

ONTARIO POWER GENERATION INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
2016 SECOND QUARTER REPORT

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ONTARIO POWER GENERATION INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes of Ontario Power Generation Inc. (OPG or Company) as at and for the three and six months ended June 30, 2016. OPG's unaudited interim consolidated financial statements are prepared in accordance with United States generally accepted accounting principles (US GAAP) and are presented in Canadian dollars.

For a complete description of OPG's corporate strategies, risk management, corporate governance, and the effect of critical accounting policies and estimates on OPG's results of operations and financial condition, this MD&A should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, and the MD&A as at and for the year ended December 31, 2015.

As required by *Ontario Regulation 395/11*, as amended, a regulation under the *Financial Administration Act* (Ontario), OPG adopted US GAAP for the presentation of its consolidated financial statements, effective January 1, 2012. In 2014, the Ontario Securities Commission approved an exemption which allows OPG to apply US GAAP up to January 1, 2019. The term of the exemption is subject to certain conditions, which may result in the expiry of the exemption prior to January 1, 2019. For details, refer to the heading, *Exemptive Relief for Reporting under US GAAP*, in the section, *Critical Accounting Policies and Estimates*, in OPG's 2015 annual MD&A. This MD&A is dated August 12, 2016.

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 section, *Risk Management*, and forecasts discussed under the section, *Core Business, Strategy and Outlook*. All forward-looking statements could be inaccurate to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's fuel costs, generating station performance and availability, cost of fixed asset removal and nuclear waste management, performance of investment funds, conversion of generating stations to alternative fuels, refurbishment of existing facilities, development and construction of new facilities, pension and other post-employment benefit (OPEB) obligations and funds, income taxes, proposed new legislation, the ongoing evolution of Ontario's electricity industry, environmental and other regulatory requirements, health, safety and environmental developments, business continuity events, the weather, applications to the Ontario Energy Board (OEB) for regulated prices, the impact of regulatory decisions by the OEB, and forecasts of earnings, cash flows, Funds from Operations (FFO) Adjusted Interest Coverage, Return on Common Equity Excluding Accumulated Other Comprehensive Income (ROE Excluding AOCI), and capital expenditures. Accordingly, undue reliance should not be placed on any forward-looking statement. The forward-looking statements included in this MD&A are made only as of the date of this MD&A. Except as required by applicable securities laws, OPG does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario. OPG was established under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (Province or Shareholder).

As at June 30, 2016, OPG's electricity generation portfolio had an in-service capacity of 17,048 megawatts (MW). OPG operates two nuclear generating stations, 65 hydroelectric generating stations, three thermal generating stations, and one wind power turbine. In addition, OPG and TransCanada Energy Ltd. co-own the 550 MW Portlands Energy Centre (PEC) gas-fired combined cycle generating station (GS). OPG and ATCO Power Canada Ltd. co-own the 560 MW Brighton Beach gas-fired combined cycle GS (Brighton Beach). OPG's 50 percent share of the in-service capacity and generation volume of these co-owned facilities is included in the generation portfolio statistics set out in this report. The income from the co-owned facilities is accounted for using the equity method of accounting, and OPG's share of income is presented as income from investments subject to significant influence in the Contracted Generation Portfolio segment.

OPG also owns two other nuclear generating stations, the Bruce A GS and the Bruce B GS, which are leased on a long-term basis to Bruce Power LP (Bruce Power). Income from these leased stations is included in revenue under the Regulated – Nuclear Generation segment. The leased stations are not included in the generation portfolio statistics set out in this report. A description of OPG's segments is provided in OPG's 2015 annual MD&A in the section, *Business Segments*.

OPG does not operate PEC, Brighton Beach, the Bruce A GS and the Bruce B GS.

The in-service generating capacity by business segment as at June 30, 2016 and December 31, 2015 was as follows:

<i>(MW)</i>	As at	
	June 30 2016	December 31 2015
Regulated – Nuclear Generation	6,606	6,606
Regulated – Hydroelectric	6,421	6,428
Contracted Generation Portfolio ¹	4,021	4,021
Total	17,048	17,055

¹ Includes OPG's share of in-service generating capacity of 275 MW for PEC and 280 MW for Brighton Beach.

During the six months ended June 30, 2016, the in-service capacity of the Regulated – Hydroelectric segment decreased by 7 MW. The decrease was primarily a result of an adjustment to the capacity of the units at the Abitibi Canyon GS and the Sir Adam Beck 1 GS to reflect unit limit capability.

HIGHLIGHTS

Overview of Results

This section provides an overview of OPG's unaudited interim consolidated operating results. Significant factors which contributed to OPG's results during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, are discussed below.

<i>(millions of dollars – except where noted) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue	1,387	1,383	2,865	2,738
Fuel expense	182	180	354	337
Gross margin	1,205	1,203	2,511	2,401
Operations, maintenance and administration	709	650	1,395	1,315
Depreciation and amortization	316	200	628	396
Accretion on fixed asset removal and nuclear waste management liabilities	232	224	464	448
Earnings on nuclear fixed asset removal and nuclear waste management funds	(225)	(141)	(372)	(372)
Income from investments subject to significant influence	(9)	(11)	(17)	(22)
Property taxes	11	12	23	25
Restructuring	-	1	-	1
	1,034	935	2,121	1,791
Income before other gains, interest and income taxes	171	268	390	610
Other gains	(1)	-	(24)	-
Income before interest and income taxes	172	268	414	610
Net interest expense	31	47	64	94
Income before income taxes	141	221	350	516
Income tax expense	6	28	87	84
Net income	135	193	263	432
Net income attributable to the Shareholder	132	189	255	423
Net income attributable to non-controlling interest ¹	3	4	8	9
<i>Electricity production (TWh) ²</i>	19.4	20.8	40.4	42.1
<i>Cash flow provided by operating activities</i>	348	450	714	905

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

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

Second Quarter

Net income attributable to the Shareholder was \$132 million for the second quarter of 2016, a decrease of \$57 million compared to the same quarter in 2015.

Income before interest and income taxes for the quarter decreased by \$96 million.

Significant factor that reduced income before interest and income taxes:

- The timing of planned outages at the Darlington GS during the year and an increase in planned outage activities at the Pickering GS, which were the primary drivers for the reduced nuclear generation of 1.7 terawatt hours (TWh) and higher operations, maintenance and administration (OM&A) expenses of \$68 million for the Regulated – Nuclear Generation segment. The lower nuclear generation reduced the

nuclear gross margin by \$97 million. Although the change in the nuclear gross margin also reflected an increase in revenue due to higher OEB-authorized rate riders in effect during the second quarter of 2016, the resulting income impact was largely offset by higher amortization expense related to the regulatory balances.

Significant factor that increased income before interest and income taxes:

- Higher earnings on the nuclear fixed asset removal and nuclear waste management funds (Nuclear Funds) of \$84 million, primarily due to higher earnings on the Decommissioning Segregated Fund (Decommissioning Fund).

Net interest expense decreased by \$16 million during the second quarter of 2016, compared to the same quarter in 2015, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project expenditures and a higher amount of interest costs deferred in OEB-approved regulatory variance accounts.

Income tax expense for the three months ended June 30, 2016 was \$6 million, compared to \$28 million for the same period in 2015. The decrease in income tax expense was primarily due to lower income before taxes and a higher amount of deferred tax expense recorded as recoverable from customers, partly offset by a lower change in reserves from the resolution of uncertainties.

Year-To-Date

Net income attributable to the Shareholder was \$255 million for the first six months of 2016, a decrease of \$168 million compared to the same period in 2015.

Income before interest and income taxes for the period decreased by \$196 million.

Significant factor that reduced income before interest and income taxes:

- The timing of planned outages at the Darlington GS during the year and an increase in planned outage activities at the Pickering GS, which were the primary driver for the reduced nuclear generation of 1.6 TWh and higher OM&A expenses of \$105 million for the Regulated – Nuclear Generation segment. The lower nuclear generation reduced the nuclear gross margin by \$94 million. Although the change in the nuclear gross margin also reflected an increase in revenue due to higher OEB-authorized rate riders in effect during the first half of 2016, the resulting income impact was largely offset by higher amortization expense related to the regulatory balances.

Significant factor that increased income before interest and income taxes:

- A gain of \$22 million recorded during the first quarter of 2016 reflecting the OEB's January 2016 decision to reverse a portion of an earlier capital cost disallowance related to Niagara Tunnel project expenditures, in response to OPG's motion requesting the OEB to review and vary parts of its November 2014 decision that resulted in that disallowance.

