

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31

(millions of dollars except where noted)

	2003	2002
Revenues	1,480	1,550
Fuel	484	400
Power purchased	-	219
Gross Margin	996	931
Operating expenses		
Operations, maintenance and administration	624	592
Depreciation and amortization (note 9)	137	139
Revalorization	52	46
Property and capital taxes	28	30
Loss on transition rate option contracts (note 10)	-	210
	841	1,017
Operating income (loss) before restructuring	155	(86)
Restructuring (note 11)	-	210
Operating income (loss)	155	(296)
Other income	-	7
Net interest expense	31	39
	31	32
Income (loss) before income taxes	124	(328)
Income taxes (recoveries)		
Current	77	(68)
Future	(29)	(43)
	48	(111)
Net income (loss)	76	(217)
Basic and diluted earnings (loss) per common share (dollars)	0.30	(0.85)
Common shares outstanding (millions)	256.3	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

Three Months Ended March 31

(millions of dollars)

	2003	2002
Retained earnings, beginning of period	257	344
Net income (loss)	76	(217)
Dividends	(17)	(134)
Retained earnings (deficit), end of period	316	(7)

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31

(millions of dollars)

	2003	2002
Operating activities		
Net income (loss)	76	(217)
Adjust for non-cash items:		
Depreciation and amortization (note 9)	137	139
Revalorization	52	46
Pension	1	22
Other post employment benefits	33	24
Future income taxes	(29)	(43)
Provision for restructuring (note 11)	-	210
Transition rate option contracts (note 10)	(24)	210
Gain on sale of investments	-	(7)
Mark to market on energy contracts (note 8)	2	-
Earnings on nuclear waste management funds	16	19
Other	11	11
	275	414
Contributions to fixed asset removal and nuclear waste management fund	(16)	(51)
Expenditures on nuclear waste management	(15)	(31)
Contributions to pension fund	(53)	-
Expenditures on other post employment benefits	(10)	(8)
Expenditures on restructuring (note 11)	(29)	(8)
Net changes to other long-term assets and liabilities	(10)	2
Changes in non-cash working capital balances (note 13)	934	(191)
Cash flow provided by operating activities	1,076	127
Investing activities		
Net proceeds from short-term investments	-	39
Proceeds on sale of fixed assets	1	1
Cash proceeds from sale of investments	-	13
Purchases of fixed assets	(158)	(156)
Cash flow used in investing activities	(157)	(103)
Financing activities		
Issuance of long-term debt (note 5)	28	-
Dividends paid	(17)	(134)
Short-term notes issued	205	200
Short-term notes repaid	(197)	-
Cash flow provided by financing activities	19	66
Net increase in cash and cash equivalents	938	90
Cash and cash equivalents, beginning of period	624	-
Cash and cash equivalents, end of period	1,562	90
Supplementary disclosure		
Income taxes paid	3	23

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)

	March 31 2003	December 31 2002
Assets		
Current assets		
Cash and cash equivalents	1,562	624
Accounts receivable	975	736
Note receivable (note 7)	-	225
Income taxes recoverable	-	80
Fuel inventory	403	514
Materials and supplies	73	80
	<u>3,013</u>	<u>2,259</u>
Fixed assets		
Property, plant and equipment	15,124	15,014
Less: accumulated depreciation	2,210	2,068
	<u>12,914</u>	<u>12,946</u>
Other long-term assets		
Deferred pension asset	357	305
Nuclear fixed asset removal and nuclear waste management funds (note 6)	1,615	1,599
Materials and supplies	190	193
Long-term accounts receivable and other assets	62	59
	<u>2,224</u>	<u>2,156</u>
	<u>18,151</u>	<u>17,361</u>

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)

