Audited Financial Statements of

The Ontario NFWA Trust

December 31, 2012

Ernst & Young
Quality In Everything We Do

INDEPENDENT AUDITORS' REPORT

To the Trustee of
The Ontario NFWA Trust

Report on the Financial Statements

We have audited the accompanying financial statements of **The Ontario NFWA Trust** (the "Trust"), which comprise the statements of net assets as at December 31, 2012 and 2011, and the statements of operations and comprehensive income, the statements of changes in net assets, and the statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Trustee of the Trust's Responsibility for the Financial Statements

Trustee of the Trust is responsible for the preparation and fair presentation of these financial statements in accordance with United States generally accepted accounting principles, and for such internal control as the Trustee of the Trust determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets of the Trust as at December 31, 2012 and 2011, the results of its operations, changes in its net assets and cash flows for the years then ended in accordance with United States generally accepted accounting principles.

Ernst & Young LLP

Toronto, Canada
March 6, 2013

Chartered Accountants
Licensed Public Accountants

The Ontario NFWA Trust

STATEMENTS OF NET ASSETS

As at December 31
(millions of dollars)

	2012	2011
Assets		
Investments *(Note 3)*		
Cash and cash equivalents	**68**	49
Short-term investments *(Note 8)*	**120**	247
Fixed income investments *(Note 8)*	**1,696**	1,398
Pooled funds *(Note 8)*	**665**	592
	2,549	2,286
Other		
Investment income receivable *(Note 4)*	**11**	12
Receivable for investment transactions *(Note 9)*	**44**	-
	55	12
Total assets	**2,604**	2,298
Liabilities		
Accounts payable and accruals *(Note 5)*	**1**	1
Payable for investment transactions *(Note 10)*	**44**	2
	45	3
Net assets	**2,559**	2,295

See accompanying notes to the financial statements

The Ontario NFWA Trust

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31
(millions of dollars)

	2012	2011
Investment income *(Note 6)*		
Interest	**90**	85
Net realized gains	**53**	46
	143	131
Expenses		
Administration fees *(Note 11)*	**3**	3
Net investment income	**140**	128
Change in unrealized (losses) gains *(Note 6)*	**(25)**	79
Net income and comprehensive income	**115**	207

See accompanying notes to the financial statements

The Ontario NFWA Trust

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31
(millions of dollars)

	2012	2011
Net assets, beginning of year	**2,295**	1,949
Net income and comprehensive income	**115**	207
Contributions *(Note 7)*	**149**	139
Net assets, end of year	**2,559**	2,295

See accompanying notes to the financial statements

The Ontario NFWA Trust

STATEMENTS OF CASH FLOW

Years ended December 31
(millions of dollars)

	2012	2011
Operating activities		
Interest received	**91**	79
Administration fees paid	**(3)**	(3)
Proceeds from realized gains on investments	**53**	46
Payments for investments purchased in prior year	**(2)**	-
Purchase of investments	**(269)**	(260)
Cash flow used in operating activities	**(130)**	(138)
Financing activities		
Contributions	**149**	139
Cash flow provided by financing activities	**149**	139
Net change in cash and cash equivalents	**19**	1
Cash and cash equivalents, January 1	**49**	48
Cash and cash equivalents, December 31	**68**	49

See accompanying notes to the financial statements

1. DESCRIPTION OF THE ONTARIO NFWA TRUST

Bill C-27, *the Nuclear Fuel Waste Act* ("NFWA"), received royal assent on June 13, 2002 and was proclaimed into force on November 15, 2002. Bill C-27 is a key component of the Government of Canada's 1996 Policy Framework for Radioactive Waste. Under this policy, the Federal Government, through effective oversight, will ensure that the long-term management of radioactive waste is carried out in a comprehensive, integrated and economically sound manner.