Net interest expense decreased by \$30 million for the six months ended June 30, 2016, compared to the same period in 2015, primarily due to a higher amount of interest costs capitalized for the Darlington Refurbishment project expenditures and a higher amount of interest costs deferred in OEB-approved regulatory variance accounts.

Income tax expense for the six months ended June 30, 2016 was \$87 million, compared to \$84 million for the same period in 2015. The increase in income tax expense was primarily due to a lower change in reserves from the resolution of uncertainties, largely offset by a reduction in income before taxes.

Segment Results

The following table summarizes OPG's income before interest and income taxes by business segment. A detailed discussion of OPG's performance by reportable segment is included in the section, *Discussion of Operating Results by Business Segment*.

<i>(millions of dollars)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
<i>(Loss) income before interest and income taxes</i>				
Regulated – Nuclear Generation	(76)	99	(30)	187
Regulated – Hydroelectric	187	181	383	368
Contracted Generation Portfolio	67	78	145	140
Total electricity generation business segments	178	358	498	695
Regulated – Nuclear Waste Management	(5)	(81)	(88)	(72)
Services, Trading, and Other Non-Generation	(1)	(9)	4	(13)
	172	268	414	610

Electricity Generation

Electricity generation for the three and six month periods ended June 30, 2016 and 2015 was as follows:

<i>(TWh)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Regulated – Nuclear Generation	10.6	12.3	22.9	24.5
Regulated – Hydroelectric	8.0	7.6	15.9	15.8
Contracted Generation Portfolio ¹	0.8	0.9	1.6	1.8
Total OPG electricity generation	19.4	20.8	40.4	42.1
Total electricity generation by all other generators in Ontario ²	15.5	15.8	34.4	37.4

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

² Non-OPG generation is calculated as the Ontario electricity demand plus net exports, as published by the Independent Electricity System Operator (IESO), minus total OPG electricity generation.

Total OPG electricity generation decreased by 1.4 TWh during the second quarter of 2016 compared to the same quarter in 2015, primarily due to lower nuclear generation of 1.7 TWh. The lower nuclear generation during the second quarter of 2016 was primarily due to a higher number of planned outage days at both the Darlington GS and the Pickering GS. The higher number of outage days for the Darlington GS was primarily due to the timing of planned outages during the year. A scheduled planned outage took place at the Darlington GS in the second quarter of 2016, whereas the scheduled planned outage took place later in the year in 2015 in order to coincide with the planned four-unit Vacuum Building Outage (VBO) at the station. The timing of planned outages at a nuclear generating station during the year can cause significant variability in year-over-year operating results for partial periods of a fiscal year, but is not a significant driver of variability for full fiscal year results.

Higher generation of 0.4 TWh from the Regulated – Hydroelectric segment during the second quarter of 2016, compared to the same quarter in 2015, was primarily due to higher water flows on the Niagara, Ottawa and St. Lawrence Rivers, partially offset by a higher volume of water spilled as a result of surplus baseload generation (SBG) conditions in Ontario.

Baseload generation supply surplus to Ontario demand was higher in the second quarter of 2016 compared to the same quarter in 2015 primarily due to higher water flows in the province and limitations on the export of surplus power out of the province primarily due to transmission constraints in the state of New York. During the second quarter of 2016, OPG lost 1.8 TWh of hydroelectric generation due to SBG conditions, compared to 1.2 TWh during

the same quarter in 2015. The gross margin impact of production forgone at OPG's regulated hydroelectric stations due to SBG conditions is offset by a regulatory variance account authorized by the OEB. Ontario's electricity demand as reported by the IESO was 32.0 TWh for the second quarter of 2016, compared to 31.6 TWh during the same quarter of 2015.

For the six months ended June 30, 2016, total OPG electricity generation decreased by 1.7 TWh compared to the same period in 2015, primarily due to decreased generation from the Regulated – Nuclear Generation segment. The 1.6 TWh decrease in generation from the Regulated – Nuclear Generation segment was mainly due to a higher number of planned outage days at both the Darlington GS and the Pickering GS. The higher number of planned outage days at the Darlington GS was primarily due to the timing of scheduled planned outages in 2016 compared to 2015.

For the Regulated – Hydroelectric segment, the increase in generation of 0.1 TWh during the first half of 2016, compared to the same period in 2015, was due to higher water flows, which was largely offset by a higher amount of lost generation as a result of SBG conditions. During the six months ended June 30, 2016, OPG lost 3.4 TWh of hydroelectric generation due to SBG conditions, compared to 1.5 TWh during the same period in 2015.

For the six months ended June 30, 2016, Ontario electricity demand as reported by the IESO was 67.1 TWh, compared to 69.0 TWh for the same period in 2015.

Average Sales Prices

The majority of OPG's generation is from the Regulated – Nuclear Generation and Regulated – Hydroelectric segments. The regulated prices authorized by the OEB for electricity generated from OPG's nuclear and regulated hydroelectric generating stations are discussed in OPG's 2015 annual MD&A in the section, *Revenue Mechanisms for Regulated and Unregulated Generation*.

The average sales price for the Regulated – Nuclear Generation segment during the three and six month periods ended June 30, 2016 was 6.9 cents per kilowatt hour (¢/kWh), compared to 6.0 ¢/kWh during the same periods in 2015. The increase was primarily due to a higher rate rider in effect during the first half of 2016 for OPG's nuclear generation related to the recovery of variance and deferral account balances previously approved by the OEB. The average sales price for the Regulated – Hydroelectric segment during the three and six month periods ended June 30, 2016 was 4.4 ¢/kWh, compared to 4.5 ¢/kWh during the same periods in 2015. The marginal decrease was primarily due to lower rate riders in effect during 2016 for OPG's regulated hydroelectric generation related to the recovery of variance and deferral account balances. The income impact of changes in revenue from rate riders is largely offset by changes in amortization expense related to regulatory balances.

Cash Flow from Operations

Cash flow provided by operating activities for the three months ended June 30, 2016 was \$348 million, compared to \$450 million for the same quarter in 2015. The decrease in cash flow provided by operating activities for the three months ended June 30, 2016 was primarily due to higher OM&A expenditures and lower generation revenue receipts due to a decrease in nuclear generation, primarily as a result of the timing of planned outages at the Darlington GS during the year, partially offset by the impact of higher nuclear rate riders.

Cash flow provided by operating activities for the six months ended June 30, 2016 was \$714 million, compared to \$905 million for the same period in 2015. The decrease in cash flow provided by operating activities for the six months ended June 30, 2016 was primarily due to higher OM&A expenditures in the first half of 2016 and the payment of a supplemental rent rebate to Bruce Power in the first quarter of 2016 in relation to the period prior to December 4, 2015, pursuant to a provision under the lease agreement for the Bruce nuclear generating stations between Bruce Power and OPG (Bruce Lease). This provision was eliminated effective December 4, 2015 as part of the 2015 amendments to the lease agreement, as discussed in OPG's 2015 annual MD&A under the heading, *Recent Developments*, in the *Highlights* section. The decrease in cash flow provided by operating activities for the

first half of 2016 was partially offset by an increase in generation revenue receipts from higher nuclear rate riders, partially offset by the impact of lower nuclear generation, primarily as a result of the timing of planned outages at the Darlington GS.

ROE Excluding AOCI

ROE Excluding AOCI is an indicator of OPG's performance consistent with the Company's strategy to provide value to the Shareholder. ROE Excluding AOCI is measured over a 12-month period in order to normalize for seasonal fluctuations. From time to time, changes in the timing of planned outages at the nuclear generating stations during the calendar year can cause significant variability in the ROE Excluding AOCI for non-calendar 12-month periods.

ROE Excluding AOCI was 2.3 percent for the 12 months ended June 30, 2016 and 4.0 percent for the 12 months ended December 31, 2015. The decrease was primarily due to lower net income attributable to the Shareholder for the 12-month period ended June 30, 2016. With the timing of the scheduled outage at the Darlington GS in the fall of 2015 to coincide with the required four-unit VBO at the station and the timing of scheduled outages at the Darlington GS in the second quarter of 2016, a combination of higher OM&A expenses and lower nuclear generation negatively impacted ROE Excluding AOCI for the 12-month period ended June 30, 2016 by about 2 percent. The VBO is a unique outage to inspect and maintain specific safety and other systems common to all four units of the station. Another VBO outage will not be required for another 12 years at the Darlington GS.