	March 31 2003	December 31 2002
Liabilities		
Current liabilities		
Accounts payable and accrued charges (note 10)	1,103	1,235
Market Power Mitigation Agreement rebate payable (note 3)	1,425	572
Short-term notes payable (note 4)	190	182
Deferred revenue due within one year	12	12
Long-term debt due within one year (note 5)	5	5
	<u>2,735</u>	<u>2,006</u>
Long-term debt (note 5)	<u>3,380</u>	<u>3,352</u>
Other long-term liabilities		
Fixed asset removal and nuclear waste management (note 6)	4,921	4,915
Other post employment benefits	981	958
Long-term accounts payable and accrued charges (note 10)	298	321
Deferred revenue	176	179
Future income taxes	218	247
	<u>6,594</u>	<u>6,620</u>
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings	316	257
	<u>5,442</u>	<u>5,383</u>
	<u>18,151</u>	<u>17,361</u>
Commitments and Contingencies (notes 14, 15)		

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002

1. BASIS OF PRESENTATION

These interim consolidated financial statements were prepared following the same accounting policies and methods as in the most recent annual consolidated financial statements. However, these financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles for annual financial statements. Accordingly, the interim consolidated financial statements should be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2002.

Certain of the 2002 comparative amounts have been reclassified from financial statements previously presented to conform to the 2003 financial statement presentation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Depreciation and Amortization

Depreciation rates for the various classes of assets are based on their estimated service lives. Any asset removal costs that have not been specifically provided for in current or previous periods are also charged to depreciation expense. Depreciation and amortization includes expenses relating to low and intermediate level waste generated each year. Depreciation and amortization also includes the amortization of changes in estimates of the liability for nuclear waste management.

Repairs and maintenance costs are expensed when incurred.

Fixed assets are depreciated on a straight-line basis except for computers, and transport and work equipment, which are depreciated on a declining balance basis.

Revalorization

Revalorization arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. The revalorization charge is the adjustment that results from restating the liabilities to reflect the effect of inflation on the cost estimates and the time value of money effect on the future liabilities. Revalorization is reported net of the interest earned on the receivable from the Ontario Electricity Financial Corporation ("OEFC") and the earnings on the nuclear fixed asset removal and nuclear waste management funds.

3. MARKET POWER MITIGATION AGREEMENT REBATE

Under OPG's generating licence, subject to regulatory approval, the Company has the ability to reduce the amount of energy subject to the Market Power Mitigation Agreement rebate by the transfer of effective control of certain of its generating facilities to other market participants. As OPG transfers effective control of facilities and meets certain milestones, it can apply to the Ontario Energy Board ("OEB") for an order determining that the transactions represent the transfer of effective control and thereby reduce a portion of the Market Power Mitigation Agreement rebate obligation.

In May 2001, OPG completed the agreement to lease its Bruce nuclear generating stations to Bruce Power L.P. ("Bruce Power") and in May 2002, completed the sale of four of its hydroelectric generating stations located on the Mississagi River to Mississagi Power Trust. In April 2003, in response to applications filed with the OEB, the OEB ruled that OPG had transferred effective control of the Bruce nuclear generating stations and the Mississagi River stations. Accordingly, the OEB agreed to a reduction

in the amount of energy subject to the rebate mechanism. The approval of the applications reduces volumes subject to the Market Power Mitigation Agreement rebate for the twelve-month settlement period ended April 30, 2003 from 101.8 TWh to 81.4 TWh.

Since the average hourly spot price during the first quarter of 2003 has exceeded the 3.8¢/kWh revenue cap, OPG provided \$853 million as a Market Power Mitigation Agreement rebate for that period (2002 – nil). The rebate is calculated in accordance with the Market Power Mitigation Agreement, after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control.

The change in the Market Power Mitigation Agreement rebate liability for the three months ended March 31, 2003 is as follows:

For the three months ended March 31 <i>(millions of dollars)</i>	2003
Liability, as at December 31, 2002	572
Increase to provision during the period	853
Liability, as at March 31, 2003	1,425

4. SHORT-TERM CREDIT FACILITIES

In March 2003, OPG renewed its \$1,000 million revolving short-term committed credit facility. The credit facility has a revolving 364-day term, which can be extended for a two-year term. Notes issued under the Company's Commercial Paper program are supported by this credit facility.