As required under the NFWA, owners of nuclear fuel waste established, by incorporation, the Nuclear Waste Management Organization ("NWMO"), whose purpose is to propose to the Government of Canada approaches for the management of nuclear fuel waste and to implement the approach that is selected by the Federal Government. In accordance with the NFWA, the NWMO submitted its recommendations for a long-term nuclear used fuel waste management strategy to the Federal Government in November 2005. In June 2007, the Federal Government selected the NWMO's recommended option titled "Adaptive Phased Management."

Upon the NFWA coming into force in November 2002, the owners of nuclear fuel waste were required to establish trust funds and to make annual payments into those trust funds to finance the long-term management of nuclear fuel waste. Accordingly, Ontario Power Generation Inc. ("OPG") established The Ontario NFWA Trust (the "Trust"), and made an initial deposit of $500 into the Trust fund on November 25, 2002. Under the NFWA, OPG is required to contribute to the Trust each year, within 30 days of the submission of the NWMO's Annual Report to the federal Minister of Natural Resources. The annual contribution amount to the Trust was $100 up to 2007. Since 2008, the annual contribution amount is based on the funding formula approved by the federal Minister of Natural Resources.

The funds in the Trust will be used for the purposes of managing nuclear used fuel waste. These financial statements do not portray the funding requirements of the long-term management of nuclear fuel waste obligations.

OPG and the Ontario Financing Authority ("OFA"), an agency of the Province of Ontario (the "Province"), jointly make decisions on the Trust's asset mix and investment manager selection and retention. There is a risk that OPG and the OFA may have differing priorities respecting these matters that could impact asset mix and investment decisions.

The Trustee of the Trust is CIBC Mellon Trust Company. CIBC Mellon Global Securities Services Company is an independent custodian of the Trust's assets under the custody agreement dated September 20, 2010. The Province and OPG are the beneficiaries of the Trust. The Trust is part of the Used Fuel Segregated Fund set up by OPG pursuant to the Ontario Nuclear Funds Agreement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Trust have been prepared by management in accordance with United States generally accepted accounting principles ("US GAAP") which is consistent with the basis of accounting followed by OPG. For prior periods up to and including the year ended December 31, 2011, the Trust prepared its financial statements in accordance with Canadian generally accepted accounting principles (GAAP).

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.
Other than OPG and the Province, there are no related parties to the Trust.

Certain of the 2011 comparative amounts have been restated from financial statements previously presented to conform to the 2012 financial statement presentation.

Cash and cash equivalents

Cash and cash equivalents include cash on deposit and highly liquid money market securities with a term to maturity that is less than or equal to three months as of the date of the financial statement. Money market and fixed income securities with a remaining term to maturity that is less than one year from the financial statement date are recorded as short-term investments. Interest earned on cash and cash equivalents and short-term investments is recognized as interest income.

Valuation of Investments

Financial assets are classified as loans and receivables or held-for-trading and financial liabilities are classified as held-for-trading or other than held-for-trading. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in income. Loans and receivables and financial liabilities other than those held-for-trading are measured at amortized cost. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis. All derivatives, including embedded derivatives that must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the statements of net assets. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where a quoted bid price in an active market is available, the fair value is based on the quoted bid price at the end of the reporting period. In the absence of a quoted price in an active market, the Trust determines fair value using a valuation technique that makes maximum use of observable market inputs.

Investments are presented in the financial statements at fair value, with the changes between fair value and average cost recorded as unrealized gains or losses on the value of the investments.

The carrying value of the cash and short-term investments approximates their fair value due to their immediate or short-term maturity.

The market values of foreign investments are translated into Canadian dollars at the exchange rates prevailing at the close of each business day. Purchases and sales of foreign securities and income and expenses are translated into Canadian dollars at the exchange rates prevailing on the transaction dates. The gains and losses on foreign exchange are recorded in the statements of operations and comprehensive income.

