Audited Financial Statements of

The Ontario NFWA Trust

December 31, 2008

AUDITORS' REPORT

To the Trustee of **The Ontario NFWA Trust**

We have audited the statement of net assets of The Ontario NFWA Trust (the "Trust") as at December 31, 2008 and the statements of operations and comprehensive income and changes in net assets for the year then ended. These financial statements are the responsibility of the Trustee of the Trust. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements of the Trust as at and for the period ended December 31, 2007 were audited by other auditors who expressed an opinion without reservation on these financial statements in their report dated February 25, 2008.

Ernst & Young LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 25, 2009

The Ontario NFWA Trust
(thousands of dollars)

STATEMENTS OF NET ASSETS

As at December 31	2008	2007
Assets		
Investments *(Note 3)*		
Cash	**16**	88
Short-term investments	**69,493**	74,770
Fixed income investments	**1,312,580**	1,163,441
Derivative contracts	**73**	233
	1,382,162	1,238,532
Other		
Investment income receivable *(Note 4)*	**4,745**	5,597
Receivable for investment transactions *(Note 9)*	**2,599**	-
	7,344	5,597
Total assets	**1,389,506**	1,244,129
Liabilities		
Accounts payable and accruals *(Note 5)*	**837**	403
Payable for investment transactions *(Note 9)*	**2,597**	-
	3,434	403
Net assets	**1,386,072**	1,243,726

See accompanying notes to the financial statements

The Ontario NFWA Trust
(thousands of dollars)

STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

Years Ended December 31	2008	2007
Investment income *(Note 6)*		
Interest	**66,252**	56,357
Net realized gains (losses)	**12,141**	(602)
	78,393	55,755
Expenses		
Administration fees *(Note 10)*	**1,693**	1,553
Net investment income	**76,700**	54,202
Net unrealized losses *(Note 6)*	**(34,354)**	(12,598)
Net income and comprehensive income	**42,346**	41,604

See accompanying notes to the financial statements

The Ontario NFWA Trust

(thousands of dollars)

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended December 31

	2008	2007
Net assets, beginning of year	**1,243,726**	1,102,122
Net income	**42,346**	41,604
Contributions *(Note 7)*	**100,000**	100,000
Net assets, end of year	**1,386,072**	1,243,726

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 million into this trust fund on November 25, 2002. Under the NFWA, OPG is required to deposit $100 million into the Trust each year, no later than the anniversary of the NFWA being proclaimed into force, until the funding formula as proposed in NWMO's 2007 Annual Report has been approved by the federal Minister of Natural Resources. Future contributions to the Trust beyond 2008 will be based on the funding formula when 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. 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 Canadian generally accepted accounting principles. The preparation of financial statements in conformity with Canadian generally accepted accounting principles, 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 2007 comparative amounts have been reclassified from financial statements previously presented to conform to the 2008 financial statement presentation.

Cash and Short-term Investments

Cash includes cash on deposit. 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 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.

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

The carrying value of the cash equivalents 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 statement 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 included in short-term investments, fixed income investments and marketable equity securities, depending on the nature of the underlying investments. 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 gain / (loss) on the sale of securities is calculated with reference to the average cost of the securities and included in net realized gains / (losses) on the statement 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.

For 2008, the changes in the year end value of forward foreign exchange contracts receivable have been included in the investments on the statement of net assets, with the net unrealized gain included as part of the net unrealized gains / (losses) on the statement 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 the net realized gains / (losses) on the statement of operations and comprehensive income.

Taxation

In 2002, a letter was received from the Senior Assistant Deputy Minister, Department of Finance Canada stating the Department's overall intent to ensure that the legislative obligations under the NFWA do not cause the Trust to be subject to income taxes. As a result of the Department's recommendation, a proposed amendment to add subsection 149(1)(z.2) to the Income Tax Act was released by the Department on July 18, 2005. This new paragraph would have exempted the Trust from tax as it was created and maintained solely to meet the obligations of the NFWA. Because Parliament was dissolved on September 7, 2008, the bill has to be re-introduced to become law. OPG will be confirming with the Department that their position remains unchanged.

Changes in Accounting Policies

Financial Instruments and Capital Disclosures – Disclosure and Presentation

On January 1, 2008, the Trust adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 3862, *Financial Instruments – Disclosures*, Handbook Section 3863, *Financial Instruments – Presentation*, and Handbook Section 1535, *Capital Disclosures*.

Handbook Section 3862, *Financial Instruments – Disclosures*, outlines disclosure requirements for financial instruments and places increased emphasis on disclosure about the risks associated with recognized and unrecognized financial instruments and how these risks are managed.

Handbook Section 3863, *Financial Instruments – Presentation*, carries forward the presentation requirements from Section 3861, *Financial Instruments – Disclosure and Presentation*.

Handbook Section 1535, *Capital Disclosures*, requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate a company's objectives, policies and processes for managing capital.

