions of dollars)*	**Nuclear Generation**	**Regulated** **Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated** **Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	**773**	**24**	**178**	**98**	**132**	**18**	**(24)**	**1,199**
Fuel expense	**71**	**-**	**53**	**20**	**48**	**-**	**-**	**192**
Gross margin	**702**	**24**	**125**	**78**	**84**	**18**	**(24)**	**1,007**
Operations, maintenance and administration	**462**	**26**	**21**	**56**	**94**	**-**	**(24)**	**635**
Depreciation and amortization	**144**	**-**	**8**	**18**	**14**	**5**	**-**	**189**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**184**	**-**	**-**	**3**	**-**	**-**	**187**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(210)**	**-**	**-**	**-**	**-**	**-**	**(210)**
Property and capital taxes	**7**	**-**	**-**	**-**	**4**	**3**	**-**	**14**
Restructuring	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Other income	**-**	**-**	**-**	**-**	**-**	**(8)**	**-**	**(8)**
Income (loss) before interest and income taxes	**89**	**24**	**96**	**4**	**(32)**	**18**	**-**	**199**

Segment Income (Loss) for the Three Months Ended March 31, 2011 *(millions of dollars)* *(as adjusted – Note 18)*	**Regulated** **Nuclear Generation**	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Unregulated** **Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	787	12	184	149	146	18	(12)	1,284
Fuel expense	55	-	50	20	41	-	-	166
Gross margin	732	12	134	129	105	18	(12)	1,118
Operations, maintenance and administration	531	14	26	51	98	-	(12)	708
Depreciation and amortization	89	-	14	16	21	8	-	148
Accretion on fixed asset removal and nuclear waste management liabilities	-	170	-	-	3	-	-	173
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(138)	-	-	-	-	-	(138)
Property and capital taxes	7	-	(2)	(3)	4	2	-	8
Other loss (income)	-	-	-	-	1	(8)	-	(7)
Income (loss) before interest and income taxes	105	(34)	96	65	(22)	16	-	226

14. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	**Three Months Ended March 31** **2012**	**2011** *(as adjusted – Note 18)*
Receivables from related parties	**72**	79
Other accounts receivable and prepaid expenses	**(78)**	(7)
Fuel inventory	**52**	23
Income taxes payable/recoverable	**(23)**	167
Materials and supplies	**7**	(2)
Accounts payable and accrued charges	**(82)**	-
	(52)	260

15. RELATED PARTY TRANSACTIONS

Given that the Province owns all of the shares of OPG, related parties include the Province, Infrastructure Ontario, the Ontario Power Authority ("OPA") and the other successor entities of Ontario Hydro, including Hydro One Inc. ("Hydro One"), the IESO, and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at March 31, 2012, receivables from related parties included $3 million (December 31, 2011 – $3 million) due from Hydro One, $314 million (December 31, 2011 – $375 million) due from the IESO, $63 million (December 31, 2011 – $74 million) due from the OEFC, $15 million (December 31, 2011 – $16 million) due from the OPA, and $1 million (December 31, 2011 – nil) due from PEC. Accounts payable and accrued charges at March 31, 2012 included $3 million (December 31, 2011 – $7 million) due to Hydro One, $27 million (December 31, 2011 – $53 million) due to the OEFC, $3 million (December 31, 2011 – $3 million) due to the Province, and nil (December 31, 2011 – $1 million) due to Infrastructure Ontario.

16. OTHER INCOME

	Three Months Ended March 31	
(millions of dollars)	**2012**	**2011**
Income from investments subject to significant influence	**(8)**	(8)
Other loss	**-**	1
Other income	**(8)**	(7)

17. RESTRUCTURING

In 2009, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations in 2010. Restructuring charges, primarily severance costs, related to these closures were $27 million. These costs were recognized in the consolidated financial statements in 2010 and 2011.

In 2011, OPG announced its decision to close two additional coal-fired units at the Nanticoke generating station, consistent with the Ontario's Long-Term Energy Plan and Supply Mix Directive. Total restructuring costs, primarily severance costs, expected to be incurred related to these closures are $24 million. Restructuring costs of $21 million have been recognized to date in the consolidated financial statements and OPG expects to recognize $3 million in 2012 and 2013. During the three months ended March 31, 2012, restructuring charges of $1 million were recorded to expense due to the recognition of relocation costs of staff. OPG conducted discussions with key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, in accordance with their respective collective bargaining agreements. Given collective agreement provisions allowing deferral of severance payout to future periods, the restructuring liability is expected to be fully drawn down by 2015.