Securities traded on a national securities exchange are valued at the bid price on the last business day of the period. Listed securities for which no trades are recorded on the last business day of the period are valued at the last reported traded price on the last business day on which the security traded. Pooled funds are valued based on the unit value of the pooled fund as reported by the investment manager and are presented as a separate category on the statements of net assets. Securities transactions are recorded on the trade date. Dividends are accrued as of the ex-dividend date. Stock dividends are recorded in income based on the market value of the security. The realized gains and losses on the sale of securities are calculated with reference to the average cost of the securities and included in net realized gains or losses on the statements of operations and comprehensive income. The Trust follows the accrual method of recording investment income.

For certain other investments that do not have an established fair value, the fair value is estimated based on comparable securities of issuers with similar credit ratings or net realizable value using available information.

Forward Foreign Exchange Contracts

The Trust may enter into forward foreign exchange contracts for risk management purposes where such activity is consistent with its investment objectives.

The changes in the year-end value of forward foreign exchange contracts receivable have been included in the investments on the statements of net assets, with the change in unrealized gain or loss included as part of the change in unrealized gains or losses on the statements of operations and comprehensive income.

The gain or loss arising from the difference between the value of the original forward foreign exchange contract and the contract at close or delivery is realized and recorded in net realized gains or losses on the statements of operations and comprehensive income.

Taxation

Any income earned by the Trust is exempt under paragraph 149(1)(z.2) of the *Income Tax Act* (Canada), as the Trust was created pursuant to subsection 9(1) of the NFWA and no person other than those specified in the paragraph are beneficially interested in the Trust. Accordingly, the Trust has made no provision for income taxes in these financial statements.

There are no uncertain tax positions to be recognized as of December 31, 2012.

Change in Accounting Policies and Estimates

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

(millions of dollars, unless otherwise stated)

3. INVESTMENTS

The fair values and historical costs of the investments at December 31, 2012 and 2011 are summarized as follows:

	2012 Fair Value	2012 Historical Cost	2011 Fair Value	2011 Historical Cost
Cash and cash equivalents	**68**	**68**	49	49
Short-term investments	**120**	**120**	247	246
Fixed income investments	**1,696**	**1,599**	1,398	1,285
Pooled funds				
Fixed income	**665**	**657**	592	577
Short-term investments	**-**	**1**	-	-
	665	**658**	592	577
Total investments	**2,549**	**2,445**	2,286	2,157

4. INVESTMENT INCOME RECEIVABLE

Investment income receivable of $11 (2011 – $12) is mainly comprised of interest receivable from cash, short-term investments and fixed income investment.

5. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable and accruals consist of the following as at December 31, 2012 and 2011:

	2012	2011
Investment management fees and other fees	**1**	1

(millions of dollars, unless otherwise stated)

6. INVESTMENT INCOME, NET REALIZED GAINS, AND CHANGE IN UNREALIZED LOSSES AND GAINS

Investment income, and net realized gains and change in unrealized (losses) gains for the years ended December 31, 2012 and 2011 consist of the following:

	2012	**2011**
Investment income		
Interest income on cash, short-term investments, and bonds and debentures	**90**	85
Net realized gains		
Realized gains	**53**	46
Change in unrealized (losses) gains		
Change in unrealized gains (losses)	**(25)**	79

7. CONTRIBUTIONS

Cash contributions to the Trust during the year were $149 (2011 – $139).

8. FINANCIAL INSTRUMENTS

The primary objective of the Trust is to meet the payment obligations associated with the disposal costs associated with high level used nuclear fuel. In order to meet these liability payments, the long-term return objective of the Used Fuel Segregated Fund, of which the Trust is a part, is to achieve a total annual real return of 3.25 percent which equals the rate of change in the Ontario Consumer Price Index plus 3.25 percent compounded annually. In 2012, the actual rate of return of the Trust was 4.8 percent (2011 – 10.1 percent).