5. LONG-TERM DEBT

Long-term debt consists of the following:

<i>(millions of dollars)</i>	March 31 2003	December 31 2002
Notes payable to the OEFC	3,200	3,200
Capital lease obligations	20	19
Share of limited partnership debt	165	138
	3,385	3,357
Less: payable within one year		
Capital lease obligations	5	5
Long-term debt	3,380	3,352

In February 2003, the Company reached an agreement with the OEFC to defer payment on \$700 million principal amount of senior notes maturing in 2003 and 2004 by extending the maturity dates by two years. The interest rates remain unchanged. The maturity dates for notes payable to the OEFC are as follows:

Year of Maturity	Interest Rate (%)	Principal Outstanding (\$ Canadian)		Total
		Senior Notes	Subordinated Notes	
2005	5.49	200	-	200
2005	5.71	300	-	300
2006	5.44	100	-	100
2006	5.62	300	-	300
2006	5.94	100	-	100
2006	5.78	300	-	300
2007	5.85	400	-	400
2008	5.90	400	-	400
2009	6.01	350	-	350
2010	6.60	-	375	375
2011	6.65	-	375	375
		2,450	750	3,200

Interest paid during the three months ended March 31, 2003 was \$55 million (three months ended March 31, 2002, \$49 million), of which \$52 million (three months ended March 31, 2002, \$48 million) relates to interest paid on long-term debt.

6. Fixed Asset Removal and Nuclear Waste Management

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

<i>(millions of dollars)</i>	March 31 2003	December 31 2002
Liability for nuclear waste management	5,031	5,020
Liability for nuclear fixed asset removal	2,734	2,702
	7,765	7,722
Liability for non-nuclear fixed asset removal	132	131
	7,897	7,853
Less: Receivable from the OEFC	2,976	2,938
Fixed asset removal and nuclear waste management	4,921	4,915

The change in the fixed asset removal and nuclear waste management liability for the three months ended March 31, 2003 is as follows:

For the three months ended March 31 <i>(millions of dollars)</i>	2003
Liability, as at December 31, 2002	4,915
Increase in the liability due to revalorization	68
Provision	5
Waste management expenditures	(15)
Balance sheet reclassification of expenditures	(41)
Amortization of cost estimate changes	(11)
Liability, as at March 31, 2003	4,921

The fixed asset removal and nuclear waste management funds consist of the following:

<i>(millions of dollars)</i>	March 31 2003	December 31 2002
Nuclear fixed asset removal and nuclear waste management funds	1,109	1,098
Nuclear used fuel trust fund	506	501
	1,615	1,599

7. DECONTROL INITIATIVES

Bruce Power – Change in Ownership

In May 2001, OPG leased its Bruce A and Bruce B nuclear generating stations to Bruce Power until 2018, with an option to renew for up to 25 years. In December 2002, British Energy plc. entered into an agreement to dispose of its entire 82.4 per cent interest in Bruce Power. The transaction was completed in February 2003 and a consortium of Canadian companies assumed the lease of the Bruce A and Bruce B nuclear generating stations that were formerly held by British Energy. The Bruce facilities will continue to be operated by Bruce Power. Upon closing of the transaction, the \$225 million note receivable was repaid, and lease payments commenced to be paid monthly. Proceeds from the note are to be applied against OPG's funding requirements with respect to the nuclear fixed asset removal and nuclear waste management liabilities by March 2008. In addition, for 2004 through 2008, minimum payments under the lease are \$190 million annually, subject to limited exceptions. The remaining terms of the operating lease agreement remain substantially unchanged.

Other Decontrol Activities

OPG continues to evaluate options for decontrol of stations and is committed to meet its obligations under the Market Power Mitigation Agreement. The process for meeting decontrol of price-setting generation has been impacted by current market conditions in the North American energy sector. The amounts that OPG will ultimately realize with respect to these potential transactions could differ materially from the carrying values recorded in the consolidated financial statements.

8. DERIVATIVE FINANCIAL INSTRUMENTS, CREDIT RISK, AND RISK MANAGEMENT INSTRUMENTS

Fair values of derivative instruments have been estimated by reference to quoted market prices for actual or similar instruments where available. Where quoted market prices are not available, OPG considers various factors to estimate forward prices, including market prices and price volatility in neighbouring electricity markets, market prices for fuel, and other factors.