The change in the restructuring liability for severance costs for the three months ended March 31, 2012 and for the year ended December 31, 2011 is as follows:

(millions of dollars)	
Liability, January 1, 2011	15
Restructuring charges during the year	21
Payments during the year	(13)
Liability, December 31, 2011	23
Payments during the period	(4)
Liability, March 31, 2012	**19**

18. US GAAP TRANSITION

OPG has decided to report under US GAAP beginning January 1, 2012. In January 2012, the Ontario Securities Commission approved the exemption for OPG to file its consolidated financial statements based on US GAAP. The exemption applies to the financial years that begin on or after January 1, 2012, but before January 1, 2015. Financial information derived from the consolidated financial statements for the 2011 comparative periods has been adjusted to be in accordance with US GAAP. In addition, certain of the 2011 comparative amounts have been reclassified to conform to the 2012 financial statement presentation. These adjustments are presented in this note.

US GAAP Reconciliation

OPG has previously filed its financial statements under Canadian GAAP. Material differences between US GAAP and Canadian GAAP impacting OPG's financial statements are discussed in this note. Refer to OPG's 2011 annual consolidated financial statements for disclosures under Canadian GAAP. A summary of changes to significant accounting policies under US GAAP is presented in Note 2.

As reflected in this note, the adoption of US GAAP is on a retrospective basis with a restatement of prior period financial statements. Reconciliations are provided for the consolidated balance sheets and consolidated statements of changes in shareholder's equity as of January 1, 2011, the date of transition to US GAAP, and December 31, 2011. Reconciliations for consolidated statements of income and comprehensive income and consolidated statements of cash flows for the three months ended March 31, 2011 and for the year ended December 31, 2011 are also provided. The effects of transition from Canadian GAAP to US GAAP are identified in the statements below with references to descriptions of transition impacts provided in the *Notes to Transitional Adjustments* section.

Reconciliation of the Consolidated Balance Sheet from Canadian GAAP to US GAAP as at January 1, 2011, the date of transition to US GAAP

As at January 1, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Assets				
Current assets				
Cash and cash equivalents	E	280	(11)	269
Accounts receivable	H	270	(270)	-
Prepaid expenses	H	42	(42)	-
Receivables from related parties	F,H	-	476	476
Other accounts receivable and prepaid expenses	E,H	-	72	72
Nuclear fixed asset removal and nuclear waste management funds	H	-	12	12
Fuel inventory		734	-	734
Materials and supplies	E	85	(1)	84
Regulatory assets	H	-	28	28
Income taxes recoverable		65	-	65
Deferred income taxes[1]	B	73	(10)	63
		1,549	254	1,803
Property, plant and equipment	C,E	19,654	(664)	18,990
Less: accumulated depreciation	C,E	6,099	(104)	5,995
		13,555	(560)	12,995
Intangible assets		345	-	345
Less: accumulated amortization		297	-	297
		48	-	48
Other assets				
Deferred pension asset	A	1,146	(1,146)	-
Nuclear fixed asset removal and nuclear waste management funds	H	11,246	(12)	11,234
Long-term investments	H	30	(30)	-
Long-term materials and supplies		400	-	400
Regulatory assets	A,B,H	1,559	2,242	3,801
Investments subject to significant influence	E	-	420	420
Other long-term assets[2]	E,G	44	28	72
		14,425	1,502	15,927
		29,577	1,196	30,773

[1] Presented as future income taxes under Canadian GAAP.
[2] Presented as long-term accounts receivable and other assets under Canadian GAAP.

As at January 1, 2011 *(millions of dollars)*	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Liabilities				
Current liabilities				
Accounts payable and accrued charges	E	762	(7)	755
Short-term debt	F	155	250	405
Deferred revenue due within one year		12	-	12
Long-term debt due within one year	E	385	(9)	376
		1,314	234	1,548
Long-term debt	E,G	3,843	(154)	3,689
Other liabilities				
Fixed asset removal and nuclear waste management liabilities	C,E	12,704	14	12,718
Pension liabilities	A	160	1,308	1,468
Other post employment benefit liabilities	A	1,748	504	2,252
Long-term accounts payable and accrued charges	B,E,H	525	(12)	513
Deferred revenue	D	152	(59)	93
Deferred income taxes	B	798	(179)	619
Regulatory liabilities		248	-	248
		16,335	1,576	17,911
Shareholder's equity				
Common shares		5,126	-	5,126
Retained earnings	A,B,C,D	3,024	42	3,066
Accumulated other comprehensive loss	A,B	(69)	(498)	(567)
Attributable to the Shareholder of Ontario Power Generation Inc.		8,081	(456)	7,625
Non-controlling interest	H	4	(4)	-
		8,085	(460)	7,625
		29,577	1,196	30,773