A Statement of Investment Policies and Procedures ("SIPP") was established for the Trust, which sets out the investment framework of the Trust, including the investment assumptions, permitted investments and various investment constraints. Further, the SIPP provides the long-term target asset mix of the Trust, considered in the context of the Used Fuel Segregated Fund, which considers its funded status and investment objectives in relation to its projected long-term liability profile and cash flows, historical experience of investment vehicles, the appropriate level of diversification to optimize risk and return, and the risk preferences of OPG and the Province. The management of OPG and the Province monitor investment compliance quarterly with the SIPP.

The SIPP is reviewed and approved annually by OPG's Audit and Finance Committee and by the Deputy Minister of Finance, on behalf of the Province.

Risks Associated with Financial Instruments

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument might fail to meet its obligation under the terms of a financial instrument, thereby resulting in a financial loss for the other party to the transaction. The Trust is primarily exposed to credit risk through its fixed income allocation, which is invested in federal, provincial and corporate debt. Credit risk is governed by the SIPP, which requires fixed income investments to comply with various investment constraints that ensure prudent diversification and minimum credit rating quality. Investment compliance with the SIPP is monitored quarterly by an external third-party vendor and reported quarterly to management of OPG and the OFA.

(millions of dollars, unless otherwise stated)

The table below summarizes the Trust's exposure to debt instruments with the following credit ratings at December 31, 2012 and 2011:

Rating	2012	2011
AAA	**28.9%**	33.6%
AA	**32.9%**	33.1%
A	**30.4%**	25.5%
BBB	**7.7%**	7.7%
Less than BBB or not rated	**0.1%**	0.1%
	100.0%	100.0%

Credit ratings are obtained from Standard & Poor's, Moody's and/or the Dominion Bond Rating Services. In the case where more than one rating is obtained for a security, the lowest rating has been used.

Liquidity Risk

Liquidity risk is the risk that the Trust is unable to meet its financial obligations, due at any point in time. The approach to managing liquidity risk is to ensure that the Trust has sufficient liquidity to meet its financial obligations when due without incurring unacceptable losses.

Market Risk

Market risk is defined as the risk that an investment's value decreases due to changes in underlying market factors including, but not limited to, interest rate risk and currency risk.

Market risk is managed by the Trust through its diversified asset mix, which in accordance with the SIPP, is expected to be reviewed at least every five years to coincide with the preparation and approval of reference plans which provide detailed cost estimates for high level used fuel disposal. The target asset mix of the Trust, including tolerance ranges around the target allocation to various asset classes, is governed by the SIPP. Compliance with the target asset mix ranges is monitored monthly internally and on a quarterly basis by an external third-party vendor and reported quarterly to management of OPG and the OFA.

Concentration Risk

Concentration risk is the risk of investment loss due to lack of diversification in the portfolio. The Trust's exposure to concentration risk is governed by the SIPP. For equities, no holding shall represent more than 10 percent of the total market value of each investment manager's equity portfolio. For fixed income investments, no more than 10 percent of each investment manager's portfolio may be invested in the bonds of a single issuer and its related companies, except for Canadian federal and provincial bonds and bonds of their agencies. Investment compliance with the SIPP is monitored quarterly by an external third-party vendor and reported to management of OPG and the OFA.

(millions of dollars, unless otherwise stated)

Currency Risk

Currency risk is the risk that the value of a financial instrument decreases due to changes in foreign exchange rates. The Trust is exposed to foreign currency through the purchase of fixed income instruments denominated in foreign currencies.

The net foreign currency exposure of the Trust at December 31, 2012 was negligible (2011 – nil), adjusting for currency hedges. Since the net foreign currency exposure is insignificant, the Trust's exposure to changes in foreign currencies is immaterial and not presented.