(thousands of dollars, unless otherwise stated)

3. INVESTMENTS

The fair values and historical costs of the investments at December 31, 2008 and 2007 are summarized as follows:

	2008 Fair Value	**2008 Historical Cost**	**2007 Fair Value**	**2007 Historical Cost**
Cash	**16**	**16**	88	88
Short-term investments	**69,493**	**69,839**	74,770	73,950
Fixed income investments				
Domestic	**1,303,774**	**1,349,686**	1,163,441	1,177,128
American	**8,806**	**9,597**	-	-
	1,312,580	**1,359,283**	1,163,441	1,177,128
Forward foreign exchange contracts receivable	**13,899**	**13,998**	13,151	13,151
Forward foreign exchange contracts payable	**(13,826)**	**(13,998)**	(12,918)	(13,151)
Net derivative contracts	**73**	**-**	233	-
Total investments	**1,382,162**	**1,429,138**	1,238,532	1,251,166

The term to maturity for the forward foreign exchange contracts at December 31, 2008 was under one month (2007 – under one month) from the financial statement date.

4. INTEREST RECEIVABLE

As at December 31, 2008, there was approximately $4,745 (2007 - $5,597) of interest receivable from cash, short-term investments, and fixed income investments.

(thousands of dollars, unless otherwise stated)

5. ACCOUNTS PAYABLE AND ACCRUALS

Accounts payable consists of the following as at December 31, 2008 and 2007:

	2008	2007
Investment management fees	**820**	377
Audit fees	**11**	19
Trustee fees	**6**	7
	837	403

6. INVESTMENT INCOME, REALIZED AND UNREALIZED GAINS AND LOSSES

Investment income and realized and unrealized gains and losses for the years ended December 31, 2008 and 2007, consists of the following:

	2008	2007
Investment income		
Interest income on cash, short-term investments, bonds and debentures	**66,252**	56,357
Net realized gains (losses)		
Realized gains	**10,302**	1,222
Realized foreign exchange gains (losses)	**1,839**	(1,824)
	12,141	(602)
Net unrealized (losses)		
Unrealized losses	**(32,985)**	(13,758)
Unrealized foreign exchange (losses) gains	**(1,369)**	1,160
	(34,354)	(12,598)

7. CONTRIBUTIONS

Cash contributions to the Trust during the year were $100 million (2007 - $100 million).

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% (i.e., the Ontario Consumer Price Index plus 3.25%). In 2008, the actual rate of return of the Trust was 3.3%.

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 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 the Province and OPG. The management of OPG and the Province monitor investment compliance with the SIPP on a quarterly basis.

The SIPP is reviewed and approved annually 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 fails 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 to management of OPG and the OFA on a quarterly basis.

The table below summarizes the Trust's exposure to debt instruments with the following credit ratings at December 31, 2008:

Rating	2008
AAA	23.8%
AA	38.4%
A	28.5%
BBB	6.0%
Less than BBB or not rated	3.3%
	100.0%

Credit ratings are obtained from Standard & Poor's, Moody's and/or 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 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, which must be approved annually by the Deputy Minister of Finance, on behalf of the Province. 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.

(thousands 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, 2008 was $138, adjusting for forward currency contracts. 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 to management of OPG and the OFA on a quarterly basis.

The table below provides a summary of the Trust's fixed income exposures by maturity at December 31, 2008:

	2008
Fixed income investments	
1 to 5 years	**683,201**
5 to 10 years	**352,257**
Over 10 years	**277,122**
	1,312,580
Average yield	**4.83%**

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 5.6 at December 31, 2008, a parallel shift in the yield curve of +/- 0.50 per cent would result in an impact on the Net Assets of the Trust of $36,752, with all other variables held constant. In practice, 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. Since the notional value of the currency forward contracts outstanding at December 31, 2008 represents less than 1% of the Trust's net assets, the counterparty credit exposures on such transactions have a minimal impact on the Trust.

(thousands of dollars, unless otherwise stated)

The following table summarizes forward foreign exchange contracts that were outstanding at December 31, 2008:

	2008
Forward foreign exchange contracts	
Receivable	**13,899**
Payable	**13,826**
	73

The Trust may also enter into derivative contracts, such as futures contracts, to replicate direct investments in underlying securities. As at December 31, 2008 and December 31, 2007, the Trust did not hold any futures contracts.

9. RECEIVABLE/PAYABLE FOR INVESTMENT TRANSACTIONS

Investments that were sold at the end of the year but had not settled as at December 31, 2008 have been presented as a receivable. As at December 31, 2008, receivable for investments sold was $2,599 (December 31, 2007 - nil).

Investments that were purchased at the end of the year but had not settled as at December 31, 2008, have been presented as a payable. As at December 31, 2008, payable for investment purchased was $2,597 (December 31, 2007 - nil).

10. ADMINISTRATION FEES

Administration fees for the years ended December 31, 2008 and 2007 were as follows:

	2008	**2007**
Investment management fees	**1,643**	1,490
Audit fees	**11**	19
Trustee fees	**39**	44
	1,693	1,553

11. PAYMENTS/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.

12. CAPITAL MANAGEMENT

The Trust's capital is managed in accordance with the NFWA and its stated investment objectives. New cash contributions to the Trust are determined in accordance with the NFWA. Payments are made from the Trust for administration fees (see Note 10) as provided for in the NFWA and the Trust Agreement between OPG, the Province and the Trustee. Liquidity is managed in order to be able to meet the trust's expenses. The Statement of Changes in Net Assets identifies changes in the Trust's capital during the period.