ONTARIO POWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS 2011 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, 2011. Net income for the first quarter of 2011 was $151 million compared to $143 million for same quarter in 2010.

Tom Mitchell, President and CEO of OPG said, "Our financial performance and progress on our generation development projects during the first quarter of 2011 continue to reflect OPG's commitment to provide low cost electricity to Ontarians. This is made possible by focusing on cost reduction initiatives and on completing projects on time and on budget. I am also proud that OPG is executing these initiatives and projects with employee, public and environmental safety as its utmost priority."

Mr. Mitchell added, "OPG's ten operating nuclear units delivered 12.6 TWh of electricity or 34 percent of Ontario's primary electricity demand during the first quarter of 2011. The nuclear fleet is an important contributor to Ontario's reliable supply of electricity. At OPG, we understand that we can continue to operate nuclear units only if the people of the province accept that the units are safe. I can assure Ontario residents that these nuclear units are safe. But we are not complacent. In the wake of the nuclear event in Japan, I have asked Wayne Robbins, our Chief Nuclear Officer, to lead a thorough examination of our units and our plans for preventing safety risks and/or responding to them."

The Ontario Energy Board's ("OEB") decision on OPG's application for new regulated prices for the Prescribed Facilities was issued on March 10, 2011 followed by the issuance of the OEB's order establishing the new regulated prices. The OEB established regulated prices of $34.13/MWh and $55.85/MWh for production from OPG's regulated hydroelectric and nuclear facilities, respectively, effective March 1, 2011. This compares to previously established regulated prices of $36.66/MWh and $54.98/MWh, respectively.

Highlights

Net income for the first quarter of 2011 increased compared to the same quarter in 2010 primarily as a result of a reduction in operations, maintenance, and administration ("OM&A") expenses at OPG's nuclear and thermal generating stations, an increase in nuclear generation, the recognition of expenses during the first quarter of 2010 related to the closure of four coal-fired units in 2010, and a reduction in income tax expense related to prior taxation years. The impact of these factors was largely offset by an increase in pension and other post employment benefit expense primarily due to lower discount rates, the impact of lower thermal generation, and a decrease in gross margin related to regulatory variance accounts based on the OEB's decision and order which became effective on March 1, 2011.

Total electricity generated during the first quarter of 2011 was 22.2 TWh compared to 24.5 TWh during the first quarter of 2010. The decrease in electricity generation was primarily a result of lower thermal generation, partially offset by an increase in nuclear generation. The decrease in thermal generation of 2.8 TWh was largely due to the impact of lower natural gas prices relative to coal prices, which increased electricity generation from other generators. The increase in nuclear generation was primarily a result of a decrease in outage days at the Darlington nuclear generating station due to the scheduling for planned outages, partially offset by the impact of higher planned outage days at the Pickering B generating station.

The capability factor at the Darlington nuclear station of 97.9 percent in the first quarter of 2011 compared to 82.4 percent for the same quarter in 2010 reflected a reduction in planned outage days. The Pickering B station had a lower capability factor as a result of a higher number of planned outage days during the first quarter of 2011 compared to the same period in 2010. The availability of OPG's regulated and unregulated hydroelectric generating stations remained at high levels. The equivalent forced outage rate of 7.8 percent at OPG's thermal generating stations for the first quarter of 2011 continued to reflect the stations strong performance.

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

- The public hearings on the Darlington New Nuclear Project Environmental Assessment and application for "Licence to Prepare Site" began on March 21, 2011 and were completed on April 8, 2011. The Joint Review Panel has allowed for final written submissions by all intervenors and OPG. The hearings mark the final phase of the environmental review, and are an essential element of the Federal approvals process. These hearings are a milestone for OPG and for the nuclear industry in Canada, as this is the first time in over 30 years that such a process has been undertaken for new nuclear units in Canada. OPG has conducted extensive work, has undertaken thorough studies and has concluded that OPG's Darlington New Nuclear project, given planned mitigation, will not result in any significant adverse environmental effects to workers, the public, or the surrounding environment.

- In March 2011, as part of the Darlington Refurbishment project, a Request for Proposal was issued for the Retube and Feeder Replacement for the Darlington generating station, with the selection of a contractor targeted for late 2011. The technical scope is currently being finalized and on track to be completed by June 2011. The Environmental Assessment and the Integrated Safety Review, which forms the basis of the regulatory scope, are on track for submission to the CNSC in late 2011. Site servicing of the Darlington Energy Complex commenced in February 2011, and a design build contract was executed in March 2011.

- OPG is undertaking a coordinated set of initiatives to evaluate the opportunity to continue safe and reliable operations of Pickering B for an additional four to six years beyond its nominal end of life. Work is progressing by incorporating incremental life cycle management inspections and maintenance into the scope, cost, and duration of the outage programs along with other plant equipment improvements. At the March 2011 public meeting, the CNSC staff presented their review of the Pickering B Continued Operations Plan to the CNSC and identified no significant issues.

Hydroelectric

- Mining activity at the Niagara Tunnel was completed. As of March 31, 2011, installation of the lower one-third of the tunnel permanent concrete lining reached 6,963 metres and was ahead of schedule. Restoration of the circular cross-section before installation of the tunnel concrete lining was behind schedule at 3,425 metres, but is not expected to delay tunnel completion. Installation of the upper two-thirds of the concrete lining is ahead of schedule at 2,100 metres. The Niagara Tunnel project is expected to be completed within the approved budget of $1.6 billion and the approved completion date of December 2013. As at March 31, 2011, the life-to-date capital expenditures were $961 million.

- Construction activities to add an additional generating unit at each of the existing Little Long, Harmon and Kipling stations on the Lower Mattagami River continued during the first quarter of 2011. The project also includes the replacement of the existing Smoky Falls generating station with a new three-unit station. The project is expected to increase the capacity of the four stations on the Lower Mattagami River by 438 MW. During the first quarter of 2011, the cofferdam at the Smoky Falls generating station was completed. The project is expected to be completed within the approved budget of $2.6 billion and the approved completion date of June 2015. As at March 31, 2011, the life-to-date capital expenditures were $423 million.

Thermal

- The strategy to convert coal-fired units to alternative fuels such as biomass, natural gas and gas-biomass dual-fuelled continues to advance. For the conversion of the Atikokan generating station to biomass fuel, OPG continues negotiations with the Ontario Power Authority ("OPA") for an energy supply agreement. Project planning and procurement activities are proceeding. Fuel procurement is pending the allocation of wood rights by the Ministry of Northern Development, Mines and Forestry. The conversion of two units at the Thunder Bay generating station to natural gas is in the definition phase. OPG is proceeding with both detailed engineering and work associated with the required natural gas infrastructure. OPG continues to explore the possible conversion of some units at the Lambton and Nanticoke generating stations to natural gas, if required, for system reliability as outlined in Ontario's Long-Term Energy Plan and Supply Mix Directive to the OPA.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2011**	**2010**
Earnings		
Revenue	**1,308**	1,443
Fuel expense	**166**	247
Gross margin	**1,142**	1,196
Operations, maintenance and administration expense	**712**	727
Depreciation and amortization	**158**	166
Accretion on fixed asset removal and nuclear waste management liabilities	**172**	165
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(138)**	(141)
Restructuring	**-**	25
Other net expenses	**9**	18
Income before interest and income taxes	**229**	236
Net interest expense	**41**	45
Income tax (recoveries) expenses	**37**	48
Net income	**151**	143
Income before interest and income taxes		
Generating segments	**244**	232
Nuclear Waste Management segment	**(34)**	(24)
Other segment	**19**	28
Total income before interest and income taxes	**229**	236
Cash flow		
Cash flow provided by operating activities	**409**	218
Electricity Generation (TWh)		
Regulated – Nuclear	**12.6**	12.0
Regulated – Hydroelectric	**4.6**	4.8
Unregulated – Hydroelectric	**4.0**	3.9
Unregulated – Thermal	**1.0**	3.8
Total electricity generation	**22.2**	24.5
Average electricity sales price (¢/kWh)		
Regulated – Nuclear	**5.5**	5.4
Regulated – Hydroelectric	**3.6**	3.7
Unregulated – Hydroelectric	**3.3**	3.5
Unregulated – Thermal	**3.1**	3.7
OPG average sales price paid through regulated and spot market prices	**4.6**	4.5
Nuclear unit capability factor (percent)		
Darlington	**97.9**	82.4
Pickering A	**69.4**	67.3
Pickering B	**82.3**	97.5
Availability (percent)		
Regulated – Hydroelectric	**92.0**	93.5
Unregulated– Hydroelectric	**93.9**	93.8
Equivalent forced outage rate (percent)		
Unregulated – Thermal	**7.8**	2.6

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, 2011, 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

2011 FIRST QUARTER REPORT

CONTENTS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months ended March 31, 2011. For a complete description of OPG's corporate strategies, risk management, corporate governance, related parties 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, 2010. Certain of the 2010 comparative amounts have been reclassified to conform to the 2011 presentation. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are presented in Canadian dollars. This MD&A is dated May 18, 2011.

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, nuclear decommissioning and 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, the on-going evolution of the Ontario electricity industry, proposed new legislation, conversion to International Financial Reporting Standards ("IFRS"), 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.

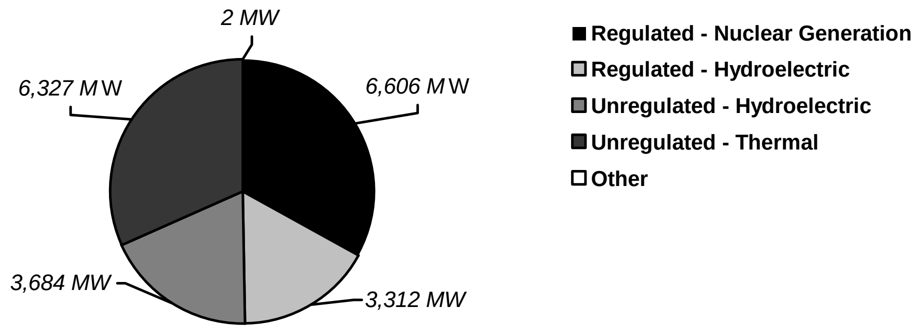
THE COMPANY

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.

At March 31, 2011, OPG's electricity generating portfolio had an in-service capacity of 19,931 megawatts ("MW"), representing 57 percent of Ontario's installed electricity generating capacity. 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. OPG also owns two other nuclear generating stations, which are leased on a long-term basis to Bruce Power L.P.

("Bruce Power"). These co-owned facilities and leased stations are incorporated into OPG's financial results, but are not included in the generation portfolio statistics set out in this report.

In-Service Generating Capacity by Segment
March 31, 2011
19,931 *MW*



A description of OPG's segments is provided in OPG's 2010 annual MD&A under the heading, *Business Segments*.

REVENUE MECHANISMS FOR REGULATED AND UNREGULATED GENERATION

OPG receives regulated prices for electricity generated from the Sir Adam Beck 1, 2 and Pump generating station, DeCew Falls 1 and 2, and R.H. Saunders hydroelectric facilities, and Pickering A and B and Darlington nuclear facilities (collectively the "Prescribed Facilities"). In May 2010, OPG filed an application with the OEB for new regulated prices to be effective March 1, 2011, using a forecast cost of service methodology. The application included OPG's request to recover the balances in the variance and deferral accounts as at December 31, 2010, as well as the continuation and establishment of variance and deferral accounts.

The OEB issued its decision on OPG's application on March 10, 2011. This was followed by an OEB order on April 11, 2011, which established a new regulated price for production from OPG's regulated hydroelectric facilities at $34.13/MWh, and a new regulated price for production from OPG's nuclear facilities at $55.85/MWh, effective March 1, 2011. The new regulated prices are based on an approved 24-month revenue requirement for the period from January 1, 2011 to December 31, 2012 of approximately $6.7 billion. The rate riders included in the new regulated prices reflect the OEB's approval for recovery or repayment of variance and deferral account balances as at December 31, 2010. The regulated hydroelectric regulated price of $34.13/MWh is net of a negative rate rider of -$1.65/MWh. The nuclear regulated price of $55.85/MWh includes a rate rider of $4.33/MWh. The rate riders will remain in effect until December 31, 2012.

The OEB approved the continuation of the existing hydroelectric incentive mechanism but determined that a portion of the resulting net revenues should be shared with ratepayers, effective March 1, 2011. The OEB also authorized the continuation of certain existing and the establishment of new variance and deferral accounts effective March 1, 2011. Further information regarding the OEB's decision and order on OPG's application is included under the heading, *Recent Developments*.

Electricity generated from OPG's other generating assets remains unregulated and continues to receive the Ontario electricity spot market price, except where an energy supply or cost recovery agreement is in place.

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*.