FFO Adjusted Interest Coverage

FFO Adjusted Interest Coverage is an indicator of OPG's ability to meet interest obligations from operating cash flows. The indicator is measured over a 12-month period. FFO Adjusted Interest Coverage for the 12 months ended June 30, 2016 was 4.8 times, compared to 5.0 times for the 12 months ended December 31, 2015. FFO Adjusted Interest Coverage decreased in 2016 primarily due to lower cash flows provided by operating activities for the 12 months ended June 30, 2016 compared to the 12 months ended December 31, 2015, primarily due to higher OM&A expenditures, partially offset by higher generation revenue from higher nuclear rate riders and the payment of a supplemental rent rebate provision under the Bruce Lease in the first quarter of 2016.

Nuclear Total Generating Cost per Megawatt Hour

Nuclear Total Generating Cost (TGC) per Megawatt Hour (MWh) is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as OM&A expenses of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to OPG's nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs) incurred during the period, divided by nuclear electricity generation. In 2015, the Nuclear TGC per MWh indicator was amended with a view to enhance comparability across periods including adjustments to remove the impact of regulatory variance and deferral accounts. The change is reflected in the comparative period presented in this MD&A. The Nuclear TGC per MWh is discussed further in the section, *Discussion of Operating Results by Business Segment*.

ROE Excluding AOCI, FFO Adjusted Interest Coverage, and Nuclear TGC are not measurements in accordance with US GAAP and should not be considered alternative measures to net income, cash flows from operating activities, or any other performance measure under US GAAP. OPG believes that these non-GAAP financial measures are effective indicators of its performance and are consistent with the Company's strategic imperatives and related objectives. The definition and calculation of ROE Excluding AOCI, FFO Adjusted Interest Coverage, and Nuclear TGC are found in the section, *Supplementary Non-GAAP Financial Measures*.

Recent Developments

OPG's Application for New Regulated Prices

In May 2016, OPG filed a 5-year application with the OEB for new base regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017. The new prices are expected to be determined, for the first time since OPG's prescribed assets became subject to rate regulation, on the basis of an incentive regulation ratemaking methodology for the hydroelectric operations and a custom incentive regulation basis for the nuclear operations. Rate-setting under incentive regulation is typically more formulaic and involves greater de-coupling of a regulated entity's allowed revenues or prices from its costs than under a cost-of-service rate-setting methodology. For the hydroelectric facilities, OPG's May 2016 application proposes to escalate the existing base regulated prices for each of years 2017 to 2021 based on a formula that considers an industry specific inflation factor less a productivity improvement factor, with a further price reduction intended to incent additional innovation and efficiency. For the nuclear operations, the application proposes revenue requirements for each of years 2017 to 2021 based on OPG's forecast of operating costs, reduced by an adjustment intended to incent the company to drive improvements in cost effectiveness, as well as an annual forecast of production and a return on rate base.

The proposed nuclear revenue requirements reflect OPG's plans to pursue Pickering extended operations beyond 2020, as well as the projected impact of the scheduled return to service of the first refurbished Darlington unit in the first quarter of 2020. OPG is also seeking an increase in the deemed capital structure applied to its total regulated rate base to 49 percent equity and 51 percent debt from 45 percent equity and 55 debt applied by the OEB in setting the existing regulated prices.

Consistent with the November 2015 amendment to *Ontario Regulation 53/05*, OPG's application incorporates a nuclear rate smoothing proposal, whereby collection of a portion of the approved nuclear revenue requirements will be deferred into the future. OPG expects to recognize the deferred amounts as income in the period to which the approved revenue requirements relate. In addition, OPG's application requests new rate riders, effective January 1, 2017, to recover or repay the December 31, 2015 balances in most of the OEB-authorized variance and deferral accounts, less amounts previously approved for recovery or repayment through existing rate riders in effect to December 31, 2016. The application also requests the continuation of all applicable existing variance and deferral accounts. The decision on OPG's application will be made by the OEB following a public hearing process.

Further details on the requirements of *Ontario Regulation 53/05* with respect to nuclear rate smoothing can be found in OPG's 2015 MD&A under the heading, *Amendments to Ontario Regulation 53/05*, in the *Highlights* section.

Shareholder Declaration and Resolution to Sell Former Lakeview GS Site

In June 2016, OPG received a Shareholder Declaration and Resolution that requires the Company to sell its former Lakeview GS site located in Mississauga, Ontario. The Shareholder Resolution requires OPG to transfer to the Province the portion of the proceeds from the sale equal to the after-tax accounting gain on sale, net of transaction costs. The asset is not considered core to OPG's business.

CORE BUSINESS, STRATEGY AND OUTLOOK

The discussion in this section is qualified in its entirety by the caution included in the section, *Forward-Looking Statements*, at the beginning of the MD&A.

OPG's mission is to provide low cost power in a safe, clean, reliable and sustainable manner for the benefit of its customers and its Shareholder. OPG also seeks to pursue, on a commercial basis, generation development projects and other business growth opportunities to the benefit of the Shareholder.

The following sections provide an update to OPG's disclosures in the 2015 annual MD&A related to its four key strategic imperatives – operational excellence, project excellence, financial strength, and social licence. A detailed discussion of these strategic imperatives is included in the 2015 annual MD&A under the headings, *Operational Excellence*, *Project Excellence*, *Financial Strength*, and *Social Licence* in the *Core Business and Strategy* section.

Operational Excellence

Operational excellence at OPG is accomplished by the safe and environmentally responsible generation of reliable and cost-effective electricity from the Company's generating assets through a highly trained and engaged workforce.

Electricity Generation Production and Reliability

- In May 2016, OPG hosted a peer evaluation for the Darlington GS by the World Association of Nuclear Operators, which compared the station against standards of excellence through an in-depth, objective review by an international panel of industry experts. The review maintained Darlington's excellent standing as one of the top performing nuclear plants in the world.
- The Sir Adam Beck Pump hydroelectric GS reservoir refurbishment project continues to progress on schedule. During the second quarter of 2016, de-watering of the existing reservoir was completed and ground preparation for liner installation work and production grouting commenced. All six units at the Sir Adam Beck Pump GS will remain out of service for the duration of the reservoir refurbishment project.
- During the second quarter of 2016, major equipment overhauls and rehabilitation work was completed at Unit 2 of the Whitedog Falls hydroelectric GS.

Environmental Performance

In May 2016, the Ontario legislature passed the *Climate Change Mitigation and Low-Carbon Economy Act, 2016* and the associated *Cap and Trade Program Regulation*, which became effective in July 2016. This legislation provides the foundation for regulating greenhouse gas (GHG) emissions in Ontario and includes a cap-and-trade program that will begin on January 1, 2017. The new requirements will result in increased fuel costs for some OPG-owned generating facilities and OPG's co-owned generating facilities. With OPG's low GHG emitting fleet, this is not expected to have a material adverse financial impact on the Company. OPG is developing an implementation plan for compliance with the new requirements.

Disclosures relating to the Company's environmental policies and environmental risks are provided in the 2015 annual MD&A.

Project Excellence

OPG is pursuing a number of generation development and other projects in support of Ontario's electricity planning initiatives. The status updates for OPG's major projects as at June 30, 2016 are outlined below.

Project <i>(millions of dollars)</i>	Capital expenditures		Approved budget	Planned in-service date	Status
	Year-to-date	Life-to-date			
Darlington Refurbishment	446	2,612	12,800 ¹	First unit - 2020 Last unit - 2026	On track to commence Unit 2 refurbishment, as scheduled, in the fourth quarter of 2016. See update below.
Deep Geologic Repository for Low and Intermediate Level Waste	5 ²	191 ²			Additional information required by the Canadian Environmental Assessment Agency (CEAA) is being prepared. In April 2016, OPG informed the CEAA that it expects to submit the requested information by the end of 2016.
Peter Sutherland Sr. GS	67	162	300	First half of 2018	The project is tracking on budget and on schedule. See update below.

¹ The total project budget of \$12.8 billion is for the refurbishment of the four units at the Darlington GS, with the last unit scheduled to be completed by 2026. OPG plans to commence subsequent unit refurbishments after the first unit scheduled to undergo refurbishment, Unit 2, is successfully returned to service.

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

Darlington Refurbishment

The Darlington generating units are approaching their originally designed end-of-life. Refurbishment of the units is expected to extend the operating life of the station by approximately 30 years.

In January 2016, the Darlington Refurbishment project transitioned from the planning phase to the execution phase. OPG has begun the preparation for the refurbishment of the first unit, Unit 2, and is on track to commence the unit's refurbishment in the fourth quarter of 2016. The Government of Ontario's support for the Darlington Refurbishment project has been affirmed through the Minister of Energy's announcement in January 2016 endorsing OPG's plan to refurbish the four Darlington units. OPG plans to commence subsequent unit refurbishments after Unit 2 is successfully returned to service, and expects to seek the Province's concurrence prior to proceeding with subsequent unit refurbishments. Once refurbished, Unit 2 is scheduled to be returned to service in the first quarter of 2020, at which time capital expenditures of approximately \$4.8 billion are planned to be placed in service. This includes expenditures incurred during the definition and planning phase of the project.