Interest Rate Risk

Interest rate risk, which includes credit spread risk, is the risk of investment loss due to changes in interest rates and changes in the market price of credit. The Trust is exposed to interest rate risk through its target asset mix, which includes a significant allocation to fixed income securities. Cash and short-term investments with maturity dates of less than one year from the financial statement date have minimal exposure to interest rate fluctuations. The Trust's exposure to interest rate risk is governed by the SIPP, which ensures that the Trust's fixed income exposure is prudently diversified. Investment compliance with the SIPP is monitored quarterly by an external third-party vendor and reported quarterly to management of OPG and the OFA.

The table below provides a summary of the Trust's fixed income exposures by maturity at December 31, 2012 and 2011:

	2012	2011
Fixed income investments		
1 to 5 years	**473**	388
5 to 10 years	**279**	203
Over 10 years	**944**	807
	1,696	1,398
Average yield	**2.96%**	3.02%

Modified duration is a measure of the sensitivity of the price of a fixed income instrument to a change in interest rates. Given the Trust's modified duration of 9.1 years as at December 31, 2012 (2011 – 8.0 years), a parallel shift in the yield curve of +/- 0.5 percent would result in a negligible impact on the net assets of the Trust with all other variables held constant. Actual results may differ materially from this sensitivity analysis.

Derivatives

The Trust may enter into derivative contracts, such as forward foreign exchange contracts, for risk management purposes where such activity is consistent with its investment objectives. Forward foreign exchange contracts expose the Trust to counterparty credit risk should the Trust's counterparty to any such transaction default on its contractual obligations. As at December 31, 2012 and 2011, the Trust's net exposure to forward foreign exchange contracts is immaterial.

The Trust may also enter into other derivative contracts, such as futures contracts, to replicate direct investments in underlying securities. As at December 31, 2012 and 2011, the Trust did not hold any futures contracts. The Fund's exposure to derivative instruments as at December 31, 2012 and 2011 are reflective of the volume of derivative transactions throughout the year.

(millions of dollars, unless otherwise stated)

Additional Information on Fair Value

The table below presents financial assets measured at fair value in the statements of net assets in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The level within which the financial asset or financial liability is classified is determined based on the lowest level of significance input to the fair value measurement.

The following tables provide summaries of the financial assets measured at fair value in the statements of net assets grouped into the fair value hierarchy as at December 31, 2012 and 2011:

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Short-term investments	**-**	**120**	**-**	**120**
Fixed income investments	**-**	**1,696**	**-**	**1,696**
Pooled funds	**-**	**665**	**-**	**665**
	-	**2,481**	**-**	**2,481**

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
Short-term investments	-	247	-	247
Fixed income investments	-	1,398	-	1,398
Pooled funds	-	592	-	592
	-	2,237	-	2,237

There have been no transfers between Levels 1 and 2 in the reporting period.

9. RECEIVABLE FOR INVESTMENT TRANSACTIONS

Investments that were sold at the end of the year but had not settled as at December 31, 2012 of $44 (2011 – nil) have been presented as a receivable.

(millions of dollars, unless otherwise stated)

10. PAYABLE FOR INVESTMENT TRANSACTIONS

Investments that were purchased at the end of the year but had not settled as at December 31, 2012 of $44 (2011 – $2) have been presented as a payable.

11. ADMINISTRATION FEES

Administration fees for the years ended December 31, 2012 and 2011 were as follows:

	2012	**2011**
Investment management fees and other fees	**3**	3

12. PAYMENTS OR WITHDRAWALS

There were no payments or withdrawals made from the Trust relating to the disposal of long-term nuclear fuel waste as permitted under the NFWA.

13. US GAAP TRANSITION

OPG is required to report under US GAAP beginning January 1, 2012. In order to remain consistent with OPG, the Trust also adopted US GAAP effective January 1, 2012. The Trust previously prepared its financial statements under Canadian GAAP. As such, the Fund retrospectively adopted US GAAP for its 2011 comparative figures. Other than certain restatements for presentation purposes, there are no material impacts on the financial statements as a result of the transition from Canadian GAAP to US GAAP.