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2011**	**2010**
Revenue	**1,308**	1,443
Fuel expense	**166**	247
Gross margin	**1,142**	1,196
Expenses		
Operations, maintenance and administration	**712**	727
Depreciation and amortization	**158**	166
Accretion on fixed asset removal and nuclear waste management liabilities	**172**	165
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(138)**	(141)
Restructuring	**-**	25
Property and capital taxes	**8**	19
Other losses (gains)	**1**	(1)
	913	960
Income before interest and income taxes	**229**	236
Net interest expense	**41**	45
Income tax expense	**37**	48
Net income	**151**	143
Electricity production (TWh)	**22.2**	24.5
Cash flow		
Cash flow provided by operating activities	**409**	218

Net income for the three months ended March 31, 2011 was $151 million compared to $143 million for the three months ended March 31, 2010. Income before income taxes for the three months ended March 31, 2011 was $188 million compared to $191 million for the same period in 2010.

The following is a summary of the factors impacting OPG's results for the three months ended March 31, 2011 compared to the same period in 2010, 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 the three months ended March 31, 2010	**232**	**(24)**	**(17)**	**191**
Changes in gross margin:				
Change in electricity sales price				
Regulated generation segments	6	-	-	6
Unregulated – Hydroelectric	(10)	-	-	(10)
Change in electricity generation by segment:				
Regulated – Nuclear Generation	29	-	-	29
Regulated – Hydroelectric	(4)	-	-	(4)
Unregulated – Hydroelectric	2	-	-	2
Decrease in thermal generation revenue, partially offset by decrease in fuel and fuel related costs and higher revenue related to the contingency support agreement for the Nanticoke and Lambton generating stations	(15)	-	-	(15)
Lower revenue recognized related to an energy supply contract for the Lennox generating station	(19)	-	-	(19)
Decrease in gross margin related to regulatory variance accounts primarily due to the cessation of additions to the Tax Loss Variance Account based on the OEB's 2011 decision and order effective March 1, 2011	(19)	-	-	(19)
(Decrease) increase in non-electricity generation revenue, net of the impact of the regulatory variance account associated with stations on lease to Bruce Power	(12)	1	(1)	(12)
Other changes in gross margin	(4)	-	(8)	(12)
	(46)	1	(9)	(54)
Changes in operations, maintenance and administration ("OM&A") expenses:				
Lower expenditures related to decrease in outage and project costs, partially offset by an increase in maintenance activities at OPG's nuclear generating stations	43	-	-	43
Lower expenditures due to the continuation of vacancy and overtime management programs and reduced scope of work associated with changing operating profiles and anticipated unit closures at OPG's thermal generating stations	9	-	-	9
Reduction in expenditures related to new nuclear generation development and capacity refurbishment, net of the impact of related regulatory variance accounts	6	-	-	6
Increase in pension and OPEB costs, largely as a result of lower discount rates in 2011	(48)	1	-	(47)
Other changes in OM&A expenses	7	(3)	-	4
	17	(2)	-	15
Decrease in earnings from the Nuclear Funds	-	(16)	-	(16)
Impact of the regulatory variance account associated with stations on lease to Bruce Power on earnings from the Nuclear Funds	-	13	-	13
Severance costs related to closure of coal-fired units recognized in 2010	25	-	-	25
Decrease in property and capital taxes primarily due to a reduction in capital tax related to prior years and the elimination of capital tax as of July 2010	10	-	1	11
Other changes	6	(6)	3	3
Income (loss) before income taxes for the three months ended March 31, 2011	**244**	**(34)**	**(22)**	**188**

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 statement of income, inter-segment eliminations, and net interest expense.

Income Tax Expense

For the three months ended March 31, 2011, income tax expense was $37 million compared to $48 million for the same period in 2010. The decrease in income tax expense was primarily due to a reduction of income tax related to prior taxation years. This was partially offset by the decrease in the income tax component of the Bruce Lease Net Revenues Variance Account.

Electricity Generation

OPG's electricity generation for the three months ended March 31, 2011 and 2010, was as follows:

	Three Months Ended March 31	
(TWh)	**2011**	**2010**
Regulated – Nuclear Generation	**12.6**	12.0
Regulated – Hydroelectric	**4.6**	4.8
Unregulated – Hydroelectric	**4.0**	3.9
Unregulated – Thermal	**1.0**	3.8
Total electricity generation	**22.2**	24.5

Total electricity generation during the first quarter of 2011 was 22.2 TWh compared to 24.5 TWh during the same quarter in 2010. Electricity generation from OPG's Unregulated – Thermal segment decreased by 2.8 TWh during the first quarter of 2011 compared to the same period in 2010 primarily due to the impact of an increase in electricity generation from other generators in Ontario as a result of lower natural gas prices relative to coal prices. Generation at OPG's nuclear generating stations increased by 0.6 TWh during the three months ended March 31, 2011 compared to the same quarter of 2010 primarily due to a decrease in planned outage days at the Darlington nuclear generating station, partially offset by higher planned outage days at the Pickering B nuclear generating station.

Ontario primary electricity demand was 37.4 TWh and 36.6 TWh for the three months ended March 31, 2011 and 2010, respectively. The increase in demand was primarily due to colder than average temperatures.

Average Sales Prices

The weighted average Ontario spot electricity market price and OPG's average sales prices from generation paid through the regulated prices and the hourly Ontario spot market prices, by reportable electricity segment, for the three months ended March 31, 2011 and 2010, were as follows:

	Three Months Ended March 31	
(¢/kWh)	**2011**	**2010**
Weighted average hourly Ontario spot electricity market price	**3.3**	3.4
Regulated – Nuclear Generation	**5.5**	5.4
Regulated – Hydroelectric	**3.6**	3.7
Unregulated – Hydroelectric	**3.3**	3.5
Unregulated – Thermal	**3.1**	3.7
OPG's average sales price paid through regulated and spot market prices[1]	**4.6**	4.5

[1] Excludes other energy revenues primarily from cost recovery agreements for the Nanticoke, Lambton, and Lennox generating stations. Had the cost recovery agreements for Nanticoke, Lambton, and Lennox generating stations been included, OPG's average sales price would have been 5.1¢/kWh and 5.0¢/kWh for the three months ended March 31, 2011 and 2010, respectively.

The changes in average sales prices for the regulated segments for the three months ended March 31, 2011 compared to the same period in 2010 were primarily due to the OEB's decision and order establishing new regulated prices effective March 1, 2011. For additional information regarding the OEB's recent decision, refer to the *Recent Developments* section.

The decrease in average sales prices for OPG's unregulated segments for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to the impact of lower average hourly Ontario spot electricity market prices. The decrease in the weighted average hourly Ontario spot electricity market price was primarily due to higher nuclear generation and lower natural gas prices, partially offset by the impact of higher coal prices.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended March 31, 2011 was $409 million compared to $218 million for the three months ended March 31, 2010. The increase in cash flow was primarily due to lower OM&A expenditures, lower fuel purchases, and lower expenditures and contributions related to the Used Fuel Segregated Fund ("Used Fuel Fund") and the Decommissioning Segregated Fund ("Decommissioning Fund") (together "Nuclear Funds") in the first quarter of 2011 compared to the same period in 2010. This increase was partially offset by lower cash receipts as a result of lower generation revenue in the first quarter of 2011 compared to the same period in 2010.

Recent Developments

OPG's Application for New Regulated Prices for Prescribed Facilities

The OEB's decision on OPG's application for new regulated prices for the Prescribed Facilities was issued on March 10, 2011. This decision was followed by the OEB's order on April 11, 2011 establishing the new regulated prices. The OEB established regulated prices of $34.13/MWh and $55.85/MWh for production from OPG's regulated hydroelectric and nuclear facilities, respectively, effective March 1, 2011, using a forecast cost of service methodology. This compares to previously established regulated prices of $36.66/MWh and $54.98/MWh, respectively. The following reflects the new regulated prices effective March 1, 2011 compared to those in effect prior to March 1, 2011:

($/MWh)	**Effective March 1, 2011**	**Prior to March 1, 2011[1]**
Regulated – Nuclear Generation without rate rider	**51.52**	52.98
Regulated – Nuclear Generation rate rider	**4.33**	2.00
Regulated – Nuclear Generation	**55.85**	54.98
Regulated – Hydroelectric without rate rider	**35.78**	36.66
Regulated – Hydroelectric rate rider	**(1.65)**	-
Regulated – Hydroelectric	**34.13**	36.66

1 Regulated prices were effective for the period April 1, 2008 to February 28, 2011.

The OEB determined the new regulated prices based on an approved 24-month revenue requirement of $6.7 billion, a reduction of $218 million compared to a revenue requirement of $6.9 billion submitted by OPG as part of its application for new regulated prices. The most significant adjustment to the revenue requirement submitted by OPG related to a reduction in forecast nuclear compensation costs for the 2011-2012 period. The OEB also increased the forecast nuclear production used to set the regulated prices, which had the effect of further reducing the approved regulated prices. The OEB did not accept OPG's proposal for a variance account related to differences between actual and forecast pension and OPEB costs, and did not incorporate an updated forecast reflecting an increase in these costs submitted by OPG in September 2010.

During March 2011, OPG filed a motion with the OEB to review and vary the OEB's decisions with respect to the updated pension and OPEB costs and the proposed variance account. A public hearing on the motion has been scheduled for June 2011. During April 2011, OPG also filed a notice of appeal with the Divisional Court of Ontario related to the OEB's decision on nuclear compensation costs. The OEB approved OPG's forecast of non-capital costs related to the Darlington Refurbishment Project and to the

Pickering B Continued Operations initiative. The OEB did not accept OPG's proposal for advanced recovery of the cost of capital related to capital expenditures on the Darlington Refurbishment Project, but indicated that it is prepared to consider this proposal again in the future.

As part of its decision, the OEB approved the disposition of OPG's variance and deferral account balances as at December 31, 2010 without adjustments. These amounts are recovered through rate riders that will remain in effect until December 31, 2012. The amortization of variance and deferral accounts is discussed in Note 5 of OPG's first quarter 2011 interim financial statements. Any shortfall or over-recovery of the approved variance and deferral account balances due to differences between actual and forecast production will be collected from, or refunded to, ratepayers following OPG's next application to the OEB.

In its decision, the OEB authorized the continuation of the Bruce Lease Net Revenues Variance Account as well as variance and deferral accounts related to the impact of water conditions on hydroelectric electricity production, changes in liabilities for nuclear used fuel management and nuclear decommissioning and low and intermediate level waste management, nuclear development and capacity refurbishment costs, revenues from ancillary services, and income and other taxes. The OEB discontinued the variance account related to nuclear fuel costs, effective March 1, 2011. Only interest and amortization are recorded in this account effective March 1, 2011.

The OEB approved the continuation of the existing hydroelectric incentive mechanism but determined that a portion of the resulting net revenues should be shared with ratepayers, effective March 1, 2011. As a result, the OEB established the Hydroelectric Incentive Mechanism Variance Account. Effective March 1, 2011, the OEB also established a variance account to record the financial impact of foregone production at OPG's regulated hydroelectric facilities due to surplus baseload generation ("SBG"). The OEB approved all forecast hydroelectric OM&A costs and capital expenditures as submitted by OPG.

Thermal Generating Stations Unit Closure

In October 2010, OPG closed two coal-fired generating units at each of the Lambton and Nanticoke coal-fired generating stations. Ontario's Long-Term Energy Plan (the "Energy Plan") released in November 2010 and the Supply Mix Directive issued to the Ontario Power Authority ("OPA") in February 2011 require the closure of two additional coal-fired units at the Nanticoke coal-fired generating station in 2011. The Independent Electricity System Operator ("IESO") has confirmed that these units are not required for meeting supply adequacy and system reliability in the period from December 31, 2011 through December 31, 2014.

On March 25, 2011, OPG notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The timing and amount of restructuring costs cannot be reasonably estimated at this time.

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 clean energy generation and to have a major role in leading Ontario's transition to a more sustainable energy future. OPG is focused on three corporate strategies: performance excellence; generation development; and developing and acquiring talent.

Performance Excellence

This section provides an update to OPG's performance excellence disclosure and should be read in conjunction with OPG's 2010 annual MD&A. A detailed discussion of OPG's commitment to performance excellence in the areas of generation, safety, the environment, and fiscal performance is included in the 2010 annual MD&A under the heading, *Performance Excellence*.

Nuclear Generating Assets

Following the events at the Fukushima Daiichi nuclear facilities in Japan, OPG is conducting a review of its existing programs that mitigate the effects of improbable external events. This includes a review of current plans for events more severe than those anticipated in the design basis of its existing nuclear facilities. OPG is also working with Canada's other nuclear operators and with world industry associations to review the experiences from Fukushima Daiichi and apply the lessons learned to its own facilities. This work will contribute to the shared industry knowledge bank as part of a commitment to continuous improvement in global nuclear safety.