Preparation activities on the major sub-projects are progressing in line with the first unit's refurbishment schedule. The manufacturing of the specialized tooling that will be used to remove and replace fuel channel assemblies and feeder tubes in each reactor has been completed, and the tooling was delivered to OPG's reactor training and mock-up facility in the second quarter of 2016, as planned. Extensive tool testing and refurbishment task rehearsals are in progress at OPG's full-scale reactor mock-up facility. All of the tools and materials required to de-fuel the Unit 2 reactor also have been delivered. De-fueling is the first critical refurbishment activity once the unit is removed from service.

Execution of pre-breaker open work to support the first unit's refurbishment continues and is expected to be substantially completed prior to the commencement of refurbishment activities on the first unit. Project support activities and activities in support of requirements set out in the Canadian Nuclear Safety Commission (CNSC)

approved Integrated Implementation Plan for the Darlington GS are also underway. Pre-requisite projects including construction of facilities, infrastructure upgrades and installation of safety enhancements have either been completed or are tracking to be completed in line with the refurbishment execution schedule.

Peter Sutherland Sr. GS

The project to construct the Peter Sutherland Sr. hydroelectric generating station is tracking on budget and on schedule. Construction work on the project continued during the second quarter of 2016, including the completion of the coffer dam rebuild, headpond clearing activities, power house concreting and slope stabilization of the intake canal. Work continues to progress on the powerhouse superstructure and spillway concreting.

Financial Strength

As a commercial enterprise, OPG's financial priority is to achieve a consistent level of strong financial performance that delivers an appropriate level of return on the Shareholder's investment and positions the Company for future growth.

Increase Revenue, Reduce Costs and Achieve Appropriate Return

In the second quarter of 2016, OPG filed a 5-year application with the OEB for new base regulated prices for production from its regulated hydroelectric and nuclear facilities, with a proposed effective date of January 1, 2017. OPG's application incorporates a nuclear rate smoothing proposal, with a view of making more stable year-over-year changes in the nuclear base regulated prices during the Darlington Refurbishment period. The application seeks to ensure that nuclear regulated prices under the rate smoothing approach allow for sufficient cash flow to meet the Company's liquidity needs, support cost-effective funding for the Darlington Refurbishment project and other expenditures, and maintain the Company's investment grade credit rating, while taking into account both near-term and future impacts on customers. Refer to the heading, *Recent Developments* under the *Highlights* section for further information on OPG's rate application.

Ensure Availability of Cost Effective Funding

In April 2016, DBRS Ltd. re-affirmed the long-term credit rating on OPG's debt at A (low) and OPG's commercial paper rating at R-1 (low). All ratings from DBRS Ltd. have a stable outlook. In July 2016, Standard & Poor's re-affirmed OPG's long-term credit rating at BBB+ with a stable outlook.

Outlook

The financial performance of OPG's regulated operations is driven, in large part, by the outcome of applications for regulated prices to the OEB. The existing base regulated prices were established by the OEB in late-2014 based on a forecast of revenue requirement and production for the regulated facilities for the 2014 to 2015 period. The outcome of the OEB rate application for new base regulated prices, which was submitted in May 2016, is expected to provide substantial price certainty for the regulated business for the 2017 to 2021 period. Further discussion regarding OPG's rate application to the OEB can be found under the heading, *Recent Developments*, in the *Highlights* section.

In addition to receiving base regulated prices, during 2016, OPG is authorized to recover over \$600 million in previously approved variance and deferral account balances, through rate riders established by the OEB in October 2015. While the income impact of the additional revenue from the riders will be largely offset by a corresponding increase in amortization expense related to regulatory balances resulting in no significant net income impact, the recovery of the balances will favourably impact operating cash flow and the FFO Adjusted Interest Coverage indicator for 2016. The existing rate riders will expire on December 31, 2016.

Several OEB-authorized regulatory variance and deferral accounts currently in place contribute to reducing the relative variability of the Company's income and ROE Excluding AOCI. Among others, this includes existing variance

accounts related to the gross margin impact of variability in regulated hydroelectric water flows and SBG conditions, which are expected to continue to result in generally more stable earnings from the Regulated – Hydroelectric segment, compared to the Regulated – Nuclear Generation segment. There is currently no regulatory variance or deferral account related to the impact of generation performance of the OPG-operated nuclear stations on revenue from base regulated prices. OPG continues to operate and maintain its nuclear facilities with a view to optimize their performance and availability, while improving the overall reliability and predictability of the fleet. OPG's May 2016 rate application requested the continuation of all applicable variance and deferral accounts.

Electricity generated from most of OPG's non-regulated assets is subject to Energy Supply Agreements with the IESO. Based on these agreements, OPG expects the Contracted Generation Portfolio segment to generate a generally stable level of earnings and cash flow going forward.

OPG's forecast capital expenditures for 2016 are approximately \$1.8 billion. This includes amounts for the Darlington Refurbishment project, hydroelectric development projects including the construction of the Peter Sutherland Sr. GS, and sustaining capital investments across the generating fleet.

In addition to the operating and financial performance of the electricity generation business, OPG's results are impacted by the earnings on the Nuclear Funds established pursuant to the Ontario Nuclear Funds Agreement (ONFA) to fund expenditures associated with the long-term management of used nuclear fuel and low and intermediate level waste (L&ILW) and the decommissioning of OPG's nuclear stations and waste management facilities. While these funds are managed to achieve, in the long term, the target rate of return based on the discount rate specified in the ONFA, the rates of return earned in a given reporting period are subject to various external factors including financial market conditions and changes in the Ontario consumer price index, which can be volatile in the short-term and cause potentially significant short-term fluctuations in the Company's income, net of the impact of a regulatory variance account.

DISCUSSION OF OPERATING RESULTS BY BUSINESS SEGMENT

Regulated – Nuclear Generation Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue	820	810	1,746	1,623
Fuel expense	79	79	160	157
Gross margin	741	731	1,586	1,466
Operations, maintenance and administration	581	513	1,144	1,039
Depreciation and amortization	231	113	461	227
Property taxes	6	6	13	13
(Loss) income before other gains, interest, and income taxes	(77)	99	(32)	187
Other gains	(1)	-	(2)	-
(Loss) income before interest and income taxes	(76)	99	(30)	187

During the three and six month periods ended June 30, 2016, segment losses before interest and income taxes were \$76 million and \$30 million, respectively. The primary factor contributing to the lower segment earnings during these periods, compared to the same periods in 2015, was the timing of scheduled planned outage activities at the Darlington GS during the year and an increase in planned outage activities at the Pickering GS, both of which decreased nuclear generation and increased OM&A expenses. A scheduled planned outage took place at the Darlington GS in the second quarter of 2016, whereas a scheduled planned outage took place in the fall of 2015 in order to coincide with the scheduled four-unit VBO at the station.

Notwithstanding the reduced generation during the three and six month periods ended June 30, 2016, segment revenues increased, compared to the same periods in 2015, due to a higher rate rider authorized by the OEB in October 2015 to the end of December 31, 2016. The resulting nuclear rate rider of \$10.84/MWh in effect during the first half of 2016 was higher than the rate rider of \$1.33/MWh in effect during the three and six month periods ended June 30, 2015. As these rate riders allow for the recovery of approved balances in OEB-authorized regulatory variance and deferral accounts, the resulting increase in revenue in 2016 was largely offset by higher amortization expense related to the regulatory balances.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Unit Capability Factor (%)				
Darlington GS	75.9	91.5	86.6	94.7
Pickering GS	71.4	80.0	72.1	76.5
Nuclear TGC per MWh (\$/MWh)	69.25	57.56	62.44	57.52

The lower Unit Capability Factor at the Darlington GS for the three and six month periods ended June 30, 2016, compared to the same periods in 2015, primarily reflected the higher number of planned outage days due to the timing of scheduled outages at the station in 2016 compared to 2015. The decrease in Unit Capability Factor at the Pickering GS for the three and six month periods ended June 30, 2016 was primarily due to a higher number of planned outage days compared to 2015. The timing of planned outages at a nuclear generating station during the year can cause significant variability in year-over-year operating results for partial periods of a fiscal year, but is not a significant driver of variability for full fiscal year results.