Reconciliation of the Consolidated Balance Sheet from Canadian GAAP to US GAAP as at December 31, 2011

As at December 31, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Assets				
Current assets				
Cash and cash equivalents	E	642	(12)	630
Accounts receivable	H	461	(461)	-
Prepaid expenses	H	27	(27)	-
Receivables from related parties	F,H	-	468	468
Other accounts receivable and prepaid expenses	E,H	-	58	58
Nuclear fixed asset removal and nuclear waste management funds	H	-	20	20
Fuel inventory		655	-	655
Materials and supplies	E	84	(2)	82
Regulatory assets	H	-	299	299
Income taxes recoverable		55	3	58
Deferred income taxes	B	89	(47)	42
		2,013	299	2,312
Property, plant and equipment	C,E	21,686	(576)	21,110
Less: accumulated depreciation	C,E	6,611	(134)	6,477
		15,075	(442)	14,633
Intangible assets		363	-	363
Less: accumulated amortization		313	-	313
		50	-	50
Other assets				
Deferred pension asset	A	1,188	(1,188)	-
Nuclear fixed asset removal and nuclear waste management funds	H	11,898	(20)	11,878
Long-term investments	H	32	(32)	-
Long-term materials and supplies		380	-	380
Regulatory assets	A,B,H	1,457	3,261	4,718
Investments subject to significant influence	E	-	395	395
Other long-term assets	E,G	43	34	77
		14,998	2,450	17,448
		32,136	2,307	34,443

As at December 31, 2011 *(millions of dollars)*	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Liabilities				
Current liabilities				
Accounts payable and accrued charges	E	836	(11)	825
Short-term debt	F	10	50	60
Deferred revenue due within one year		12	-	12
Long-term debt due within one year	E	413	(10)	403
Regulatory liabilities	H	-	130	130
		1,271	159	1,430
Long-term debt	E,G	4,484	(143)	4,341
Other liabilities				
Fixed asset removal and nuclear waste management liabilities	C,E	14,219	173	14,392
Pension liabilities	A	177	2,670	2,847
Other post employment benefit liabilities	A	1,900	716	2,616
Long-term accounts payable and accrued charges	B,E,H	542	4	546
Deferred revenue	D	177	(57)	120
Deferred income taxes	B	819	(318)	501
Regulatory liabilities	H	154	(130)	24
		17,988	3,058	21,046
Shareholder's equity				
Common shares		5,126	-	5,126
Retained earnings	A,B,C,D	3,426	(36)	3,390
Accumulated other comprehensive loss	A,B	(163)	(727)	(890)
Attributable to the Shareholder of Ontario Power Generation Inc.		8,389	(763)	7,626
Non-controlling interest	H	4	(4)	-
		8,393	(767)	7,626
		32,136	2,307	34,443

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the three months ended March 31, 2011

(millions of dollars except where noted)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Revenue	D,E	1,308	(24)	1,284
Fuel expense		166	-	166
Gross margin		1,142	(24)	1,118
Expenses				
Operations, maintenance and administration	A,B,E	712	(4)	708
Depreciation and amortization	E,H	158	(10)	148
Accretion on fixed asset removal and nuclear waste management liabilities	C,E	172	1	173
Earnings on nuclear fixed asset removal and nuclear waste management funds		(138)	-	(138)
Property and capital taxes		8	-	8
		912	(13)	899
Income before other income, interest and income taxes		230	(11)	219
Other losses (income)	E	1	(8)	(7)
Income before interest and income taxes		229	(3)	226
Net interest expense	E	41	(3)	38
Income before income taxes		188	-	188
Income tax expense	B,H	37	(2)	35
Net income		151	2	153
Basic and diluted income per common share *(dollars)*	A,B,C,D	0.59	0.01	0.60
Common shares outstanding *(millions)*		256.3	-	256.3

Reconciliation of the Consolidated Statement of Income from Canadian GAAP to US GAAP for the year ended December 31, 2011