Deep Geologic Repository for Low and Intermediate Level Waste

In 2010, OPG approved the commencement of the detailed design phase of the Deep Geologic Repository ("DGR") project for the long-term management of low and intermediate level waste from OPG-owned nuclear generating stations. The Environmental Impact Statement was submitted to the Canadian Nuclear Safety Commission ("CNSC") on April 14, 2011. The next step is for the Joint Review Panel to be announced and selected. In 2011, OPG, through contractors and subcontractors, has commenced work on the detailed design and engineering in support of the construction of the DGR. OPG has finalized the Engineering, Procurement, and Construction Management Agreement for the design and construction phase of the work.

Hydroelectric Generating Assets

OPG plans to increase the capacity of existing stations by 60 MW over the next five years through the replacement of existing turbine runners and installation of more efficient equipment. OPG is planning to complete major equipment overhauls and rehabilitation work at several stations during 2011, including a runner replacement at Unit 8 of Des Joachims generating station, and transformer replacements at Units 7 and 8 of Des Joachims and at Units 4, 5 and 6 of Sir Adam Beck Pump generating stations.

Thermal Generating Assets

The expected additional unit closures at the Nanticoke generating station in 2011 will be managed through the provisions of the collective agreements and on-going involvement and discussions with union representatives. Staffing requirements at all Thermal stations are under review to meet the needs associated with the changing operational profiles of the stations over the next four years, taking into consideration constrained operation under carbon dioxide ("CO_2") emission caps and operations after unit conversion to alternative fuels.

Environmental Performance

During the first quarter of 2011, there were no significant changes to environmental legislation and environmental risks affecting the Company. For the three months ended March 31, 2011, CO_2 emissions were 1.1 million tonnes compared to 3.8 million tonnes for the same quarter in 2010. Acid gas (SO_2 and NO_x) emissions were 4 and 15 gigagrams, for the three months ended March 31, 2011 and 2010, respectively. Emissions were significantly reduced during the first quarter of 2011 compared to the same quarter in 2010 as a result of lower generation from OPG's coal-fired stations. OPG's disclosures relating to environmental policies and procedures, and environmental risks are provided in the annual MD&A as at and for the year ended December 31, 2010.

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 and risk control programs. To address two health and safety risk areas, OPG's 2011 objectives include a focus on falling object prevention and in the application of work protection (lockout/tagout) processes. Key elements of the program consist of focused senior and site management oversight, design and process improvements and increased employee awareness of expectations.

OPG believes that partnership with its unions is an important element of its strong safety culture and has embarked on a number of safety initiatives in 2011. Further, together with its unions, OPG is updating its young worker and new worker strategy to address health and safety issues associated with this workforce.

Generation Development

Generation development opportunities pursued by OPG include capacity expansion, life extension opportunities, and the construction of new generating stations. Pursuing opportunities to leverage existing sites and assets allows OPG to maximize benefits from these assets, and to reduce the environmental impact of meeting Ontario's electricity demands. OPG's major projects include nuclear station refurbishment, new nuclear generation, new hydroelectric generation and plant upgrades, and the conversion of selected coal-fired generating units to alternate fuels. OPG's strategy and initiatives to finance these generation development projects are discussed under the heading, *Liquidity and Capital Resources*.

New Nuclear Units

During the first quarter of 2011, OPG continued with the environmental assessment process and the process to obtain a site preparation licence. The public hearings on the Darlington New Nuclear Project Environmental Assessment and application for "Licence to Prepare Site" began on March 21, 2011 and were completed on April 8, 2011. The Joint Review Panel has allowed for final written submissions by all interveners and OPG. The hearings mark the final phase of the environmental review, and are an essential element of the Federal approvals process. These hearings are a milestone for OPG and for the nuclear industry in Canada, as this is the first time in over 30 years that such a process has been undertaken for new nuclear units in Canada. During the hearings various groups questioned the safety of nuclear power plants, which has been heightened as a result of the ongoing nuclear event in Japan. OPG has conducted extensive work, has undertaken thorough studies and has concluded that OPG's Darlington New Nuclear project, given planned mitigation, will not result in any significant adverse environmental effects to workers, the public, or the surrounding environment.

Darlington Refurbishment Project

In March 2011, the Request for Proposal was issued for the Retube and Feeder Replacement for the Darlington generating station, with the selection of a contractor targeted for late 2011. The technical scope is currently being finalized and is on track to be complete by June 2011. The Environmental Assessment and the Integrated Safety Review, which forms the basis of the regulatory scope, are on track for submission to the CNSC in late 2011.

Site servicing on the 280,000 square foot Darlington Energy Complex ("Complex") commenced in February 2011, and a contract for the design and build of the Complex was executed in March 2011. The Complex remains on track for occupancy in the fall of 2013.

Pickering B Continued Operations

OPG is undertaking a coordinated set of initiatives to evaluate the opportunity to continue safe and reliable operations of Pickering B for an additional four to six years beyond its nominal end of life. Work is progressing by incorporating incremental life cycle management inspections and maintenance into the scope, cost, and duration of the outage programs along with other plant equipment improvements. At the March 2011 public meeting, the CNSC staff presented their review of the Pickering B Continued Operations Plan to the CNSC and identified no significant issues. OPG continues to undertake technical and regulatory work related to continued operations.

Niagara Tunnel

The tunnel boring machine ("TBM") mining activity was completed. As of March 31, 2011, installation of the lower one-third of the tunnel permanent concrete lining reached 6,963 metres, and was ahead of schedule. Restoration of the circular cross-section of the tunnel before installation of the upper two-thirds of the concrete lining was behind schedule at 3,425 metres on March 31, 2011, but is not expected to delay tunnel completion. Installation of the upper two-thirds of the concrete lining has progressed 2,100 metres, and was ahead of schedule. Some uncertainty with respect to the cost and schedule for the liner installation will continue. Notwithstanding the uncertainty, 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.

The capital project expenditures for the quarter ended March 31, 2011 were $81 million, and the life-to-date capital expenditures were $961 million.

Lower Mattagami

Construction activities are continuing on the Lower Mattagami River. During the first quarter of 2011, an earth filled cofferdam at Smoky Falls was completed, allowing the powerhouse foundation and intake excavation to continue. The Little Long cofferdam was installed and was dewatered in April 2011. Access to the Kipling and Harmon cofferdam work areas was completed. Preparations are also underway at the Harmon site to commence installation of the cofferdam in April. As at March 31, 2011, the life-to-date capital expenditures were $423 million. The project is expected to increase the capacity of the four stations on the Lower Mattagami River by 438 MW. The project is expected to be completed within the approved budget of $2.6 billion and 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, including the regulated 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. In addition, OPG is pursuing a cost recovery contract for the coal-fired units at the Atikokan and Thunder Bay generating stations for the period leading up to their potential future conversions to alternative fuels, as proposed in the Energy Plan and the Supply Mix Directive.

The conversion of the Atikokan generating station to biomass is currently in the definition phase. OPG and the OPA are continuing to negotiate the Atikokan Biomass Energy Supply Agreement which is expected to be executed in 2011. OPG is proceeding with detailed engineering and the negotiation of the engineering, procurement, and construction contract for the conversion of the Atikokan generating station to biomass fuel. The negotiation of fuel supply contracts is pending the allocation of wood rights by the Ministry of Northern Development, Mines and Forestry.

The conversion of two units at the Thunder Bay generating station to natural gas is currently in the definition phase and OPG is proceeding with detailed engineering. While an energy supply agreement is still required for the conversion, OPG has been requested to continue the work associated with the required gas infrastructure consistent with the Energy Plan. Union Gas has announced the start of their 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, if required for system reliability. Due to the long lead-time required for a Nanticoke gas pipeline, Union Gas has begun conducting technical and environmental studies and public consultation leading to the identification of the pipeline route to Nanticoke. Similar pipeline routing studies are being undertaken at Lambton.

Developing and Acquiring Talent

Skilled Workforce

As of March 31, 2011, OPG had approximately 90 percent of its regular labour force represented by a union. The current collective agreement between OPG and Power Workers' Union ("PWU") has a three-year term (April 1, 2009 – March 31, 2012). The current collective agreement with the Society of Energy Professionals has a two year term (January 1, 2011 to December 31, 2012).

In addition to the regular workforce, construction work is performed through 22 craft unions with established bargaining rights on OPG facilities. These bargaining rights are either through the Electrical Power Systems Construction Association ("EPSCA") or directly with OPG. All of the construction agreements expired April 30, 2010. OPG, in conjunction with EPSCA, is actively involved in all aspects of negotiations. Currently, 18 agreements have been reached and ratified. A conciliator has been appointed for Canadian Union of Skilled Workers ("CUSW") bargaining. Meetings have been scheduled with the conciliator during the second quarter of 2011. Negotiations continue with the Cement Masons and planning is underway with the International Brotherhood of Electrical Workers Transmission and Bricklayers International.

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 2010 annual MD&A and are discussed in the *Discussion of Operating Results by Business Segment* section.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

This section summarizes OPG's key results by segment for the three months ended March 31, 2011 and 2010. The following table provides a summary of revenue and earnings by business segment:

	Three Months Ended March 31	
(millions of dollars – except where noted)	**2011**	**2010**
Revenue		
Regulated – Nuclear Generation	**788**	793
Regulated – Nuclear Waste Management	**12**	11
Regulated – Hydroelectric	**184**	184
Unregulated – Hydroelectric	**149**	149
Unregulated – Thermal	**146**	268
Other	**41**	48
Elimination	**(12)**	(10)
	1,308	1,443
Income (loss) before interest and income taxes		
Regulated – Nuclear Generation	**104**	89
Regulated – Nuclear Waste Management	**(34)**	(24)
Regulated – Hydroelectric	**96**	93
Unregulated – Hydroelectric	**65**	67
Unregulated – Thermal	**(21)**	(17)
Other	**19**	28
	229	236
Electricity generation (TWh)		
Regulated – Nuclear Generation	**12.6**	12.0
Regulated – Hydroelectric	**4.6**	4.8
Unregulated – Hydroelectric	**4.0**	3.9
Unregulated – Thermal	**1.0**	3.8
Total electricity generation	**22.2**	24.5

Regulated – Nuclear Generation Segment

(millions of dollars)	Three Months Ended March 31 2011	2010
Regulated generation sales	**693**	655
Variance accounts	**25**	150
Other	**70**	(12)
Total revenue	**788**	793
Fuel expense	**62**	53
Variance accounts	**(7)**	(3)
Total fuel expense	**55**	50
Gross margin	**733**	743
Operations, maintenance and administration	**530**	551
Depreciation and amortization	**92**	92
Property and capital taxes	**7**	11
Income before interest and income taxes	**104**	89

Income before interest and income taxes was $104 million for the first quarter of 2011 compared to $89 million during the first quarter of 2010. The increase in income before interest and income taxes for the first quarter of 2011 compared to the same period in 2010 was primarily due to an increase in generation revenue and lower OM&A expenses, partially offset by lower revenue related to the regulatory variance accounts and a decrease in revenue from technical services provided to third parties.

The increase in generation revenue during the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to higher generation volume of 0.6 TWh due to a decrease in planned outage days at the Darlington nuclear generating station, partially offset by lower generation at the Pickering B generating station due to an increase in planned outage days.

The decrease in revenue related to regulatory variance accounts for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to a reduction in the regulatory asset related to the under-recovery of approved nuclear variance and deferral account balances of $16 million and lower revenue of $15 million related to the Tax Loss Variance Account. During the three months ended March 31, 2011 and 2010, OPG recognized an increase in the fair value of the derivative liability embedded in the Bruce lease of $7 million and $95 million, respectively, as a result of a reduction in the expected future annual arithmetic average of the Hourly Ontario Electricity Price. The increase in the fair value of this derivative is recognized as a reduction to non-electricity generation revenue, offset by the increase in the regulatory asset related to the Bruce Lease Net Revenues Variance Account.

The decrease in OM&A expenses of $21 million during the first quarter of 2011 compared to the same period in 2010 was primarily due to lower planned outage and project activities, and a decrease in costs for new nuclear generation development and capacity refurbishment activities. The decrease was partially offset by higher pension and OPEB costs, largely as a result of lower discount rates in 2011, and higher maintenance costs.