The increase in Nuclear TGC per MWh during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, primarily reflected decreased production and higher OM&A expenses resulting from the timing of planned outages during the year. The definition and calculation of Nuclear TGC are found under the section, *Supplementary Non-GAAP Financial Measures*.

Regulated – Nuclear Waste Management Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue	32	29	66	61
Operations, maintenance and administration	34	30	70	64
Accretion on nuclear fixed asset removal and nuclear waste management liabilities	228	221	456	441
Earnings on nuclear fixed asset removal and nuclear waste management funds	(225)	(141)	(372)	(372)
Loss before interest and income taxes	(5)	(81)	(88)	(72)

Higher earnings on the Decommissioning Fund, net of the impact of the Bruce Lease Net Revenues Variance Account, was the primary driver for the increase in segment earnings during the second quarter of 2016, compared to the same quarter in 2015. The earnings on the Decommissioning Fund during the second quarter of 2016 reflected the growth rate in the decommissioning liability per the current approved ONFA Reference Plan, as the fund was between 100 percent and 120 percent funded compared to the decommissioning liability. Based on the terms of the ONFA, when the Decommissioning Fund is in an overfunded position of up to 120 percent, earnings on the fund recognized in net income are not impacted by market returns and are based on the growth rate in the

decommissioning liability such that the balance of the fund is equal to the liability. When the Decommissioning Fund is in an overfunded position of over 120 percent, fund earnings recognized in net income are impacted by market returns, as OPG recognizes 50 percent of the surplus over 120 percent based on the terms of the ONFA. As the Decommissioning Fund was over 120 percent funded during the second quarter of 2015, lower market returns in relation to the growth rate in the decommissioning liability unfavourably impacted the earnings on the fund during the quarter.

Higher earnings from the Used Fuel Fund, net of the impact of the Bruce Lease Net Revenue Variance Account, also contributed to an improvement to the segment earnings during the second quarter of 2016, compared to the same period in 2015. The increase in Used Fuel Fund earnings was primarily due to favourable market conditions impacting the returns on the portion of the fund in excess of the 2.23 million bundles, which are not guaranteed by the Province.

In December 2015, OPG recognized an increase in the Nuclear Liabilities reflecting revised accounting assumptions for the estimated useful lives of its nuclear generating stations. As a result, higher accretion expense on the Nuclear Liabilities was recognized during the three and six month periods ended June 30, 2016, compared to the same periods in 2015. The increased accretion expense was largely offset by the impact of the Bruce Lease Net Revenues Variance Account.

Regulated – Hydroelectric Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue ¹	413	409	798	803
Fuel expense	92	89	171	160
Gross margin	321	320	627	643
Operations, maintenance and administration	75	79	151	155
Depreciation and amortization	57	60	113	120
Income before other losses (gains), interest and income taxes	189	181	363	368
Other losses (gains)	2	-	(20)	-
Income before interest and income taxes	187	181	383	368

¹ During the three and six month periods ended June 30, 2016, the Regulated – Hydroelectric segment revenue included incentive payments of \$1 million and \$2 million, respectively, related to the OEB-approved hydroelectric incentive mechanism (three and six month periods ended June 30, 2015 – \$4 million and \$14 million, respectively). The mechanism provides a pricing incentive to OPG to shift hydroelectric production from lower market price periods to higher market price periods, reducing the overall costs to customers.

Income before interest and income taxes increased by \$6 million during the second quarter of 2016, compared to the same quarter in 2015. The increase in income was largely the result of slightly lower OM&A expenses.

The increase in income before interest and income taxes of \$15 million during the six months ended June 30, 2016, compared to the same period in 2015, was largely due to a gain of \$22 million recognized during the first quarter of 2016 to reflect the OEB's January 2016 decision to reverse a portion of an earlier capital cost disallowance related to the Niagara Tunnel project expenditures. The OEB's January 2016 decision was in response to OPG's motion that requested the OEB to review and vary parts of its November 2014 decision that resulted in the original disallowance.

The increase in segment earnings during the six months ended June 30, 2016, compared to the same period in 2015, was partly offset by lower hydroelectric incentive mechanism payments.

The Hydroelectric Availability and Hydroelectric OM&A expense per MWh for the stations included in the Regulated – Hydroelectric segment were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Hydroelectric Availability (%)	90.4	92.1	92.6	91.8
Hydroelectric OM&A expense per MWh (\$/MWh)	9.4	10.5	9.5	9.8

Hydroelectric Availability for the second quarter of 2016 decreased compared to the same quarter of 2015 due to an increase in planned and unplanned outage days for the regulated stations. The Hydroelectric Availability during the six months ended June 30, 2016 increased slightly compared to the same period in 2015.

The decrease in Hydroelectric OM&A Expense per MWh for the three and six month periods ended June 30, 2016, compared to the same periods in 2015, was primarily due to lower OM&A expenses and higher generation.

Contracted Generation Portfolio Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue	137	144	282	267
Fuel expense	11	11	23	18
Gross margin	126	133	259	249
Operations, maintenance and administration	45	44	85	88
Depreciation and amortization	18	18	37	35
Accretion on fixed asset removal liabilities	2	2	4	4
Property taxes	3	2	5	4
Income from investments subject to significant influence	(9)	(11)	(17)	(22)
Income before interest and income taxes	67	78	145	140

Income before interest and income taxes decreased by \$11 million during the second quarter of 2016, compared to the same quarter in 2015. The decrease was primarily due to lower revenues from the Lower Mattagami River hydroelectric generating stations and the biomass-powered Atikokan GS.

Income before interest and income taxes increased by \$5 million during the six months ended June 30, 2016, compared to the same period in 2015. The increase was primarily due to lower earnings in the first quarter of 2015 as a result of a provision made in that quarter related to an IESO audit.

The Hydroelectric Availability, Hydroelectric OM&A Expense per MWh, and the Thermal Equivalent Forced Outage Rate (EFOR) for the Contracted Generation Portfolio segment were as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Hydroelectric Availability (%)	87.0	95.3	85.5	96.5
Hydroelectric OM&A Expense per MWh (\$/MWh)	17.5	19.0	19.3	20.7
Thermal EFOR (%)	1.0	10.3	1.0	17.5

Lower Hydroelectric Availability during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, was primarily due to an increase in the number of planned outage days at the Harmon GS and Kipling GS.

The Hydroelectric OM&A Expense per MWh decreased during the three and six month periods ended June 30, 2016 primarily as a result of a decrease in OM&A expenses from the hydroelectric stations included in the segment.

The decrease in the Thermal EFOR during the three and six month periods ended June 30, 2016, compared to the same periods in 2015, was primarily due to a higher number of unplanned outage days at the Lennox GS in 2015.

Services, Trading, and Other Non-Generation Segment

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Revenue	16	19	37	43
Fuel expense	-	1	-	2
Gross margin	16	18	37	41
Operations, maintenance and administration	5	12	9	28
Depreciation and amortization	10	9	17	14
Accretion on fixed asset removal liabilities	2	1	4	3
Property taxes	2	4	5	8
Restructuring	-	1	-	1
(Loss) income before other gains, interest, and income taxes	(3)	(9)	2	(13)
Other gains	(2)	-	(2)	-
(Loss) income before interest and income taxes	(1)	(9)	4	(13)

Segment earnings improved by \$8 million during the second quarter of 2016, compared to the same quarter in 2015 and by \$17 million for the six months ended June 30, 2016, compared to the same period in 2015. The improvement in earnings reflected higher OM&A expenses incurred in 2015 partly in relation to the Nanticoke GS prior to OPG's decision to proceed with the decommissioning of the station. The decrease in the OM&A expenses during the three and six month periods ended June 30, 2016 also reflected lower staffing levels in 2016.

The improvement in segment earnings for the six months ended June 30, 2016 was partially offset by lower electricity trading revenue compared to the same period in 2015.

Expenditures related to decommissioning activities for Nanticoke GS incurred during the first six months of 2016 were charged against a previously established decommissioning provision.

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 (OEF), long-term corporate debt, and capital market financing. These sources are used for multiple purposes, including: investment in plants and technologies; major projects; funding obligations such as contributions to the pension fund and the Nuclear Funds; payments under the OPEB plans; expenditures on fixed asset removal and nuclear waste management activities not funded by the Nuclear Funds; and servicing and repaying long-term debt.

Changes in cash and cash equivalents for the three and six month periods ended June 30 are as follows:

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Cash and cash equivalents, beginning of period	540	534	464	610
Cash flow provided by operating activities	348	450	714	905
Cash flow used in investing activities	(586)	(352)	(896)	(628)
Cash flow (used in) provided by financing activities	(7)	(57)	13	(312)
Net (decrease) increase	(245)	41	(169)	(35)
Cash and cash equivalents, end of period	295	575	295	575

For a discussion of cash flow provided by operating activities and FFO Adjusted Interest Coverage, refer to the *Highlights* sections.