(millions of dollars except where noted)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Revenue	D,E	5,061	(97)	4,964
Fuel expense		754	-	754
Gross margin		4,307	(97)	4,210
Expenses				
Operations, maintenance and administration	A,B,E	2,756	25	2,781
Depreciation and amortization	E,H	723	(29)	694
Accretion on fixed asset removal and nuclear waste management liabilities	C,E	702	2	704
Earnings on nuclear fixed asset removal and nuclear waste management liabilities		(509)	-	(509)
Property and capital taxes	E	51	(1)	50
Restructuring		21	-	21
		3,744	(3)	3,741
Income before other income, interest and income taxes		563	(94)	469
Other (income) losses	C,E	(29)	33	4
Income before interest and income taxes		592	(127)	465
Net interest expense	E	165	(11)	154
Income before income taxes		427	(116)	311
Income tax expense (recovery)	B,H	11	(38)	(27)
Net income		416	(78)	338
Basic and diluted income per common share *(dollars)*	A,B,C,D	1.62	(0.30)	1.32
Common shares outstanding *(millions)*		256.3	-	256.3

Reconciliation of the Condensed Consolidated Statement of Cash Flows from Canadian GAAP to US GAAP for the three months ended March 31, 2011

(millions of dollars)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Cash flow provided by operating activities	B,C,D,E,F	409	(6)	403
Cash flow used in investing activities		(283)	-	(283)
Cash flow provided by financing activities	E,G	1	3	4
Net increase in cash and cash equivalents		127	(3)	124
Cash and cash equivalents, beginning of period	E	280	(11)	269
Cash and cash equivalents, end of period	E	407	(14)	393

Reconciliation of the Consolidated Statement of Cash Flows from Canadian GAAP to US GAAP for the year ended December 31, 2011

(millions of dollars)	**Notes**	**Canadian GAAP**	**Effect of Transition to US GAAP**	**US GAAP**
Cash flow provided by operating activities	A,B,C,D,E	990	189	1,179
Cash flow used in investing activities		(1,138)	-	(1,138)
Cash flow provided by financing activities	E,G,F	510	(190)	320
Net increase in cash and cash equivalents		362	(1)	361
Cash and cash equivalents, beginning of period	E	280	(11)	269
Cash and cash equivalents, end of period	E	642	(12)	630

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the three months ended March 31, 2011

(millions of dollars)	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		151	2	153
Other comprehensive income, net of income taxes				
Net gain on derivatives designated as cash flow hedges[1]		6	-	6
Reclassification to income of losses on derivatives designated as cash flow hedges[2]		1	-	1
Reclassification to income of amounts related to pension and other post employment benefits[3]	A,B	-	4	4
Other comprehensive income for the period		7	4	11
Comprehensive income		158	6	164

1 Net of income tax expense of nil for the three months ended March 31, 2011.
2 Net of income tax expense of nil for the three months ended March 31, 2011.
3 Net of income tax expense of $1 million for the three months ended March 31, 2011.

Reconciliation of the Consolidated Statement of Comprehensive Income from Canadian GAAP to US GAAP for the year ended December 31, 2011

(millions of dollars)	Notes	Canadian GAAP	Effect of Transition to US GAAP	US GAAP
Net income		416	(78)	338
Other comprehensive loss, net of income taxes				
Net loss on derivatives designated as cash flow hedges[1]		(100)	-	(100)
Reclassification to income of losses on derivatives designated as cash flow hedges[2]		6	-	6
Reclassification to income of amounts related to pension and other post employment benefits[3]	A,B	-	17	17
Current year actuarial loss and past service costs related to pension and other post employment benefits[4]	A,B	-	(246)	(246)
Other comprehensive loss for the year		(94)	(229)	(323)
Comprehensive income		322	(307)	15

1 Net of income tax recovery of $20 million for the year ended December 31, 2011.
2 Net of income tax expense of $1 million for the year ended December 31, 2011.
3 Net of income tax expense of $5 million for the year ended December 31, 2011.
4 Net of income tax recovery of $82 million for the year ended December 31, 2011.