	Three Months Ended March 31 2011	2010
Unit Capability Factor *(%)*		
Darlington	**97.9**	82.4
Pickering A	**69.4**	67.3
Pickering B	**82.3**	97.5
Nuclear Production Unit Energy Cost (“PUEC”) *($/MWh*)	**44.72**	46.77

The unit capability factor at the Darlington nuclear generating station was 97.9 percent for the first quarter of 2011 compared to 82.4 percent during the same period in 2010. The higher capability factor at the Darlington nuclear generating station reflected the lower planned outage days in the first quarter of 2011 compared to the same period in 2010 due to the scheduling for planned outages. The unit capability factor at the Pickering B nuclear generating station was 82.3 percent during the first quarter of 2011 compared to 97.5 percent during the first quarter of 2010. The lower capability factor at the Pickering B nuclear generating station reflected the higher planned outage days in the first quarter of 2011 compared to the same quarter in 2010, as the required planned outage work was completed during the Pickering Vacuum Building Outage in the second quarter of 2010.

The decrease in Nuclear PUEC for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to higher generation and lower OM&A expenses, partially offset by higher fuel expenses.

Regulated – Nuclear Waste Management Segment

	Three Months Ended March 31	
(millions of dollars)	**2011**	**2010**
Revenue	**12**	11
Operations, maintenance and administration	**14**	12
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	**170**	164
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(138)**	(141)
Loss before interest and income taxes	**(34)**	(24)

The loss before interest and income taxes for the first quarter of 2011 was $34 million compared to a loss of $24 million for the same period in 2010. The increase in loss before interest and income taxes for the first quarter of 2011 compared to the same period in 2010 was primarily due to higher accretion expense and lower earnings from the Nuclear Funds.

The increase in accretion expense was primarily due to an increase in the present value of the liabilities for Fixed Asset Removal and Nuclear Waste Management due to the passage of time. The increase in accretion expense was partially offset by the impact of the Bruce Lease Net Revenues Variance Account.

The decrease in the earnings from the Nuclear Funds was primarily due to lower earnings from the Used Fuel Fund resulting from a lower guaranteed return on the Used Fuel Fund during the first quarter of 2011 compared to the same period in 2010.

Regulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended March 31 2011	2010
Regulated generation sales	**168**	174
Variance accounts	**10**	-
Other	**6**	10
Total revenue	**184**	184
Fuel expense	**49**	50
Variance accounts	**1**	(1)
Total fuel expense	**50**	49
Gross margin	**134**	135
Operations, maintenance and administration	**26**	23
Depreciation and amortization	**14**	16
Property and capital taxes	**(2)**	3
Income before interest and income taxes	**96**	93

For the three months ended March 31, 2011 and March 31, 2010, income before interest and income taxes was $96 million and $93 million, respectively. The income before interest and incomes taxes for the first quarter of 2011 increased compared to the same quarter in 2010 due primarily to lower property and capital taxes. Property and capital taxes decreased during the first quarter of 2011 compared to the same period in 2010 primarily due to a reduction in capital tax related to prior years and the elimination of capital tax as of July 2010. The unfavourable impact on revenue during the first quarter of 2011 compared to the same period in 2010 due to a decrease in generation caused by lower water flows, and a decrease in ancillary services revenue, was largely offset by higher revenue related to the Hydroelectric Water Conditions Variance Account and other regulatory variance accounts.

	Three Months Ended March 31 2011	2010
Availability *(%)*	**92.0**	93.5
Equivalent Forced Outage Rate ("EFOR") *(%)*	**0.9**	0.3
Regulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**5.65**	4.79

The availability for the Regulated – Hydroelectric stations was 92.0 percent during the first quarter of 2011 compared to 93.5 percent during the first quarter of 2010. The decrease in availability during the first quarter of 2011 compared to the same period in 2010 was primarily due to an increase in planned maintenance and project outages and an increase in forced outages at the Saunders generating station. The high availability and low EFOR reflected the continuing strong performance of these hydroelectric stations.

The increase in OM&A expense per MWh in the first quarter of 2011 compared to the same quarter in 2010 was due to higher OM&A expenses and lower generation.

Unregulated – Hydroelectric Segment

(millions of dollars)	Three Months Ended March 31 2011	2010
Spot market sales, net of hedging instruments	**132**	140
Other	**17**	9
Total Revenue	**149**	149
Fuel expense	**20**	19
Gross margin	**129**	130
Operations, maintenance and administration	**51**	46
Depreciation and amortization	**16**	16
Property and capital taxes	**(3)**	1
Income before interest and income taxes	**65**	67

Income before interest and income taxes for the first quarter of 2011 was $65 million compared to $67 million for the same period in 2010. The decrease in income before interest and income taxes for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to an increase in OM&A expenses. The increase in OM&A expenses for the three months ended March 31, 2011 compared to the same period in 2010 was primarily due to higher pension and OPEB costs, resulting largely from lower discount rates.

Generation revenue from spot market sales decreased during the first quarter of 2011 compared to the first quarter of 2010 due primarily to lower electricity prices. This decrease in generation revenue was offset by revenue in the first quarter of 2011 from an energy supply agreement related to the Upper Mattagami generating stations, which were placed in service during the fourth quarter of 2010.

	Three Months Ended March 31 2011	2010
Availability *(%)*	**93.9**	93.8
EFOR *(%)*	**0.3**	1.0
Unregulated – Hydroelectric OM&A expense per MWh *($/MWh)*	**12.75**	11.79

EFOR decreased in the first quarter of 2011 compared to the same quarter in 2010 primarily as a result of improved equipment performance at the unregulated hydroelectric stations. The high availability and low EFOR reflected the continuing strong performance of these hydroelectric stations.

The increase in OM&A expense per MWh in the first quarter of 2011 compared to the first quarter of 2010 was primarily due to the impact of higher OM&A expenses, partially offset by higher generation.

Unregulated – Thermal Segment

(millions of dollars)	Three Months Ended March 31 2011	2010
Spot market sales, net of hedging instruments	**30**	138
Contingency support agreement	**89**	83
Other	**27**	47
Total Revenue	**146**	268
Fuel expense	**41**	129
Gross margin	**105**	139
Operations, maintenance and administration	**98**	102
Depreciation and amortization	**21**	27
Accretion on fixed asset removal liabilities	**2**	1
Property and capital taxes	**4**	1
Restructuring	**-**	25
Loss before other gains and losses, interest and income taxes	**(20)**	(17)
Other losses	**1**	-
Loss before interest and income taxes	**(21)**	(17)

The loss before interest and income taxes for the three months ended March 31, 2011 was $21 million compared to $17 million for the same period in 2010.

The gross margin decreased by $34 million during the first quarter of 2011 compared to the first quarter of 2010 due primarily to a reduction in generation volume of 2.8 TWh, lower hourly Ontario spot electricity market prices, and lower revenue related to an energy supply contract for the Lennox generating station. This decrease was partially offset by lower fuel expense and higher revenue related to the contingency support agreement for the Nanticoke and Lambton coal-fired generating stations.

OM&A expenses for the three months ended March 31, 2011 decreased compared to the same period in 2010 primarily due to continuation of the vacancy and overtime management program and reduced scope of work associated with changing operating profiles and anticipated unit closures at Nanticoke in 2011. The decrease in OM&A expenses was largely offset by higher pension and OPEB costs.

The loss before interest and income taxes for the three months ended March 31, 2010 was impacted by restructuring charges of $25 million due to the recognition of severance costs related to the closure of four coal-fired units in 2010. There were no restructuring charges recorded during the three months ended March 31, 2011.

	Three Months Ended March 31 2011	2010
EFOR *(%)*	**7.8**	2.6
Unregulated – Thermal OM&A expense per MW *($000/MW)*	**62.0**	49.9

The higher EFOR during the first quarter of 2011 compared to the same quarter in 2010 was primarily due to a higher number of unplanned outage days at the Lambton and Nanticoke generating stations. EFOR for the three months ended March 31, 2011 continued to reflect strong performance at OPG's thermal generating stations.

The increase in OM&A expense per MW during the three months ended March 31, 2011 compared to the same period in 2010 reflects the reduction in OPG's thermal generating capacity resulting from the unit closures in late 2010, partially offset by lower OM&A expenses.

Other

(millions of dollars)	Three Months Ended March 31 2011	2010
Revenue	**41**	48
Operations, maintenance and administration	**5**	3
Depreciation and amortization	**15**	15
Property and capital taxes	**2**	3
Income before other gains and losses, interest and income taxes	**19**	27
Other gains	**-**	(1)
Income before interest and income taxes	**19**	28

Income before interest and income taxes was $19 million during the first quarter of 2011 compared to $28 million during the same period in 2010. The decrease in income before interest and income taxes was primarily due to lower net trading revenue during the three months ended March 31, 2011 compared to the same period in 2010.

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, 2011, if disclosed on a gross basis, revenue and power purchases would have increased by $28 million (three months ended March 31, 2010 – $22 million).

With the exception of the derivative embedded in the Bruce Lease, the changes in the fair value of derivative instruments not qualifying for hedge accounting are recorded in revenue, and the fair value of derivative instruments are carried on the consolidated balance sheets as assets or liabilities at fair value. The carrying amounts and notional quantities of the derivative instruments are disclosed in Note 11 of OPG's first quarter 2011 interim financial statements.

LIQUIDITY AND CAPITAL RESOURCES

OPG's primary sources of liquidity and capital are funds generated from operations, bank financing, credit facilities provided by the Ontario Electricity Financial Corporation ("OEFC"), 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 Used Fuel and Decommissioning Funds; and to service and repay long-term debt.

Changes in cash and cash equivalents for the three months ended March 31, 2011, and 2010 are as follows:

	Three Months Ended March 31	
(millions of dollars)	**2011**	**2010**
Cash and cash equivalents, beginning of period	**280**	71
Cash flow provided by operating activities	**409**	218
Cash flow used in investing activities	**(283)**	(177)
Cash flow provided by financing activities	**1**	46
Net increase	**127**	87
Cash and cash equivalents, end of period	**407**	158

Operating Activities

Cash flow provided by operating activities for the three months ended March 31, 2011 was $409 million compared to $218 million for the three months ended March 31, 2010. The increase in cash flow was primarily due to lower OM&A expenditures, lower fuel purchases, and lower expenditures and contributions related to the Nuclear Funds in the first quarter of 2011 compared to the same period in 2010. This increase was partially offset by lower cash receipts as a result of lower generation revenue in the first quarter of 2011 compared to the same period in 2010.

Investing Activities

Cash flow used in investing activities during the first quarter ended March 31, 2011 was $283 million compared to $177 million for same quarter in 2010. The increase in capital expenditures during the first quarter of 2011 compared to the first quarter of 2010 was primarily due to higher expenditures for the Lower Mattagami project, the Niagara Tunnel project and the Darlington Refurbishment project. This increase was partially offset by lower capital expenditures for other nuclear capital initiatives and the Upper Mattagami and Hound Chute project, which was placed in-service in December of 2010.

OPG's forecast capital expenditures for 2011 are approximately $1.3 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 tranches – a $500 million 364-day term tranche, and a $500 million multi-year term tranche. In May 2011, OPG renewed and extended the 364-day term tranche for a four-year term to May 18, 2015. The multi-year term tranche has a maturity date of May 20, 2013. 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, 2011, no commercial paper was outstanding (December 31, 2010 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

During 2010, the Lower Mattagami Energy Limited Partnership ("LME") established a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami project and launched a commercial paper program. As at March 31, 2011, $156 million of commercial paper was outstanding under this program (December 31, 2010 – $155 million). In March 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami project. As at March 31, 2011, there were no outstanding borrowings under this credit facility.

On May 17, 2011, senior notes totalling $475 million were issued by the LME. The senior notes have interest rates of 4.3 percent for notes maturing in 2021 and 5.1 percent for notes maturing in 2041. These notes are secured by the assets of the Lower Mattagami project including existing operating facilities and facilities being constructed.

As at March 31, 2011, OPG maintained $25 million (December 31, 2010 – $25 million) of short-term, uncommitted overdraft facilities, and $319 million (December 31, 2010 – $319 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. At March 31, 2011, there was a total of $281 million of Letters of Credit issued (December 31, 2010 – $281 million), which included $254 million for the supplementary pension plans (December 31, 2010 – $254 million), $20 million for general corporate purposes (December 31, 2010 – $20 million) and $7 million related to the operation of the PEC (December 31, 2010 – $7 million).

During 2010, OPG executed an amended Niagara Tunnel project credit facility for an amount up to $1.6 billion. As at March 31, 2011, advances under this facility were $730 million, which included $40 million of new borrowing during the first quarter of 2011.

As at March 31, 2011, OPG's long-term debt outstanding with the OEFC was $3,867 million, of which $588 million must be repaid or refinanced within the next three years. 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 March 2011 for a $375 million credit facility to refinance notes as they mature over the period from January 2011 to December 2011. Refinancing under this agreement totalled $150 million as at March 31, 2011.