Investing Activities

Cash flow used in investing activities during the second quarter of 2016 increased by \$234 million and by \$268 million for the six month period ended June 30, 2016, compared to the same periods in 2015. The increase in the use of cash for investing activities during these periods was primarily due to the acquisition of nine million common shares of Hydro One Limited (Hydro One) at \$23.65 per share in April 2016. The acquisition was made for investment purposes to mitigate the risk of future price volatility related to OPG's future share delivery obligations to eligible employees under the collective agreements with the Power Workers' Union (PWU) and The Society of Energy Professionals (The Society) renewed in 2015. The acquisition of the shares is further discussed in Note 2 of the Company's second quarter 2016 unaudited interim consolidated financial statements.

Financing Activities

Cash flow used in financing activities during the three months ended June 30, 2016 was \$7 million, compared to \$57 million for the same period in 2015. The higher cash flow used in financing activities during the second quarter of 2015 was primarily due to the repayment of short-term notes of \$50 million during the second quarter of 2015.

Cash flow provided by financing activities during the six months ended June 30, 2016 was \$13 million, compared to cash flow used of \$312 million for the same period in 2015. The cash flow used in financing activities for the six months ended June 30, 2015 reflected the repayment of \$302 million of long-term debt during the first half of 2015.

OPG maintains a \$1 billion revolving committed bank credit facility, which is divided into two \$500 million multi-year term tranches. In the second quarter of 2016, OPG renewed and extended the expiry date of both tranches from May 2020 to May 2021. As at June 30, 2016, there were no outstanding borrowings under the bank credit facility.

As at June 30, 2016, OPG also maintained \$25 million of short-term, uncommitted overdraft facilities, and a further \$453 million of short-term, uncommitted credit facilities, which support the issuance of the Letters of Credit. OPG uses Letters of Credit to support its supplementary pension plans and for other general corporate purposes. As at June 30, 2016, a total of \$382 million of Letters of Credit had been issued under these facilities. This included \$345 million for the supplementary pension plans, \$36 million for general corporate purposes, and \$1 million related to the operation of the PEC.

The Company has an agreement to sell an undivided co-ownership interest in its current and future accounts receivable to an independent trust. The maximum amount of co-ownership interest that can be sold under this agreement is \$150 million. The agreement expires on November 30, 2016. As at June 30, 2016, there were Letters

of Credit outstanding under this agreement of \$150 million, which were issued in support of OPG's supplementary pension plan.

As at June 30, 2016, the Lower Mattagami Energy Limited Partnership (LME) maintained a \$500 million bank credit facility to support the funding requirements for the Lower Mattagami River Project, including support for LME's commercial paper program. The facility consists of a \$300 million tranche maturing in August 2020 and a \$200 million tranche maturing in August 2016. OPG expects to extend the maturity of the \$300 million tranche to August 2021 and the \$200 million tranche to August 2017 in the third quarter of 2016. As at June 30, 2016, there was external commercial paper of \$245 million outstanding under LME's commercial paper program and no amounts outstanding under LME's credit facility.

In December 2014, OPG entered into an \$800 million general corporate credit facility agreement with the OEFC in support of its financing requirements for 2015 and 2016. As at June 30, 2016, there were no outstanding borrowings under this credit facility, which expires on December 31, 2016. In June 2016, OPG entered into a \$700 million general corporate credit facility agreement with the OEFC, which expires on December 31, 2017.

As at June 30, 2016, OPG's long-term debt outstanding was \$5,457 million, including \$483 million due within one year. OPG continues to evaluate debt refinancing alternatives.

BALANCE SHEET HIGHLIGHTS

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

<i>(millions of dollars) (unaudited)</i>	As At	
	June 30 2016	December 31 2015
Property, plant and equipment - net	21,018	20,595
The increase was primarily due to capital expenditures on the Darlington Refurbishment project, partially offset by depreciation expense.		
Nuclear fixed asset removal and nuclear waste management funds <i>(current and non-current portions)</i>	15,566	15,136
The increase was primarily due to earnings on the Nuclear Funds and contributions to the Used Fuel Fund, partially offset by reimbursements of eligible expenditures on nuclear fixed asset removal and nuclear waste management activities.		
Fixed asset removal and nuclear waste management liabilities	20,621	20,169
The increase was primarily a result of accretion expense representing the increase in the liabilities due to the passage of time, partially offset by expenditures on nuclear fixed asset removal and waste management activities.		
Available-for-sale securities	234	-
The balance as at June 30, 2016 represents the fair value of the nine million Hydro One shares acquired in April 2016, as discussed in Note 2 of the Company's second quarter 2016 unaudited interim consolidated financial statements.		

Pension & OPEB Cash Versus Accrual Differential Deferral Account

In setting OPG's regulated prices effective November 1, 2014, the OEB limited amounts for pension and OPEB and costs allowed in the approved revenue requirements to the regulated business portion of the Company's cash expenditures for its pension and OPEB plans. Effective November 1, 2014, the OEB also authorized the Pension & OPEB Cash Versus Accrual Differential Deferral Account, which records the difference between OPG's actual pension and OPEB costs for the regulated business determined on an accrual basis under US GAAP and OPG's corresponding actual cash expenditures for these plans. The OEB's November 2014 decision indicated that the future recovery, if any, of amounts recorded in the deferral account would be subject to the outcome of a future generic OEB proceeding on the regulatory treatment and recovery of pension and OPEB costs and that a transition from the accrual basis of recovery of OPG, if required would be addressed in a future OPG rate proceeding, informed by the outcome of the future generic proceeding related to the regulated treatment and recovery of pension and OPEB costs. The Company has recognized the amount set aside in the Pension & OPEB Cash Versus Accrual Differential Deferral account as a regulatory asset. As at June 30, 2016, the regulatory asset balance was \$378 million, which represents the excess of pension and OPEB costs calculated using the accrual basis over the cash basis for the period from November 1, 2014 to June 30, 2016.

In May 2015, the OEB began a consultation process to develop standard principles to guide its future review of pension and OPEB costs of rate regulated utilities in the electricity and natural gas sectors, including establishing appropriate regulatory mechanisms for cost recovery. In July 2016, the OEB held a public stakeholder forum as part of the consultation. OPG is participating in the consultation, which is continuing. If, as part of this consultation or in a future proceeding, the OEB decides that the recovery basis for OPG's pension and OPEB amounts should be changed from the accrual basis, OPG may be required to adjust the regulatory asset recorded for the Pension & OPEB Cash Versus Accrual Differential Deferral Account.

Off-Balance Sheet Arrangements

In the normal course of operations, OPG engages in a variety of transactions that, under US GAAP, are either not recorded in the Company's interim consolidated financial statements or are recorded in the Company's interim consolidated financial statements using amounts that differ from the full contract amounts. Principal off-balance sheet activities for OPG include guarantees and long-term contracts.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the audited consolidated financial statements as at and for the year ended December 31, 2015. A discussion of recent accounting pronouncements is included in Note 2 to OPG's unaudited interim consolidated financial statements as at and for the three and six month periods ended June 30, 2016 under the section, *Changes in Accounting Policies and Estimates*. Disclosure regarding OPG's critical accounting policies is included in OPG's 2015 annual MD&A.

RISK MANAGEMENT

The following provides an update to the discussion of the Company's risks and risk management activities included in OPG's 2015 annual MD&A. As such, the disclosure in this section should be read in conjunction with the *Risk Management* section included in the annual MD&A.

Regulatory and Legislative Risks

Rate Regulation

As inherent in regulatory proceedings, significant uncertainties remain regarding the outcome of rate and generic proceedings for OPG's rate regulated operations.

In May 2016, OPG applied to the OEB for new regulated prices effective January 1, 2017, on the basis of an incentive regulation rate making methodology for hydroelectric operations and a custom incentive regulation ratemaking methodology for the nuclear operations. If accepted by the OEB, both approaches would result in greater decoupling of OPG's revenues for the regulated operations from their costs. There is an inherent risk that the new prices established by the OEB may not provide for the recovery of all actual costs incurred by OPG's regulated operations or may not allow the regulated operations to earn an appropriate rate of return based on actual results. As the proposed custom incentive regulation methodology for the nuclear operations builds on OPG's forecast of operating costs and production and a return on rate base, including OPG's plans to pursue Pickering extended operations until 2024 and the scheduled return to service of the first refurbished Darlington unit in the first quarter of 2020, the Company remains exposed to risks of the OEB not accepting certain levels of costs or other elements of OPG's forecasts reflected in the application. There are also inherent uncertainties regarding the effective date that the OEB will establish for the new regulated prices.