Since November 2002, trading activities and liquidity in the Ontario electricity market have been limited as companies are generally entering only into short-term contracts. As a result, forward pricing information for contracts may not accurately represent the cost to enter into these contracts. For Ontario based contracts that are not entered into for hedging purposes, OPG established liquidity reserves against the fair market value of the assets and liabilities equal to the gain or loss on these contracts. These reserves reduced Energy Marketing revenue by \$7 million. Contracts outside of Ontario continue to be carried on the balance sheet as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Derivative instruments used for hedging purposes

The following table provides the estimated fair value of derivative instruments designated as hedges. The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized over the term of the contract when the underlying transactions occur. The Company uses financial commodity derivatives primarily to hedge the commodity price exposure associated with changes in the price of electricity.

<i>(millions of dollars)</i>	March 31, 2003			December 31, 2002		
	Notional quantity	Terms	Fair Value	Notional quantity	Terms	Fair Value
gain/(loss)						
Electricity derivative instruments	32.8 TWh	1-4 yrs	(157)	37.9 TWh	1-4 yrs	(144)
Foreign exchange derivative Instruments	\$459 US	1-9 months	(21)	\$179 US	Apr/03	4
Option to purchase emission reduction credits	6,000,000 tonnes	2003-2004	1	6,000,000 tonnes	2003-2004	1

Derivative instruments not used for hedging purposes

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

<i>(millions of dollars)</i>	March 31, 2003		December 31, 2002	
	Notional quantity	Fair Value	Notional quantity	Fair Value
Commodity derivative instruments				
Assets	8.3 TWh	9	7.7 TWh	10
Liabilities	2.3 TWh	(15)	2.9 TWh	(14)
		(6)		(4)
Ontario market liquidity reserve		(7)		(7)
Total		(13)		(11)

9. DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense for the three months ended March 31, 2003 and 2002 consists of the following:

For the three months ended March 31 <i>(millions of dollars)</i>	2003	2002
Depreciation	148	144
Nuclear waste management costs	1	1
Change in estimate of the nuclear waste management liability	(12)	(6)
	137	139

10. TRANSITION RATE OPTION CONTRACTS

Under a regulation known as Transition – Generation Corporation Designated Rate Options (“TRO”), OPG is required to provide transitional price relief upon market opening to certain power customers based on the consumption and average price paid by each customer during a reference period from July 1, 1999 to June 30, 2000. The TRO is treated as a hedge of generation revenue. The maximum anticipated volume subject to the transitional price relief is approximately 5.4 TWh in the first year after market opening, 3.6 TWh in the second year and 1.8 TWh in each of the third and fourth years. The maximum length of the program is four years, with the possibility that it will expire after only two years if certain decontrol targets are met.

A provision of \$210 million for the TRO contracts was recorded in the first quarter of 2002 related to the anticipated future losses on these contracts. The provision was determined during the first quarter of 2002 using management’s best estimates of the forward price curve for electricity, wholesale electricity market fees, impact of decontrol on the contracts, interruptions of volume, and the recovery of Market Power Mitigation Agreement rebates. It is reasonably possible that actual results experienced may differ materially from the estimated amounts. The provision will be reduced over the term of the contracts based on volume and will be recorded in revenue.

For the three months ended March 31, 2003, the provision has been reduced by \$24 million (2002 – nil). At March 31, 2003, the current portion of the provision for loss on these contracts was \$74 million (December 31, 2002 - \$82 million) and was included in accounts payable and accrued charges. The long-term portion of the provision, which was included in long-term accounts payable and accrued charges, was \$46 million (December 31, 2002 - \$62 million).

11. RESTRUCTURING

In 2001, OPG approved a restructuring plan designed to improve OPG’s future competitiveness. The restructuring program relates to an anticipated reduction in the workforce of approximately 2,000 employees over a three-year period. Cumulative restructuring charges under the 2001 plan of \$289 million included severance costs of \$254 million and related pension and other post employment benefit expenses of \$35 million. Pension and other post employment benefit expenses, recorded as part of restructuring, are included in the deferred pension asset and other post employment benefits on the balance sheet.