BALANCE SHEET HIGHLIGHTS

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

	As At		
(millions of dollars)	**March 31 2011**	**December 31 2010**	**Explanation of change**
Accounts receivable	**186**	270	The decrease was primarily due to lower receivables from the IESO as a result of lower electricity generation volumes in March 2011 compared to December 2010.
Nuclear fixed asset removal and nuclear waste management funds	**11,437**	11,246	The increase was primarily due to earnings on the Nuclear Funds and contributions to the Used Fuel Fund during the first quarter of 2011, partially offset by the reimbursement of program expenditures from the Nuclear Funds during the first quarter of 2011.
Regulatory assets	**1,554**	1,559	The decrease was primarily due to the reduction in the regulatory asset for future income taxes, largely offset by the recognition of a regulatory asset related to income taxes payable as a result of the OEB's approval for recovery of certain variance and deferral accounts effective March 1, 2011.
Fixed asset removal and nuclear waste management liabilities	**12,854**	12,704	The increase was primarily a result of accretion expense due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.

	As At		
(millions of dollars)	**March 31 2011**	**December 31 2010**	**Explanation of change**
Future and current income and capital tax liabilities (net of recoveries)	**677**	660	The change in the future and current tax balances was largely a result of the OEB's approval for recovery of certain variance and deferral account balances in its 2011 decision.

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under Canadian 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 securitization of certain accounts receivable agreements, 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, including the impact of future accounting pronouncements, are outlined in Note 3 to the audited annual consolidated financial statements as at and for the year ended December 31, 2010. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain, and could result in materially different amounts being reported under different conditions or assumptions.

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

Effective January 1, 2011, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582 *Business Combinations* ("Section 1582"), Section 1601 *Consolidated Financial Statements* ("Section 1601"), and Section 1602 *Non-controlling Interests* ("Section 1602"). Section 1582 specifies a number of changes, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These standards shall be applied prospectively to business combinations whose acquisition date is on or after the date of adoption. As a result of adopting Section 1602, the Company has reclassified its non-controlling interests as a separate component of equity. The adoption of Section 1582 and Section 1601 did not have a material impact on the Company's consolidated financial statements for the three months ended March 31, 2011.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Introduction to Conversion Project

OPG's IFRS conversion project progressed during the first quarter of 2011, including regular communications to executive management, finance employees and other stakeholders, and the Audit and Finance Committee of the Board of Directors. This section provides an update with respect to the disclosure included in the 2010 MD&A, under the heading, *Conversion to International Financial Reporting Standards*. As a result of changes to Part I of the CICA Handbook – *Accounting*, by the Canadian Accounting Standards Board ("AcSB"), certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. OPG meets the AcSB criteria for the deferral, and has chosen to adopt IFRS effective January 1, 2012. The objective of IFRS is to improve financial reporting by having one set of international accounting standards.

OPG's conversion project consists of three phases: diagnostic, development, and implementation. The project is currently in the implementation phase which includes finalizing accounting policies based on the latest standards available from the International Accounting Standards Board ("IASB") and integrating changes to business processes. These changes will be tested prior to the formal reporting requirements under IFRS to ensure all significant differences are appropriately addressed in time for the changeover.

Accounting Policy Decisions and Anticipated Impacts

OPG continued work on an IFRS compliant opening transition balance sheet for January 1, 2011. OPG's analysis is not yet complete and will continue during 2011. As a result of the one year deferral, OPG's transition year will now be 2011. During the first quarter of 2011, OPG determined that balances in variance and deferral accounts established by the OEB, including those authorized pursuant to *Ontario Regulation 53/05,* meet the definition of a financial asset and financial liability, as defined in International Accounting Standard 32, *Financial Instruments: Presentation*. OPG continues to determine the impact on its accounting for the remaining regulatory assets and liabilities upon its adoption of IFRS.

OPG continued to evaluate its accounting policy options under IFRS and is collecting data during 2011, which will be used to report 2011 comparative information in its 2012 IFRS interim and annual financial statements. OPG continues to expect the following areas to be most impacted by its conversion to IFRS: Property, Plant and Equipment; Fixed Asset Removal and Nuclear Waste Management Liabilities; Accounts Receivable; Short-term Notes Payable; Employee Benefits; and assets and liabilities resulting from rate regulation. At this time, OPG has not concluded on all of its accounting policy choices upon transition to IFRS, and is waiting for the IASB to finalize various accounting standards. Since the IASB continues to issue new accounting standards, the final accounting policy decisions of OPG will only be determined once all applicable standards are known upon the January 1, 2012, conversion date.

The following table provides certain elements of the changeover plan and an assessment of the progress OPG has achieved as at March 31, 2011. This information reflects OPG's most recent assumptions and expectations. Circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Selected Key Activities	Milestones/Deadlines	Progress to Date
Financial statement preparations		
Identify relevant differences between IFRS and current accounting policies and practices and design and implement solutions Evaluate and select one-time and on-going accounting policy alternatives Benchmark findings with peer companies Prepare illustrative financial statements and related note disclosures to comply with IFRS Quantify the effects of changeover to IFRS	Assessment and quantification of the significant effects of the changeover completed by approximately the third quarter of 2011 OPG has elected to defer its adoption of IFRS by one year and expects to assess and quantify the significant effects of the changeover by approximately the third quarter of 2011 Final selection of accounting policy alternatives by the changeover date	While OPG was prepared for a January 1, 2011 changeover to IFRS, it is now working within the one-year delay and assessing the impact on the following: • The 2011 transitional opening balance sheet; • Accounting policy decisions given on-going work by the IASB; and • IFRS 1, *First-time adoption of IFRS* elections. During the first quarter of 2011, OPG determined that balances in variance and deferral accounts established by the OEB including those authorized pursuant to *Ontario Regulation 53/05*, meet the definition of a financial asset and financial liability. OPG continues to determine the impact on its accounting for the remaining regulatory assets and liabilities upon its adoption of IFRS.
Training and communications		
Provide training to affected employees of operating units, management and the Board of Directors and relevant committees thereof, including the Audit and Finance Committee Engage subject matter experts to assist in the transition	Provide timely training in line with changeover milestones. Target to complete training by the end of 2011 Communicate effects of changeover by the fourth quarter of 2011	In 2010, completed detailed training for resources directly engaged in the changeover and general awareness training to broader group of finance employees Completed specific and relevant training to 150 finance employees

Selected Key Activities	Milestones/Deadlines	Progress to Date
Training and communications		
Communicate progress of changeover plan to internal and external stakeholders		Continued on-going, periodic internal and external communications about OPG's progress Continued use of third-party subject matter experts to assist in the transition
IT systems		
Identify and address IFRS differences that require changes to financial systems Evaluate and select methods in 2011 to address need for dual record-keeping (i.e., IFRS and Canadian GAAP) for comparatives in 2011 and budget and planning purposes in 2012	Changes to significant systems and dual record-keeping process completed for the first quarter of 2010 Remaining changes to systems post-dual recordkeeping year by the fourth quarter of 2011	Systems changes complete to the extent possible. Further changes to information systems would be largely dependent upon future changes to the IFRS standards. Processes and systems are in place to accumulate IFRS data to enable reporting of 2011 comparative information in 2012
Contractual arrangements and compensation		
Identify impact of changeover on contractual arrangements, including financial covenants and employee compensation plans Make any required changes to arrangements and plans	Changes completed by the third quarter of 2010	IFRS differences with potential impacts on financial covenants and compensation plans were identified and discussed with both internal and external parties as required
Internal controls: Internal controls over financial reporting ("ICOFR"), disclosure controls and procedures ("DC&P") and related communications		
Revise existing internal control processes and procedures to address significant changes to existing accounting policies and practices, including the need for dual record-keeping during 2011, and changes to financial systems Design and implement internal controls with respect to one-time changeover adjustments and related communications. For changes to accounting policies and practices identified, assess the DC&P and ICOFR design and effectiveness implications	Conduct management evaluation of new or revised controls throughout 2010 and 2011 Changes will be mapped and tested to ensure that no material deficiencies exist as a result of OPG's conversion to the IFRS accounting standards	An evaluation of OPG's readiness to transition to and report under IFRS positively concluded the project controls are adequate to support the completion of tasks to adopt IFRS IFRS compliant accounting policies and procedures continue to be developed The impact on controls continues to be evaluated and changes are made where necessary IFRS opening balance sheet adjustment controls are being evaluated and are being applied to the January 1, 2011 opening transition balance sheet

RISK MANAGEMENT

A detailed discussion of OPG's governance structure and inherent risks is included in the 2010 annual MD&A under the heading, *Risk Management*. In addition, disclosure is provided relating to the activities that OPG undertakes to identify and manage these risks. This risk management update should be read in conjunction with the *Risk Management* section included in OPG's 2010 annual MD&A. The following discussion provides an update of OPG's risk management activities since the 2010 annual disclosure.

Operational Risks

Risks Associated with Major Development Projects

The risks associated with the cost, schedule and technical aspects of the major development projects could adversely impact OPG's financial performance and ultimately, its corporate reputation.

Niagara Tunnel Project

While the TBM mining has been completed, some cost and schedule uncertainty remains with respect to the liner installation. The factors that contribute to this uncertainty include the activities to restore the tunnel profile and challenging logistics for concrete delivery. Allowances for these factors have been included in the cost estimate and schedule. The contractor is deploying additional resources on the profile restoration and concrete delivery operations to minimize potential impact on the schedule for project completion.

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.

Unpredictable increases in the price of fuels used to produce electricity can adversely impact OPG's earnings. To manage this risk, 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 Company takes steps, such as executing forward sales at fixed prices, to mitigate the impact that extreme variations in the spot price could have on the gross margin.

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

	2011[4]	**2012**	**2013**
Estimated generation output hedged [1]	81%	81%	81%
Estimated fuel requirements hedged [2]	66%	56%	52%
Estimated nitric oxide (NO) emission requirement hedged [3]	100%	100%	100%
Estimated sulphur dioxide (SO_2) emission requirement hedged [3]	100%	100%	100%

1 Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under regulated pricing commitments, and agreements with the IESO, OEFC, and OPA.

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 short-term borrowings and investment programs.

OPG has interest rate exposure on its short-term borrowings and investment programs. 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, 2011, OPG had total interest rate swap contracts outstanding with a notional principal of $335 million.

Trading

OPG's financial performance could be adversely 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 risk of this trading activity is known as "value at risk" or "VaR", which is defined as the potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. The VaR utilization ranged between $0.1 million to $0.3 million during the three months ended March 31, 2011, which was unchanged from the range during the three months ended December 31, 2010.

Credit

Deterioration in counterparty credit and non-performance by suppliers can adversely impact OPG's earnings and cash flows 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, 2011, was $375 million, including $350 million to the IESO. Over 65 percent of the remaining $25 million exposure related to investment grade counterparties.

Regulatory Risks

Rate Regulation

OPG may not recover all costs incurred by regulated operations through regulated prices. Significant uncertainties remain regarding the outcome of future rate proceedings.

The prices for electricity generated from most of OPG's baseload hydroelectric facilities and all of the nuclear facilities that it operates are determined by the OEB, currently on a forecast cost of service methodology. As with any regulated price established using a forecast cost of service methodology, there is an inherent risk that the prices established by the regulator may not provide for recovery of all actual costs incurred by the regulated operations, or allow the regulated operations to earn the allowed rate of return.

In March 2011, the OEB issued its decision on OPG's application for new regulated prices for 2011 and 2012. OPG has filed with the OEB a motion to review and vary a portion of the decision pertaining to pension and OPEB costs. OPG has also filed a notice of appeal with the Divisional Court of Ontario related to the OEB's decision on nuclear compensation costs. Significant uncertainties remain regarding the outcome of future rate proceedings.

Nuclear Regulatory Requirements

Nuclear regulatory requirements may be revised which may impact OPG's existing nuclear operations and development of New Nuclear Units.

Following the events at the Fukushima Daiichi nuclear facilities in Japan, the CNSC has directed all nuclear reactor operators to revisit their safety plans and report on potential improvements. There is a risk that existing environmental, safety and regulatory requirements may be revised. These revisions may result in additional activities and potential costs to OPG's existing nuclear operations and development of New Nuclear Units. Along with the rest of the nuclear industry, OPG will incorporate any applicable lessons learned.

Enterprise-Wide Risks

Electricity Demand and Supply

OPG's generation may be displaced to the extent renewable energy resources come on line under the Green Energy Act.

Lower than forecast primary demand combined with increased baseload generating sources could result in SBG conditions, which may cause OPG to spill water from hydroelectric generating units and reduce generation output of nuclear units. SBG conditions could cause a decline in OPG's revenue. The OEB has recently rendered its decision on OPG's application for new regulated prices and has directed OPG to establish a variance account, which is expected to mitigate, conditionally, the impact of SBG conditions on OPG's revenue.

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 control 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 Canadian GAAP.