Consistent with the November 2015 amendment to *Ontario Regulation 53/05*, OPG's application includes a nuclear rate smoothing proposal, with a view of making more stable year-over-year changes in the nuclear base regulated prices during the Darlington Refurbishment period. There is an inherent risk that the magnitude of the deferral ordered by the OEB will result in regulated prices that do not provide sufficient cash flow to the Company for meeting its financial objectives in the optimal manner, including ensuring sufficient liquidity, cost effectively funding the Darlington Refurbishment project and other expenditures, and maintaining the Company's investment grade credit rating. Maintaining adequate levels of credit metrics will support OPG's investment grade credit rating. As such, OPG has advanced credit metrics as a key criterion for the OEB to apply in determining the smoothed nuclear base rates.

Financial Risks

Commodity Markets

Changes in the market price of fuels used to produce electricity can adversely impact OPG's earnings and cash flow from operations.

To manage the risk of unpredictable increases in the price of fuels, the Company has fuel hedging programs, which include fixed price and indexed contracts.

The percentages hedged of OPG's fuel requirements are shown in the following table. These amounts are based on yearly forecasts of generation and supply mix, and as such, are subject to change as these forecasts are updated.

	2016 ¹	2017	2018
Estimated fuel requirements hedged ²	75%	74%	75%

¹ Based on actual fuel requirements hedged for the six months ended June 30, 2016 and forecast for the remainder of the year.

² Represents the approximate portion of megawatt-hours of expected generation production (and year-end inventory targets) from each type of OPG-operated facility (nuclear and thermal) for which the Company has entered into contractual arrangements or obligations in order to secure the price of fuel. Excess fuel inventories in a given year are attributed to the next year for the purpose of measuring hedge ratios.

Foreign Exchange

OPG's earnings and cash flows can be affected by movements in the United States dollar (USD) relative to the Canadian dollar.

OPG's financial results are exposed to volatility in the Canadian/US foreign exchange rate as fuels and certain supplies and services purchased for generating stations and major development projects are primarily denominated in, or tied to USD. To manage this risk, OPG employs various financial instruments such as forwards and other derivative contracts, in accordance with approved risk management policies. As at June 30, 2016, OPG had foreign exchange contracts outstanding with a total notional value of USD \$5 million.

Trading

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

OPG's electricity trading operations are closely monitored, with total exposures measured and reported to senior management on a daily basis. The main metric used to measure the financial risk of trading activity is Value at Risk (VaR). VaR is defined as a probabilistic maximum potential future loss expressed in monetary terms for a portfolio based on normal market conditions over a set period of time. For the second quarter of 2016, the VaR utilization ranged between \$0.1 million and \$0.5 million.

Credit

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

OPG manages its exposure to suppliers or counterparties by evaluating their financial condition and negotiating appropriate collateral or other forms of security. OPG's credit exposure relating to energy markets transactions as at June 30, 2016 was \$490 million, including \$478 million to the IESO. Management considers the Company's risk exposure relating to electricity sales through the IESO-administered spot market to be low as the IESO oversees the credit worthiness of all market participants. In accordance with the IESO's prudential support requirements, market participants are required to provide collateral to cover funds that they might owe to the market. Over 95 percent of the remaining \$12 million exposure as at June 30, 2016 was related to investment grade counterparties.

Nuclear Waste Management and Decommissioning Obligations, and Nuclear Funds

The cost estimates for nuclear waste management and decommissioning obligations are based on assumptions that evolve over time and could impact OPG's future contributions to the Nuclear Funds to cover these obligations.

OPG is responsible for the management of used nuclear fuel and L&ILW, and the decommissioning of its nuclear stations and waste management facilities. The cost estimates for OPG's nuclear waste management and decommissioning obligations are based on multiple underlying assumptions and estimates that are inherently uncertain. The assumptions include station end-of-life dates, waste volumes, waste disposal methods, the timing of construction of assumed waste disposal facilities including the assumed nuclear used fuel deep geologic repository consistent with the Adaptive Phased Management concept approved by the Government of Canada and OPG's proposed L&ILW deep geologic repository, waste packaging systems, decommissioning strategy, and financial indicators. To address the inherent uncertainty, OPG undertakes to perform a comprehensive review of the underlying assumptions and baseline cost estimates at least once every five years, in line with the ONFA Reference Plan update process. An approved ONFA Reference Plan determines OPG's contributions to the Nuclear Funds.

OPG is currently reviewing its estimates for the nuclear waste management and decommissioning obligations. By the end of 2016, a comprehensive reassessment of the underlying assumptions and lifecycle baseline cost estimates is expected to be completed and finalized for the Province's approval as part of the ONFA Reference Plan update process. A change in the obligations can change OPG's future required contributions under the ONFA. An update to the cost estimates may also result in a change in OPG's nuclear asset retirement obligation and related asset retirement costs capitalized to property, plant and equipment. The updated ONFA Reference Plan is expected to be effective January 1, 2017.

RELATED PARTY TRANSACTIONS

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

The related party transactions summarized below include transactions with the Province and the principal successors to the former Ontario Hydro's integrated electricity business, including Hydro One, the IESO and the OEFC. The transactions between OPG and related parties are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. As one of several wholly-owned government business enterprises of the Province, OPG also has transactions in the normal course of business with various government ministries and organizations in Ontario that fall under the purview of the Province.

The related party transactions are summarized below:

<i>(millions of dollars) (unaudited)</i>	Three Months Ended June 30			
	2016		2015	
	Revenue	Expense	Revenue	Expense
Hydro One				
Electricity sales	1	-	2	-
Services	-	4	-	-
Province of Ontario				
Decommissioning Fund excess funding ¹	-	113	-	(81)
Used Fuel Fund rate of return guarantee ¹	-	54	-	(238)
Gross revenue charges	-	32	-	31
ONFA guarantee fee	-	2	-	2
OEFC				
Gross revenue charges	-	53	-	49
Interest expense on long-term notes	-	43	-	44
Income taxes, net of investment tax credits	-	52	-	114
IESO				
Electricity related revenue	1,239	5	1,235	12
	1,240	358	1,237	(67)

<i>(millions of dollars) (unaudited)</i>	Six Months Ended June 30			
	2016		2015	
	Revenue	Expense	Revenue	Expense
Hydro One				
Electricity sales	3	-	8	-
Services	1	9	1	2
Province of Ontario				
Decommissioning Fund excess funding ¹	-	(64)	-	219
Used Fuel Fund rate of return guarantee ¹	-	(105)	-	341
Gross revenue charges	-	63	-	63
ONFA guarantee fee	-	4	-	4
OEFC				
Gross revenue charges	-	90	-	88
Interest expense on long-term notes	-	85	-	90
Income taxes, net of investment tax credits	-	84	-	185
IESO				
Electricity related revenue	2,601	15	2,577	39
	2,605	181	2,586	1,031

¹ The Nuclear Funds are reported on the balance sheet net of amounts recognized as due to the Province in respect of Decommissioning Fund excess funding and the Province's Used Fuel Fund rate of return guarantee. As at June 30, 2016 and December 31, 2015, the Nuclear Funds were reported net of amounts due to the Province of \$2,819 million and \$2,988 million, respectively. The details of accounting for the Nuclear Funds are described in OPG's 2015 annual MD&A under the section, *Critical Accounting Policies and Estimates*.

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

<i>(millions of dollars) (unaudited)</i>	June 30 2016	December 31 2015
Receivables from related parties		
Hydro One	1	1
IESO	478	531
OEFC	5	9
PEC	3	3
Province of Ontario	6	1
Available-for-sale securities		
Hydro One shares	234	-
Accounts payable and accrued charges		
Hydro One	1	1
OEFC	56	51
Province of Ontario	9	20
IESO	1	18
Long-term debt (including current portion)		
Notes payable to OEFC	3,465	3,465

OPG holds interest-bearing Province of Ontario bonds in the Nuclear Funds and the OPG registered pension fund. As at June 30, 2016, the Nuclear Funds and the registered pension fund held \$1,724 million and \$322 million of interest-bearing Province of Ontario bonds, respectively. As at December 31, 2015, the Nuclear Funds and the registered pension fund held \$1,597 million and \$288 million of interest-bearing Province of Ontario bonds, respectively. OPG jointly oversees the investment management of the Nuclear Funds with the Province. The Province of Ontario bonds reported above are publicly traded securities and are measured at fair value.