Reconciliation of Shareholder's Equity as Previously Reported under Canadian GAAP to US GAAP

As at January 1, 2011 *(millions of dollars)*	**Retained Earnings**	**Accumulated OCI**	**Non-controlling Interest**	**Common Shares**	**Total Equity**
Shareholder's equity as reported under **Canadian GAAP**	3,024	(69)	4	5,126	8,085
US GAAP adjustments (decrease) increase:					
Note A – Pension and OPEB	(40)	(664)	-	-	(704)
Note B – Income taxes	31	166	-	-	197
Note C – Thermal ARO	(8)	-	-	-	(8)
Note D – Deferred revenue	59	-	-	-	59
Reclassification of non-controlling Interest	-	-	(4)	-	(4)
Shareholder's equity as reported under **US GAAP**	3,066	(567)	-	5,126	7,625

As at December 31, 2011 *(millions of dollars)*	**Retained Earnings**	**Accumulated OCI**	**Non-controlling Interest**	**Common Shares**	**Total Equity**
Shareholder's equity as reported under **Canadian GAAP**	3,426	(163)	4	5,126	8,393
US GAAP adjustments (decrease) increase:					
Note A – Pension and OPEB	(51)	(970)	-	-	(1,021)
Note B – Income taxes	37	243	-	-	280
Note C – Thermal ARO	(79)	-	-	-	(79)
Note D – Deferred revenue	57	-	-	-	57
Reclassification of non-controlling interest	-	-	(4)	-	(4)
Shareholder's equity as reported under **US GAAP**	3,390	(890)	-	5,126	7,626

Notes to Transitional Adjustments

Adjustments Which Affect Equity

(A) Pension and OPEB

Under Canadian GAAP, OPG presented defined benefit pension and OPEB assets or liabilities in the consolidated balance sheet as the cumulative difference between the recognized benefit costs and OPG's pension contributions and benefit payments. The unamortized actuarial gains or losses and unamortized past service costs were presented in the notes to the consolidated financial statements.

Upon transition to US GAAP, OPG recognized on its January 1, 2011 balance sheet the funded status of its defined benefit plans. The funded status is measured as the difference between the fair value of plan assets and the benefit obligation on a plan-by-plan basis.

Previously unamortized actuarial losses and past service costs in respect of pension and OPRB were recognized at the date of transition in equity as part of AOCI, net of taxes. After transition, gains or losses and past service costs or credits that arise during the period and are not recognized immediately as components of benefit costs are recognized as increases or decreases in OCI in the period incurred. These unamortized amounts in AOCI are subsequently reclassified and recognized as components of benefit costs. OPG recorded an offsetting regulatory asset for the portion of the transition adjustments to AOCI attributable to the regulated operations in order to reflect the expected recovery of these amounts through future regulated prices charged to customers. After transition, OPG records a corresponding change in this regulatory asset for the amount of the increases or decreases in OCI and for the reclassification of the AOCI into benefit costs during the period.

As a result, OPG reduced its deferred pension asset by $1,146 million, increased its pension and OPEB liabilities by $1,772 million, increased regulatory assets by $2,254 million and decreased pre-tax AOCI by $664 million at transition. At December 31, 2011, OPG reduced its deferred pension asset by $1,188 million, increased its pension and OPEB liabilities by $3,335 million, increased regulatory assets by $3,553 million, and decreased pre-tax AOCI by $970 million.

Under Canadian GAAP, the net cumulative unamortized actuarial gain or loss for the LTD benefits in excess of 10 per cent of the benefit obligation was amortized over the expected average remaining service life of the employees. Past service costs for the LTD benefits were recognized over the expected average remaining service period of the affected employee groups. Under US GAAP, all actuarial gains and losses and past service costs related to the LTD benefits must be recognized immediately. As a result, on January 1, 2011, OPG increased OPEB liabilities and decreased retained earnings by $40 million, of which $31 million relates to regulated operations. As at December 31, 2011, OPG increased OPEB liabilities and decreased retained earnings by $51 million, of which $40 million relates to regulated operations. There was no significant change to OM&A expenses for the three months ended March 31, 2011. For the year ended December 31, 2011, the increase to OM&A expenses was $11 million, of which $9 million relates to regulated operations.

The portion of these increases in OPEB liabilities related to regulated operations on transition and for the year ended December 31, 2011 was recorded in the first quarter of 2012 as a regulatory asset for the Impact for US GAAP Deferral Account authorized by the OEB, as discussed in Note 4. Refer to Note 9 for additional disclosures regarding pension and OPEB plans.

(B) Income Taxes

The transitional tax adjustments include the tax impacts related to other transitional adjustments, a reclassification of investment tax credits from OM&A expenses to income tax expense, and an adjustment for unrecognized tax benefits.

Under Canadian GAAP, future income tax assets were evaluated and if realization was not considered more likely than not, a valuation allowance was established. Under US GAAP, tax benefits associated with income tax positions taken, or expected to be taken, in a tax return are recorded only when the more likely than not recognition threshold is satisfied and are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement.