(millions of dollars – except where noted)	**March 31 2011**	**December 31 2010**	**September 30 2010**	**June 30 2010**
Revenue	**1,308**	1,324	1,396	1,211
Net income (loss)	**151**	202	333	(29)
Net income (loss) per share	**$0.59**	$0.79	$1.29	$(0.11)

(millions of dollars – except where noted)	**March 31 2010**	**December 31 2009**	**September 30 2009**	**June 30 2009**
Revenue[1]	1,443	1,390	1,345	1,397
Net income	143	67	259	306
Net income per share	$0.56	$0.26	$1.01	$1.20

[1] The 2009 revenue was presented net of the revenue limit rebate.

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 and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning and cooling demands in the third quarter.

Additional items which impacted net income (loss) in certain quarters above are described in OPG's 2010 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 and notes thereto for the year ended December 31, 2010 can be found on SEDAR at www.sedar.com.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing net income in accordance with Canadian GAAP, OPG's MD&A, unaudited interim consolidated financial statements as at and for the three months ended March 31, 2011 and 2010 and the notes thereto, present certain non-GAAP financial measures. These financial measures do not have standard definitions prescribed by Canadian GAAP, and therefore, may not be comparable to similar measures disclosed by other companies. OPG utilizes these measures in making operating decisions and assessing its performance. Readers of the MD&A, consolidated financial statements, and notes thereto, utilize these measures in assessing the Company's financial performance from on-going operations. These non-GAAP financial measures have not been presented as an alternative to net income in accordance with Canadian GAAP as an indicator of operating performance. The definitions of the non-GAAP financial measures are as follows:

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

(2) **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)*	**2011**	**2010**
Revenue *(Notes 2 and 13)*	**1,308**	1,443
Fuel expense *(Note 13)*	**166**	247
Gross margin *(Note 13)*	**1,142**	1,196
Expenses *(Note 13)*		
Operations, maintenance and administration	**712**	727
Depreciation and amortization *(Note 4)*	**158**	166
Accretion on fixed asset removal and nuclear waste management liabilities *(Notes 5 and 8)*	**172**	165
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(138)**	(141)
Property and capital taxes	**8**	19
Restructuring *(Note 16)*	**-**	25
	912	961
Income before the following:	**230**	235
Other losses (gains) *(Note 13)*	**1**	(1)
Income before interest and income taxes	**229**	236
Net interest expense	**41**	45
Income before income taxes	**188**	191
Income tax expense (recovery) *(Note 9)*		
Current	**124**	33
Future	**(87)**	15
	37	48
Net income	**151**	143
Basic and diluted income per common share *(dollars)*	**0.59**	0.56
Common shares outstanding *(millions)*	**256.3**	256.3

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2011**	**2010**
Operating activities		
Net income	**151**	143
Adjust for non-cash items:		
Depreciation and amortization *(Note 4)*	**158**	166
Accretion on fixed asset removal and nuclear waste management liabilities *(Note 8)*	**172**	165
Earnings on nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**(138)**	(141)
Pension costs *(Note 10)*	**65**	31
Other post employment benefits and supplementary pension plans *(Note 10)*	**65**	52
Future income taxes and other accrued charges *(Note 9)*	**(87)**	15
Provision for restructuring *(Note 16)*	**-**	25
Mark-to-market on derivative instruments	**6**	93
Provision for used nuclear fuel and low and intermediate level waste	**12**	11
Regulatory assets and liabilities *(Note 5)*	**(88)**	(134)
Other	**-**	2
	316	428
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(63)**	(72)
Expenditures on fixed asset removal and nuclear waste management *(Note 8)*	**(38)**	(51)
Reimbursement of expenditures on nuclear fixed asset removal and nuclear waste management	**13**	26
Contributions to pension funds	**(68)**	(68)
Expenditures on other post employment benefits and supplementary pension plans	**(19)**	(17)
Expenditures on restructuring *(Note 16)*	**(10)**	-
Net changes to other long-term assets and liabilities	**15**	41
Net changes in non-cash working capital balances *(Note 14)*	**263**	(69)
Cash flow provided by operating activities	**409**	218
Investing activities		
Investment in fixed and intangible assets	**(283)**	(177)
Cash flow used in investing activities	**(283)**	(177)
Financing activities		
Issuance of long-term debt *(Note 6)*	**190**	580
Repayment of long-term debt *(Note 6)*	**(190)**	(534)
Net increase in short-term notes *(Note 7)*	**1**	-
Cash flow provided by financing activities	**1**	46
Net increase in cash and cash equivalents	**127**	87
Cash and cash equivalents, beginning of period	**280**	71
Cash and cash equivalents, end of period	**407**	158

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31** **2011**	**December 31** **2010**
Assets		
Current assets		
Cash and cash equivalents	**407**	280
Accounts receivable *(Note 3)*	**186**	270
Fuel inventory	**711**	734
Prepaid expenses	**53**	42
Income and capital taxes recoverable	**-**	65
Future income taxes *(Note 9)*	**62**	73
Materials and supplies	**88**	85
	1,507	1,549
Fixed assets *(Note 13)*		
Property, plant and equipment	**19,933**	19,654
Less: accumulated depreciation	**6,227**	6,099
	13,706	13,555
Intangible assets *(Note 13)*		
Intangible assets	**348**	345
Less: accumulated amortization	**301**	297
	47	48
Other long-term assets		
Deferred pension asset	**1,149**	1,146
Nuclear fixed asset removal and nuclear waste management funds *(Note 8)*	**11,437**	11,246
Long-term investments	**31**	30
Long-term materials and supplies	**389**	400
Regulatory assets *(Note 5)*	**1,554**	1,559
Long-term accounts receivable and other assets	**45**	44
	14,605	14,425
	29,865	29,577

See accompanying notes to the interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at *(millions of dollars)*	**March 31 2011**	**December 31 2010**
Liabilities		
Current liabilities		
Accounts payable and accrued charges	**754**	762
Income and capital taxes payable	**102**	-
Long-term debt due within one year *(Note 6)*	**197**	385
Short-term notes payable *(Note 7)*	**156**	155
Deferred revenue due within one year	**12**	12
	1,221	1,314
Long-term debt *(Note 6)*	**4,031**	3,843
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(Note 8)*	**12,854**	12,704
Other post employment benefits and supplementary pension plans	**1,954**	1,908
Long-term accounts payable and accrued charges	**524**	525
Deferred revenue	**158**	152
Future income taxes *(Note 9)*	**637**	798
Regulatory liabilities *(Note 5)*	**243**	248
	16,370	16,335
Shareholder's equity		
Common shares	**5,126**	5,126
Retained earnings	**3,175**	3,024
Accumulated other comprehensive loss	**(62)**	(69)
Attributable to shareholder of OPG Inc.	**8,239**	8,081
Non-controlling interest *(Notes 2 and 15)*	**4**	4
	8,243	8,085
	29,865	29,577

Commitments and Contingencies *(Notes 6, 11, 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)*	**2011**	**2010**
Common shares	**5,126**	5,126
Retained earnings		
Balance at beginning of period	**3,024**	2,375
Net income	**151**	143
Balance at end of period	**3,175**	2,518
Accumulated other comprehensive loss, net of income taxes		
Balance at beginning of period	**(69)**	(24)
Other comprehensive income (loss) for the period	**7**	(12)
Balance at end of period	**(62)**	(36)
Attributable to shareholder of OPG Inc.	**8,239**	7,608
Non-controlling interest *(Notes 2 and 15)*	**4**	4
	8,243	7,612

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2011**	**2010**
Net income	**151**	143
Other comprehensive income (loss), net of income taxes		
Net gain (loss) on derivatives designated as cash flow hedges[1]	**6**	(10)
Reclassification to income of losses (gains) on derivatives designated as cash flow hedges[2]	**1**	(2)
Other comprehensive income (loss) for the period	**7**	(12)
Comprehensive income	**158**	131

[1] Net of income tax expenses of nil and $1 million for the three months ended March 31, 2011 and 2010, respectively.

[2] Net of income tax recoveries of nil and $1 million for the three months ended March 31, 2011 and 2010, respectively.

See accompanying notes to the interim consolidated financial statements

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements, except as discussed in Note 2 to these interim consolidated financial statements, and are presented in Canadian dollars. These interim consolidated financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles ("GAAP") for annual financial statements. Accordingly, these interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2010.

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Certain of the 2010 comparative amounts have been reclassified from financial statements previously presented to conform to the 2011 financial statement presentation.

2. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Changes Applicable to the Current Period

Business Combinations, Consolidated Financial Statements, and Non-controlling Interests

Effective January 1, 2011, Ontario Power Generation Inc. ("OPG" or the "Company") adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1582 *Business Combinations* ("Section 1582"), Section 1601 *Consolidated Financial Statements* ("Section 1601"), and Section 1602 *Non-controlling Interests* ("Section 1602"). Section 1582 specifies a number of changes, including an expanded definition of a business, a requirement to measure all business acquisitions at fair value, and a requirement to recognize acquisition-related costs as expenses. Section 1601 establishes the standards for preparing consolidated financial statements. Section 1602 specifies that non-controlling interests be treated as a separate component of equity, not as a liability or other item outside of equity. These new standards are harmonized with International Financial Reporting Standards ("IFRS"). These standards shall be applied prospectively to business combinations whose acquisition date is on or after the date of adoption. As a result of adopting Section 1602, the Company has reclassified its non-controlling interests as a separate component of equity. The adoption of Section 1582 and Section 1601 did not have a material impact on the Company's consolidated financial statements for the three months ended March 31, 2011.

Revenue Recognition – Generating Assets

Effective March 1, 2011, energy revenue generated from the nuclear facilities owned and operated by OPG is based on a regulated price of 5.59¢/kWh pursuant to the decision and order issued by the Ontario Energy Board ("OEB") in March and April 2011, respectively, on the application for new regulated prices filed by OPG in May 2010. The nuclear regulated price includes a rate rider of 0.43¢/kWh for the recovery of approved nuclear variance and deferral account balances based on recovery periods authorized by the OEB. Effective March 1, 2011, generation from OPG's regulated hydroelectric facilities receives a regulated price of 3.41¢/kWh, pursuant to the OEB's decision and order. The hydroelectric regulated price is net of a negative rate rider of -0.17¢/kWh reflecting the repayment of the approved regulated hydroelectric variance account balances. These rate riders will remain in effect until December 31, 2012. The new regulated prices were determined using a forecast cost of service methodology and an approved 24-month revenue requirement of approximately $6.7 billion.

In its decision, the OEB also approved the continuation of the existing hydroelectric incentive mechanism ("HIM"), but determined that a portion of the resulting net revenues should be shared with ratepayers effective March 1, 2011. Prior to March 1, 2011, energy revenue generated from the nuclear facilities owned and operated by OPG was based on a regulated price of 5.50¢/kWh, including a rate rider of 0.20¢/kWh for the recovery of the approved nuclear variance and deferral account balances, pursuant to the OEB's 2008 decision. Pursuant to this decision, prior to March 1, 2011, the revenue from the regulated hydroelectric generation was based on a regulated price of 3.67¢/kWh, which included the recovery of the approved regulated hydroelectric variance account balances and was subject to the HIM.

Electricity generated from OPG's other generating assets remains unregulated and continues to receive the Ontario electricity spot market price, except where an energy supply agreement is in place.

Future Changes in Accounting Policy

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Publicly Accountable Enterprises will be required to transition from Canadian GAAP to IFRS, as issued by the International Accounting Standards Board ("IASB"), for interim and annual financial reporting purposes of fiscal years beginning on or after January 1, 2011. As a result of recent changes to Part I of the CICA Handbook – Accounting, by the AcSB, certain rate-regulated entities can defer the adoption of IFRS by one year to January 1, 2012. OPG meets the AcSB's criteria for the deferral and has chosen to adopt IFRS effective January 1, 2012.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement and disclosure. In line with OPG's IFRS conversion project, an assessment has been completed to identify the key accounting differences from Canadian GAAP. OPG's assessment of the impact of IFRS is based on the IFRS standards in effect at the time of conversion on January 1, 2012 and accounting elections made. Proposed changes to the IFRS accounting standards have the potential to introduce additional significant accounting differences. OPG's interim consolidated financial statements, as currently disclosed in accordance with Canadian GAAP, will be significantly different when presented in accordance with IFRS. OPG will publish its first consolidated financial statements prepared in accordance with IFRS for the three months ending and as at March 31, 2012, and for the corresponding comparative period. The opening balance sheet as at January 1, 2011 will be disclosed in the March 31, 2012 interim consolidated financial statements.

3. SALE OF ACCOUNTS RECEIVABLE

In October 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. 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.

During 2010, in accordance with the receivable purchase agreement, OPG renewed the agreement with a maturity date of August 31, 2013 and a commitment of $250 million.