In April 2016, OPG acquired nine million common shares of Hydro One at \$23.65 per share as part of a secondary share offering by the Province through a syndicate of underwriters. The acquisition was made for investment purposes to mitigate the risk of future price volatility related to OPG's future share delivery obligations to eligible employees under the collective agreements with the PWU and The Society renewed in 2015. The fair value of the shares was \$234 million as at June 30, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

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

QUARTERLY FINANCIAL HIGHLIGHTS

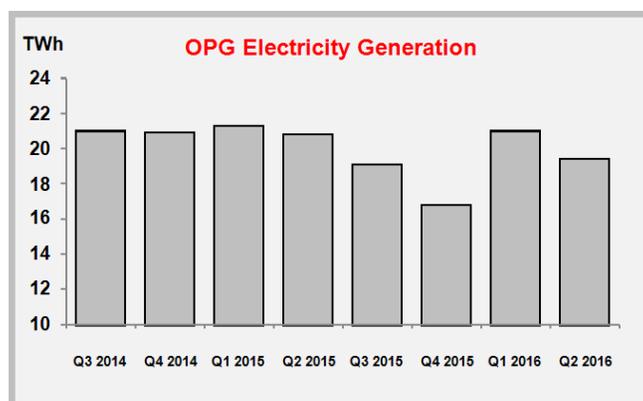
The following tables set out selected financial information from OPG's unaudited interim consolidated financial statements for each of the eight most recently completed quarters.

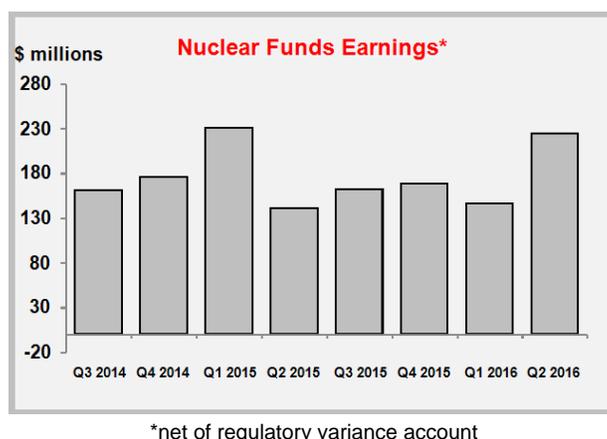
<i>(millions of dollars - except where noted) (unaudited)</i>	June 30 2016	March 31 2016	December 31 2015	September 30 2015
Revenue	1,387	1,478	1,312	1,426
Net income (loss) attributable to the Shareholder	132	123	(101)	80
Net income attributable to non-controlling interest	3	5	1	5
Net income (loss)	135	128	(100)	85
Per common share, attributable to the Shareholder (dollars)	\$0.51	\$0.48	(\$0.39)	\$0.31

<i>(millions of dollars - except where noted) (unaudited)</i>	June 30 2015	March 31 2015	December 31 2014	September 30 2014
Revenue	1,383	1,355	1,318	1,160
Income before extraordinary item attributable to the Shareholder	189	234	86	118
Income before extraordinary item attributable to non-controlling interest	4	5	4	1
Income before extraordinary item	193	239	90	119
Net income attributable to the Shareholder	189	234	86	361
Net income attributable to non-controlling interest	4	5	4	1
Net income	193	239	90	362
Per common share, attributable to the Shareholder (dollars)				
Income before extraordinary item	\$0.74	\$0.91	\$0.34	\$0.46
Net income	\$0.74	\$0.91	\$0.34	\$1.41

Trends

OPG's quarterly results are affected by changes in grid-supplied electricity demand primarily resulting from variations in seasonal weather conditions, changes in economic conditions, the impact of small scale generation embedded in distribution networks, and the impact of conservation efforts in the province. Weather conditions affect water flows, electricity demand, and prevalence of SBG conditions. Historically, OPG's revenues are higher in the first quarter of a fiscal year as a result of winter heating demands and in the third quarter due to air conditioning and cooling demands. With respect to regulated hydroelectric operations, the financial impact of foregone production due to SBG conditions and the financial impact of differences between forecast water flows reflected in OEB-approved regulated prices and the actual water flows are offset by regulatory variance accounts authorized by the OEB. OPG's financial results are also affected by the earnings on the Nuclear Funds, net of the impact of the Bruce Lease Net Revenues Variance Account.





Additional items that affected net income in certain quarters above are described in OPG's 2015 annual MD&A under the section, *Quarterly Financial Highlights*.

SUPPLEMENTARY NON-GAAP FINANCIAL MEASURES

In addition to providing net income and other financial information in accordance with US GAAP, certain non-GAAP financial measures are also presented in OPG's MD&A. These non-GAAP measures do not have any standardized meaning prescribed by US GAAP and, therefore, may not be comparable to similar measures presented by other issuers. OPG utilizes these measures to make operating decisions and assess performance. Readers of the MD&A would utilize these measures in assessing the Company's financial performance from ongoing operations. The Company believes that these indicators are important since they provide additional information about OPG's performance, facilitate comparison of results over different periods, and present measures consistent with the Company's strategies to provide value to the Shareholder and to ensure availability of cost effective funding. These non-GAAP financial measures have not been presented as an alternative to net income, cash flows from operations, or any other measure in accordance with US GAAP, but as an indicator of operating performance.

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

(1) **ROE Excluding AOCI** is defined as net income attributable to the Shareholder divided by average equity attributable to the Shareholder excluding AOCI, for the period. ROE Excluding AOCI is measured over a 12-month period and is calculated as follows:

	Twelve Months Ended	
	June 30 2016	December 31 2015
<i>(millions of dollars – except where noted) (unaudited)</i>		
ROE Excluding AOCI		
Net income attributable to the Shareholder	234	402
Divided by: Average equity attributable to the Shareholder, excluding AOCI	10,362	10,023
ROE Excluding AOCI (percent)	2.3	4.0

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

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

	Twelve Months Ended	
	June 30 2016	December 31 2015
<i>(millions of dollars – except where noted) (unaudited)</i>		
FFO before interest		
Cash flow provided by operating activities	1,274	1,465
Add: Interest paid	268	269
Less: Interest capitalized to fixed and intangible assets	(120)	(102)
Add: Changes to non-cash working capital balances	245	100
FFO before interest	1,667	1,732
Adjusted interest expense		
Net interest expense	150	180
Add: Interest income	8	9
Add: Interest capitalized to fixed and intangible assets	120	102
Add: Interest related to regulatory assets and liabilities	17	2
Add: Interest on pension and OPEB projected benefit obligations less expected return on pension plan assets	49	53
Adjusted interest expense	344	346
FFO Adjusted Interest Coverage (times)	4.8	5.0

(3) **Nuclear Total Generating Cost per MWh** is used to measure the cost performance of OPG's nuclear generating assets. Nuclear TGC per MWh is defined as the total of OM&A expenses of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs, the impact of regulatory variance and deferral accounts, and expenses ancillary to the nuclear electricity generation business), nuclear fuel expense for OPG-operated stations (excluding the impact of regulatory variance and deferral accounts), and capital expenditures of the Regulated – Nuclear Generation segment (excluding Darlington Refurbishment project costs) incurred in the period, divided by OPG's nuclear electricity generation.

<i>(millions of dollars – except where noted) (unaudited)</i>	Three Months Ended June 30		Six Months Ended June 30	
	2016	2015	2016	2015
Nuclear TGC				
Regulated – Nuclear Generation OM&A expenses	581	513	1,144	1,039
Regulated – Nuclear Generation fuel expense	79	79	160	157
Regulated – Nuclear Generation capital expenditures	308	263	557	477
Less: Darlington Refurbishment project capital and non-capital costs	(243)	(176)	(448)	(332)
Add: Regulated – Nuclear Generation OM&A expenses and fuel expense deferred in regulatory variance and deferral accounts	29	51	53	108
Less: Nuclear fuel expense for non OPG-operated stations	(15)	(12)	(32)	(29)
Other adjustments	(5)	(10)	(7)	(8)
Nuclear TGC	734	708	1,427	1,412
Nuclear electricity generation (TWh)	10.6	12.3	22.9	24.5
Nuclear TGC per MWh (\$/MWh) ¹	69.25	57.56	62.44	57.52

¹ Amounts may not calculate due to rounding.

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

Additional information about OPG, including its 2015 annual MD&A, and audited annual consolidated financial statements as at and for the year ended December 31, 2015 and notes thereto can be found on SEDAR at www.sedar.com.

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