Refer to Note 8 to these interim consolidated financial statements for disclosures related to income taxes under US GAAP, including required disclosures for unrecognized tax benefits.

(C) Thermal ARO

The liability for non-nuclear fixed asset removal under Canadian GAAP included a salvage value for scrap metal related to OPG's thermal stations. US GAAP requires that any gains from the expected disposal of assets not be taken into account when measuring a provision. Upon transition from Canadian GAAP to US GAAP, the scrap metal salvage value was removed from the non-nuclear fixed asset removal liability and became a residual value in the property, plant and equipment of the thermal segment. Upon transition on January 1, 2011, this change increased the non-nuclear liability for fixed asset removal by $21 million, increased net property, plant and equipment by $13 million and decreased retained earnings by $8 million. The December 31, 2011 balance sheet was also adjusted as the liability increased by $180 million, net property, plant and equipment increased by $101 million, and retained earnings decreased by $79 million.

This GAAP difference increased the accretion on fixed asset removal liabilities by $1 million and $2 million for the three months ended March 31, 2011 and for the year ended December 31, 2011 as reflected in the respective income statement reconciliations.

(D) Deferred Revenue

Under Canadian GAAP, the lease revenue for certain historical years was recognized into income based on amounts as stipulated in the lease agreement. US GAAP requires deferred lease revenue to be retrospectively adjusted to a straight line basis from lease inception. Upon transition to US GAAP, deferred revenue related to leases decreased by $59 million and retained earnings increased by $59 million as at January 1, 2011. At December 31, 2011, deferred revenue decreased by $57 million and retained earnings increased by $57 million. The pre-tax income statement impact of this GAAP difference was a decrease in revenue of $1 million and $2 million for the three months ended March 31, 2011 and for the year ended December 31, 2011, respectively.

Other Adjustments

Upon transition to US GAAP, OPG made the following adjustments that resulted in reclassification changes on the interim consolidated balance sheets and statements of income.

(E) Accounting for Joint Ventures

Under Canadian GAAP, OPG proportionately consolidated its interests in joint ventures. Under US GAAP, OPG is required to account for its interests using the equity method.

This difference has resulted in the derecognition of OPG's 50 percent interest in the assets, liabilities, revenues and expenses of its joint ventures, PEC and Brighton Beach. The investment balances are presented under the heading *Investments subject to significant influence* on OPG's consolidated balance sheets under US GAAP.

The adjustments to the balance sheet items as a result of the use of the equity method are as follows:

(millions of dollars)	**January 1 2011**	**December 31 2011**
Current assets	(25)	(26)
Property, plant and equipment, net	(573)	(545)
Investments subject to significant influence	420	395
Other assets	(4)	(4)
Current liabilities	(15)	(20)
Long-term debt	(157)	(148)
Other liabilities	(10)	(12)

The pre-tax adjustments of significant items on the consolidated statement of income as a result of the use of the equity method are as follows:

(millions of dollars)	**Three Months Ended March 31, 2011**	**Year Ended December 31, 2011**
Revenue	(24)	(94)
Operations, maintenance and administration	(6)	(20)
Net interest expense	(3)	(11)
Depreciation and amortization	(7)	(26)
Other income	(8)	(37)

(F) Accounts Receivable and Short-term Debt

Under Canadian GAAP, OPG derecognized accounts receivable on the sale of securitized receivables to an independent trust. Under US GAAP, OPG no longer derecognizes the securitized receivables and presents the arrangement as a securitized borrowing. Upon transition on January 1, 2011, OPG increased receivables from related parties by $250 million and increased short-term debt by $250 million. In December 2011, OPG reduced the securitized receivables balance to $50 million, resulting in increases of $50 million to receivables from related parties and short-term debt as at December 31, 2011.

(G) Debt Issue Costs

US GAAP requires that transaction costs be treated as a separate asset on the balance sheet and not recorded as part of the underlying financial instruments to which they relate. As a result, OPG increased long-term debt and other long-term assets by $3 million as at January 1, 2011 and by $6 million as at December 31, 2011.

(H) Other

To conform with the financial statement presentation under US GAAP and the 2012 financial statement presentation, certain comparative figures were reclassified in 2011. Significant changes include a change in the presentation of nuclear fixed asset removal and nuclear waste management funds, and regulatory assets and liabilities to disclose the current and long-term portions separately. In addition, OPG has separately presented on the consolidated balance sheets receivables due from related parties, which were previously included with other accounts receivable.