The accounts receivable reported and securitized by the Company are as follows:

(millions of dollars)	**Principal Amount of Receivables as at March 31 2011**	**Principal Amount of Receivables as at December 31 2010**
Total receivables portfolio [1]	**309**	377
Receivables sold	**250**	250
Receivables retained	**59**	127

[1] Amount represents receivables outstanding, including receivables that have been securitized, which the Company continues to service.

The pre-tax charges and average cost of funds are as follows:

(millions of dollars – except where noted)	**Three Month Ended March 31 2011**	**Three Month Ended March 31 2010**
Pre-tax charges	**1**	1
Average cost of funds *(percent)*	**1.7**	1.0

4. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2011 and 2010 consists of the following:

(millions of dollars)	**Three Month Ended March 31 2011**	**Three Month Ended March 31 2010**
Depreciation	**134**	136
Amortization of intangible assets	**4**	5
Amortization of regulatory assets and liabilities (*Note 5*)	**20**	25
	158	166

Interest capitalized to construction in progress at an average rate of five percent during the three months ended March 31, 2011 (three months ended March 31, 2010 – six percent) was $18 million (three months ended March 31, 2010 – $18 million).

5. REGULATORY ASSETS AND LIABILITIES

The OEB's decision issued in 2008 authorized certain variance and deferral accounts effective April 1, 2008, including those authorized pursuant to *Ontario Regulation 53/05*, a regulation under the *Ontario Energy Board Act, 1998*. During the second quarter of 2009, the OEB issued a decision that authorized a Tax Loss Variance Account effective April 1, 2008. During the fourth quarter of 2009, the OEB issued a decision on the treatment of variance and deferral accounts for the period after December 31, 2009 and established the Hydroelectric Deferral and Variance Over/Under Recovery Variance Account effective January 1, 2010. During January and February 2011, the Company recorded additions to the variance and deferral accounts authorized by the OEB pursuant to the above decisions.

In March and April 2011, respectively, the OEB issued its decision and order establishing new regulated prices for OPG's regulated generation effective March 1, 2011. In its decision, the OEB approved OPG's request for the disposition of variance and deferral account balances as at December 31, 2010 without adjustments. The OEB approved OPG's application for the disposition of the Tax Loss Variance Account balance over a 46-month period ending December 31, 2014, the unamortized portion of the Pickering A Return to Service Deferral Account balance over a ten-month period ending December 31, 2011 and all other balances over a 22-month period ending December 31, 2012. The approved disposition of the regulatory balances resulted in rate riders of 0.43¢/kWh and -0.17¢/kWh being included in the new regulated prices for OPG's nuclear and regulated hydroelectric generation, respectively, as discussed in Note 2 to these interim consolidated financial statements. Any shortfall or over-recovery of the approved variance and deferral account balances due to differences between actual and forecast production is recorded in the Nuclear and Hydroelectric Deferral and Variance Over/Under Recovery Variance Accounts and will be collected from, or refunded to ratepayers following OPG's next application to the OEB.

In its 2011 decision and order, the OEB authorized the continuation of previously existing variance and deferral accounts as proposed by OPG, with the exception of the Nuclear Fuel Cost Variance Account, which has been discontinued as of March 1, 2011. Only interest and amortization are recorded in this account effective March 1, 2011.

The OEB also established the Hydroelectric Surplus Baseload Generation ("SBG") Variance Account and the HIM Variance Account. The Hydroelectric SBG Variance Account captures the financial impact of foregone production at OPG's regulated hydroelectric facilities due to SBG. The HIM Variance Account captures the net revenues from the HIM that are required to be returned to ratepayers.

During March 2011, the Company recorded additions to the variance and deferral accounts authorized by the OEB's 2011 decision and order, and amortized approved regulatory balances based on recovery periods established by the OEB in its decision and order.

OPG also recorded interest on outstanding balances in the variance and deferral accounts at the interest rate prescribed by the OEB, which was 1.47 percent during the three months ended March 31, 2011. The interest rate fluctuated in the range of 0.55 percent to 1.20 percent per annum during the year ended December 31, 2010.

In March 2011, OPG recorded a regulatory asset of $54 million related to the amount of income taxes payable by OPG, as a result of the OEB's approval for recovery of certain variance and deferral account balances effective March 1, 2011. During the first quarter of 2011, the recognition of the regulatory asset resulted in a reduction to current income tax expense of $57 million and a charge of $3 million to depreciation and amortization expense. The regulatory asset is based on the amount of income taxes expected to be recovered from ratepayers through current regulated prices and is amortized as these income taxes are recovered.

The regulatory assets and liabilities recorded as at March 31, 2011 and December 31, 2010 are as follows:

(millions of dollars)	**March 31 2011**	**December 31 2010**
Regulatory assets		
Future Income Taxes *(Note 9)*	**650**	711
Bruce Lease Net Revenues Variance Account	**244**	250
Tax Loss Variance Account	**516**	492
Current Income Taxes	**54**	-
Nuclear Liabilities Deferral Account	**37**	39
Other	**53**	67
Total regulatory assets	**1,554**	1,559
Regulatory liabilities		
Nuclear Development Variance Account	**112**	111
Hydroelectric Water Conditions Variance Account	**65**	70
Income and Other Taxes Variance Account	**43**	40
Other	**23**	27
Total regulatory liabilities	**243**	248

As at March 31, 2011 and December 31, 2010, other regulatory assets include the Pickering A Return to Service Deferral Account, Nuclear Deferral and Variance Over/Under Variance Account, the Nuclear Fuel Cost Variance Account, and other regulatory asset balances. As at March 31, 2011 and December 31, 2010, other regulatory liabilities include the Hydroelectric Deferral and Variance Over/Under Variance Account, the Capacity Refurbishment Variance Account, and other regulatory liability balances.

The changes in the regulatory assets and liabilities during the three months ended March 31, 2011 and the year ended December 31, 2010 are as follows:

(millions of dollars)	**Future Income Taxes**	**Bruce Lease Net Revenues Variance**	**Tax Loss Variance**	**Current Income Taxes**	**Nuclear Liabilities Deferral**	**Nuclear Develop-ment Variance**	**Hydro-electric Water Conditions Variance**	**Income and Other Taxes Variance**	**Other (net)**
Regulatory assets (liabilities), January 1, 2010	592	328	295	-	86	(55)	(55)	(21)	54
Change during the year	119	(81)	194	-	-	(50)	(14)	(19)	34
Interest	-	3	3	-	1	(1)	(1)	-	-
Amortization during the year	-	-	-	-	(48)	(5)	-	-	(48)
Regulatory assets (liabilities), December 31, 2010	711	250	492	-	39	(111)	(70)	(40)	40
Change during the period	(61)	4	33	57	-	(6)	2	(4)	(7)
Interest	-	1	2	-	-	-	-	(1)	-
Amortization during the period	-	(11)	(11)	(3)	(2)	5	3	2	(3)
Regulatory assets (liabilities), March 31, 2011	**650**	**244**	**516**	**54**	**37**	**(112)**	**(65)**	**(43)**	**30**

The following table summarizes the income statement and other comprehensive income statement impacts of recognizing regulatory assets and liabilities:

(millions of dollars)	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
	As Stated	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**	**As Stated**	**Impact of Regulatory Assets and Liabilities**	**Financial Statements without the Impact of Regulatory Assets and Liabilities**
Revenue	**1,308**	**(35)**	**1,273**	1,443	(150)	1,293
Fuel expense	**166**	**6**	**172**	247	4	251
Operations, maintenance and administration	**712**	**(7)**	**705**	727	(16)	711
Depreciation and amortization	**158**	**(25)**	**133**	166	(33)	133
Accretion on fixed asset removal and nuclear waste management liabilities	**172**	**4**	**176**	165	3	168
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(138)**	**(3)**	**(141)**	(141)	(16)	(157)
Property and capital taxes	**8**	**(4)**	**4**	19	(3)	16
Net interest expense	**41**	**1**	**42**	45	-	45
Income tax expense	**37**	**(9)**	**28**	48	8	56
Other comprehensive income (loss)	**7**	**(2)**	**5**	(12)	4	(8)

6. LONG-TERM DEBT

Long-term debt consists of the following:

(millions of dollars)	**March 31 2011**	**December 31 2010**
Notes payable to the Ontario Electricity Financial Corporation	**3,867**	3,865
UMH Energy Partnership debt	**198**	198
Share of non-recourse limited partnership debt	**163**	165
	4,228	4,228
Less: due within one year		
Notes payable to the Ontario Electricity Financial Corporation	**187**	375
UMH Energy Partnership debt	**2**	2
Share of non-recourse limited partnership debt	**8**	8
	197	385
Long-term debt	**4,031**	3,843

Interest paid during the three months ended March 31, 2011 was \$84 million (three months ended March 31, 2010 – \$93 million), of which \$82 million relates to interest paid on long-term debt (three months ended March 31, 2010 – \$90 million). Interest on the notes payable to the Ontario Electricity Financial Corporation ("OEFC") is paid semi-annually.

During 2010, OPG executed an amended Niagara Tunnel project credit facility for an amount up to $1.6 billion. As at March 31, 2011, advances under this facility were $730 million, which included $40 million of new borrowing during the first quarter of 2011.

OPG reached an agreement with the OEFC in the first quarter of 2011 for a $375 million credit facility to refinance notes as they mature over the period from January 2011 to December 2011. Refinancing under this agreement totalled $150 million as at March 31, 2011, which was issued at an interest rate of 5.4 percent with a 30-year term.

On May 17, 2011, senior notes totalling $475 million were issued by the Lower Mattagami Energy Limited Partnership. The senior notes have interest rates of 4.3 percent for notes maturing in 2021 and 5.1 percent for notes maturing in 2041. These notes are secured by the assets of the Lower Mattagami project including existing operating facilities and facilities being constructed.

7. SHORT-TERM CREDIT FACILITIES

OPG maintains a $1 billion revolving committed bank credit facility, which is divided into two tranches – a $500 million 364-day term tranche and a $500 million multi-year term tranche. In May 2011, OPG renewed and extended the 364-day term tranche for a four-year term to May 18, 2015. The multi-year term tranche has a maturity date of May 20, 2013. 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, 2011, no commercial paper was outstanding (December 31, 2010 – nil), and OPG had no other outstanding borrowings under the bank credit facility.

During 2010, the Lower Mattagami Energy Limited Partnership established a $700 million bank credit facility to support the initial construction phase for the Lower Mattagami project and launched a commercial paper program. As at March 31, 2011, $156 million of commercial paper was outstanding under this program (December 31, 2010 – $155 million). In March 2011, OPG executed a $700 million credit facility with the OEFC in support of the Lower Mattagami project. As at March 31, 2011, there was no outstanding borrowing under this credit facility (December 31, 2010 – nil). Long-term financing arrangements, as discussed in Note 6, are being established to support the total requirements of the project.

8. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

The liability for fixed asset removal and nuclear waste management on a present value basis consists of the following:

(millions of dollars)	**March 31 2011**	**December 31 2010**
Liability for nuclear used fuel management	**7,630**	7,534
Liability for nuclear decommissioning and low and intermediate level waste management	**5,065**	5,013
Liability for non-nuclear fixed asset removal	**159**	157
Fixed asset removal and nuclear waste management liabilities	**12,854**	12,704

The changes in the fixed asset removal and nuclear waste management liabilities for the three months ended March 31, 2011 and the year ended December 31, 2010 are as follows:

(millions of dollars)	**March 31 2011**	**December 31 2010**
Liabilities, beginning of period	**12,704**	11,859
Increase in liabilities due to accretion	**176**	673
Increase in liabilities due to changes in assumptions related to the decision to commence the definition phase of the refurbishment of the Darlington nuclear generating station	**-**	293
Increase in liabilities due to nuclear used fuel, nuclear waste management variable expenses and other expenses	**12**	56
Liabilities settled by expenditures on fixed asset removal and waste management	**(38)**	(181)
Change in the liabilities for non-nuclear fixed asset removal	**-**	4
Liabilities, end of period	**12,854**	12,704

The cash and cash equivalents balance as at March 31, 2011 includes $3 million of cash and cash equivalents that are for the use of nuclear waste management activities (December 31, 2010 – $3 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 Nuclear Fuel Waste Act ("NFWA").

The nuclear fixed asset removal and nuclear waste management funds ("Nuclear Funds") as at March 31, 2011 and December 31, 2010 consist of the following:

	Fair Value	
(millions of dollars)	**March 31 2011**	**December 31 2010**
Decommissioning Segregated Fund	**5,350**	5,267
Used Fuel Segregated Fund[1]	**6,370**	6,198
Due to Province – Used Fuel Segregated Fund	**(283)**	(219)
	6,087	5,979
	11,437	11,246

[1] The Ontario NFWA Trust represented $1,977 million as at March 31, 2011 (December 31, 2010 – $1,949 million) of the Used Fuel Segregated Fund on a fair value basis.

As required by the terms of the ONFA, the Province of Ontario ("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 Fund and the Decommissioning 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. In December 2009, the CNSC approved an increase in the amount of the Provincial Guarantee to

$1,545 million effective on March 1, 2010. The value of this Provincial Guarantee will be in effect through to the end of 2012, when the next reference plan for the CNSC is required to be submitted. In January 2011, OPG paid a guarantee fee of $8 million based on a Provincial Guarantee amount of $1,545 million.

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* ("Section 3855"), the investments in the Nuclear Funds and the corresponding payables to the Province 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 for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31	
(millions of dollars)	**2011**	**2010**
Decommissioning Segregated Fund	**90**	87
Used Fuel Segregated Fund	**51**	70
Bruce Lease Net Revenues Variance Account *(Note 5)*	**(3)**	(16)
Total earnings	**138**	141

9. INCOME TAXES

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

During the three months ended March 31, 2011, OPG recorded a decrease to the future income tax liability for the future taxes that are expected to be recovered or refunded through regulated prices charged to customers of $61 million. Since these future income taxes are expected to be refunded through future regulated prices, OPG has recorded a corresponding decrease to the regulatory asset for future income taxes. As a result, the future income taxes for the three months ended March 31, 2011 were not impacted.

The amount of cash income taxes paid during the three months ended March 31, 2011 was nil (three months ended March 31, 2010 – $8 million).

10. PENSION AND OTHER POST EMPLOYMENT BENEFIT COSTS

Total benefit costs for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31	
(millions of dollars)	**2011**	**2010**
Registered pension plans	**65**	31
Supplementary pension plans	**6**	5
Other post employment benefits	**59**	47
Pension and other post employment benefit costs	**130**	83

11. Financial Instruments

The Risk Oversight Committee ("ROC") assists the Board of Directors to fulfill its oversight responsibilities for matters relating to identification and management of the Company's key business risks. Risk management activities are coordinated by a centralized Corporate Risk Management group led by the Chief Risk Officer. Risks that would prevent business units from achieving business plan objectives are identified at the business unit level. Senior management sets risk limits for the financing, procurement, and trading activities of the Company and ensures that effective risk management policies and processes are in place to ensure compliance with such limits in order to maintain an appropriate balance between risk and return. OPG's risk management process aims to continually evaluate the effectiveness of risk mitigation activities for identified key risks. The findings from this evaluation process are reported quarterly to the ROC.

OPG is exposed to risks related to changes in electricity prices associated with a wholesale spot market for electricity in Ontario, changes in interest rates, and movements in foreign currency that affect its assets, liabilities, and forecast transactions. Select derivative instruments are used to limit such risks. Derivatives are used as hedging instruments, as well as for trading purposes.

Derivatives and Hedging

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. OPG also requires a documented assessment, both at hedge inception 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.

Hedge accounting is applied when the derivative instrument is designated as a hedge and is expected to be effective throughout the life of the hedged item. When such a derivative instrument hedge ceases to exist or to be effective as a hedge, or when designation of a hedging relationship is terminated, 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.

Derivative Instruments Qualifying for Hedge Accounting

The following table provides the estimated fair value of derivative instruments designated as hedges.

(millions of dollars – except where noted)	**Notional Quantity**	**Terms**	**Fair Value**	**Notional Quantity**	**Terms**	**Fair Value**
		March 31, 2011			**December 31, 2010**	
Floating-to-fixed interest rate hedges	**34**	**1-9 years**	**(4)**	35	1-9 years	(4)
Forward starting interest rate hedges	**335**	**1-12 years**	**(13)**	375	1-12 years	(21)

One of the Company's joint ventures is exposed to changes in interest rates. The joint venture entered into an interest rate swap to manage the risk arising from fluctuations in interest rates by swapping the short-term floating interest rate with a fixed rate of 5.33 percent. OPG's proportionate interest in the swap is 50 percent and is accounted for as a hedge.

Net losses of $1 million, which includes the impact of income taxes, related to derivative instruments qualifying for hedge accounting were recognized in net income during the three months ended March 31, 2011. Existing net losses of $6 million deferred in accumulated other comprehensive loss at March 31, 2011 are expected to be reclassified to net income within the next 12 months.

Derivative Instruments Not Qualifying for Hedge Accounting

The carrying amount (fair value) of commodity derivative instruments not designated for hedging purposes is as follows:

(millions of dollars – except where noted)	**Notional Quantity**	**Fair Value**	**Notional Quantity**	**Fair Value**
	March 31, 2011		**December 31, 2010**	
Commodity derivative instruments				
Assets	**4.6 TWh**	**3**	1.7 TWh	3
Liabilities	**0.5 TWh**	**-**	0.1 TWh	-
Total		**3**		3

Under the Bruce Power lease agreement, lease revenue is reduced in each calendar year where the annual arithmetic average of the Hourly Ontario Electricity Price ("Average HOEP") falls below $30/MWh, and if certain other conditions are met. The conditional reduction to revenue included in the lease agreement is treated as a derivative according to Section 3855. OPG reported a liability of $170 million as at March 31, 2011 (December 31, 2010 – $163 million), which reflected the fair value of a derivative embedded in the Bruce Power lease agreement. This increase in the fair value of the derivative liability was primarily due to reductions in the expected future Average HOEP since the beginning of 2011. The income statement impact as a result of changes to the liability is offset by the income statement impact of the Bruce Lease Net Revenues Variance Account.

Fair Value

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. 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.

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 interim consolidated balance sheets. This is the case for over-the-counter derivatives and securities, which include energy commodity derivatives, foreign exchange derivatives, interest rate swap derivatives, and fund investments. 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.

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 have been rescheduled and are anticipated to occur in the third quarter of 2011. It may take some time for the arbitrator to come to a decision after the closing arguments have been completed.

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 Defence. 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 Defence until the conclusion of the Arbitration. That motion was scheduled to be heard March 5, 2010 but was adjourned at the request of British Energy. The return date of that motion is yet to be set.

In September 2008, a certain First Nation served a Notice of Action against the Government of Canada, the Province of Ontario, OPG, and the OEFC claiming damages in the amount of $200 million arising from breach of contract, fiduciary duty, trespass to property, negligence, nuisance, misrepresentation, breach of riparian rights and unlawful and unjustifiable infringement of the Aboriginal and treaty rights and $0.5 million in special damages. This Notice of Action was followed by service of the formal Statement of Claim in June 2010 upon the same parties seeking the same relief. OPG continues to assess the merits of the litigation.

A Notice of Arbitration was served upon OPG and the OEFC by a First Nation. The OEFC was subsequently released from the arbitration proceedings. The arbitration concerns whether OPG breached an Agreement to use its "best efforts" to engage the Province in discussion with the First Nation concerning the sharing of benefits related to hydroelectric development. The arbitration to determine whether there is any liability for damages continues. The arbitration is not expected to have any material impact on the Company's financial position.

Certain First Nations have commenced actions for interference with reserve and traditional land rights. 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 financial statements to meet certain other environmental obligations.

13. BUSINESS SEGMENTS

Segment Income (Loss) for the Three Months Ended March 31, 2011 *(millions of dollars)*	**Regulated**			**Unregulated**				
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	**788**	**12**	**184**	**149**	**146**	**41**	**(12)**	**1,308**
Fuel expense	**55**	**-**	**50**	**20**	**41**	**-**	**-**	**166**
Gross margin	**733**	**12**	**134**	**129**	**105**	**41**	**(12)**	**1,142**
Operations, maintenance and administration	**530**	**14**	**26**	**51**	**98**	**5**	**(12)**	**712**
Depreciation and amortization	**92**	**-**	**14**	**16**	**21**	**15**	**-**	**158**
Accretion on fixed asset removal and nuclear waste management liabilities	**-**	**170**	**-**	**-**	**2**	**-**	**-**	**172**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**-**	**(138)**	**-**	**-**	**-**	**-**	**-**	**(138)**
Property and capital taxes (recovery)	**7**	**-**	**(2)**	**(3)**	**4**	**2**	**-**	**8**
Restructuring	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other losses	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**1**
Income (loss) before interest and income taxes	**104**	**(34)**	**96**	**65**	**(21)**	**19**	**-**	**229**

Segment Income (Loss) for the Three Months Ended March 31, 2010 *(millions of dollars)*	Regulated		Unregulated					
	Nuclear Generation	**Nuclear Waste Manage-ment**	**Hydro-electric**	**Hydro-electric**	**Thermal**	**Other**	**Elimination**	**Total**
Revenue	793	11	184	149	268	48	(10)	1,443
Fuel expense	50	-	49	19	129	-	-	247
Gross margin	743	11	135	130	139	48	(10)	1,196
Operations, maintenance and administration	551	12	23	46	102	3	(10)	727
Depreciation and amortization	92	-	16	16	27	15	-	166
Accretion on fixed asset removal and nuclear waste management liabilities	-	164	-	-	1	-	-	165
Earnings on nuclear fixed asset removal and nuclear waste management funds	-	(141)	-	-	-	-	-	(141)
Property and capital taxes	11	-	3	1	1	3	-	19
Restructuring	-	-	-	-	25	-	-	25
Other gains	-	-	-	-	-	(1)	-	(1)
Income (loss) before interest and income taxes	89	(24)	93	67	(17)	28	-	236

(millions of dollars)	Regulated Nuclear	Regulated Hydro-electric	Unregulated Hydro-electric	Unregulated Thermal	Other	Total
Selected Balance Sheet Information						
As at March 31, 2011						
Segment fixed assets in service, net	**3,917**	**3,762**	**3,317**	**262**	**749**	**12,007**
Segment construction in progress	**199**	**973**	**496**	**17**	**14**	**1,699**
Segment property, plant and equipment, net	**4,116**	**4,735**	**3,813**	**279**	**763**	**13,706**
As at March 31, 2011						
Segment intangible assets in service, net	**15**	**-**	**5**	**1**	**17**	**38**
Segment development in progress	**5**	**-**	**-**	**-**	**4**	**9**
Segment intangible assets, net	**20**	**-**	**5**	**1**	**21**	**47**
As at December 31, 2010						
Segment fixed assets in service, net	3,963	3,750	3,324	282	759	12,078
Segment construction in progress	174	913	367	20	3	1,477
Segment property, plant and equipment, net	4,137	4,663	3,691	302	762	13,555
As at December 31, 2010						
Segment intangible assets in service, net	18	-	5	1	16	40
Segment development in progress	3	-	-	-	5	8
Segment intangible assets, net	21	-	5	1	21	48

14. NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

(millions of dollars)	Three Months ended March 31 2011	Three Months ended March 31 2010
Accounts receivable	**85**	112
Prepaid expenses	**(11)**	(25)
Fuel inventory	**23**	72
Income and capital taxes recoverable	**167**	24
Materials and supplies	**(3)**	1
Accounts payable and accrued charges	**2**	(253)
	263	(69)

15. NON-CONTROLLING INTEREST

OPG has entered into a partnership agreement with the Lac Seul First Nation ("LSFN") regarding the 12.5 MW Lac Seul generating station. In July 2009, OPG transferred ownership of the station to the Lac Seul LP partnership.

OPG consolidates the results of the Lac Seul LP and the non-controlling interest represents the LSFN's ownership interest in the partnership.

16. RESTRUCTURING

In September 2009, together with the Ministry of Energy and Infrastructure, OPG announced its decision to close two coal-fired units at each of the Lambton and Nanticoke coal-fired generating stations. The closures occurred on October 1, 2010. 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. As determined by the collective bargaining agreements, restructuring costs of $27 million were recorded during 2010 for those employees who have elected to leave. The change in the restructuring liability for severance costs for the three months ended March 31, 2011 is as follows:

(millions of dollars)	
Liability, January 1, 2010	-
Restructuring charges during the year	27
Payments during the year	(12)
Liability, December 30, 2010	15
Payments during the period	(10)
Liability, March 31, 2011	**5**

In addition to the 2010 unit closure, Ontario's Long-Term Energy Plan released in November 2010 and the Supply Mix Directive issued in February 2011 require the closure of two coal-fired units at the Nanticoke coal-fired generating station in 2011. The Independent Electricity System Operator has confirmed that these units are not required for meeting supply adequacy and system reliability in the period from December 31, 2011 through December 31, 2014. On March 25, 2011, OPG notified key stakeholders, including the Society of Energy Professionals and the Power Workers' Union, of the decision in accordance with their respective collective bargaining agreements. The timing and amount of restructuring costs cannot be reasonably estimated at this time.

17. 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 reduced the impact of seasonal price fluctuations on the results of operations.