The change in the restructuring liability for severance for the three months ended March 31, 2003 is as follows:

For the three months ended March 31 <i>(millions of dollars)</i>	2003
Liability, as at December 31, 2002	120
Payments during the period	(29)
Liability, as at March 31, 2003	91

During the first quarter of 2002, a restructuring charge for severance of \$202 million was recorded and severance payments totalled \$8 million.

12. Business Segments

Segment Income for the three months ended March 31, 2003 <i>(millions of dollars)</i>	Generation	Energy Marketing	Non-Energy and Other	Total
Revenues	1,382	21	77	1,480
Fuel	484	-	-	484
Gross margin	898	21	77	996
Operations, maintenance and administration	612	2	10	624
Depreciation and amortization	110	-	27	137
Revalorization	52	-	-	52
Property and capital taxes	25	-	3	28
Operating income before restructuring	99	19	37	155
Restructuring	-	-	-	-
Operating income	99	19	37	155
Net interest expense	-	-	31	31
Income before income taxes	99	19	6	124

Segment Income for the three months ended March 31, 2002	Generation	Energy Marketing	Non-Energy and Other	Total
<i>(millions of dollars)</i>				
Revenues	1,470	-	80	1,550
Fuel	400	-	-	400
Power purchased	219	-	-	219
Gross margin	851	-	80	931
Operations, maintenance and administration	573	-	19	592
Depreciation and amortization	112	-	27	139
Revalorization	46	-	-	46
Property and capital taxes	27	-	3	30
Loss on transition rate option contracts	-	-	210	210
Operating income (loss) before restructuring	93	-	(179)	(86)
Restructuring	-	-	210	210
Operating income	93	-	(389)	(296)
Other income	-	-	7	7
Net interest expense	-	-	39	39
Income (loss) before income taxes	93	-	(421)	(328)

	Generation	Energy Marketing	Non-Energy and Other	Total
Selected Balance Sheet Information				
<i>(millions of dollars)</i>				
March 31, 2003				
Segment property, plant and equipment, net	11,981	-	933	12,914
December 31, 2002				
Segment property, plant and equipment, net	12,003	-	943	12,946

Selected Cash Flow Information				
<i>(millions of dollars)</i>				
Three months ended March 31, 2003				
Capital expenditures	141	-	17	158
Three months ended March 31, 2002				
Capital expenditures	156	-	-	156

13. CHANGES IN NON-CASH WORKING CAPITAL BALANCES

For the three months ended March 31 (millions of dollars)	2003	2002
Accounts receivable	(239)	18
Note receivable	225	-
Income taxes recoverable	80	(87)
Fuel inventory	111	16
Materials and supplies	-	(3)
Market power mitigation agreement rebate payable	853	-
Accounts payable and accrued charges	(96)	(135)
	934	(191)

14. GUARANTEES

As part of normal business, OPG and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees, stand-by letters of credit and surety bonds. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

OPG has provided limited guarantees in connection with the Brighton Beach financing. If the partnership fails to complete the project or meet certain performance tests by September 30, 2006, OPG may be required to repurchase its proportionate share of the outstanding debt, up to a total of \$202 million. OPG is also responsible for contributing its share of equity up to \$47 million and up to \$13 million of cost overruns as necessary. OPG has also provided guarantees relating to gas transport and other energy-based charges if the commercial operations date is delayed in certain circumstances; and debt service if the energy conversion agreement is terminated, from the date of such termination to the earlier of the entry into a replacement agreement and September 30, 2006.

15. COMMITMENTS AND CONTINGENCIES

Litigation Settlement

The Canadian Agra Group had a court action against the Company and the Province, based on alleged misrepresentations and breach of contract relating to the operation and development of the Bruce Energy Centre by Ontario Hydro and OPG. The claim was for \$146 million plus damages for loss of profits. On April 2, 2003, a settlement agreement was reached, without any admission of liability, for approximately \$2 million.

16. SUBSEQUENT EVENT

On April 30, 2003, the Province of Ontario announced, in the Throne Speech, that "*Starting immediately, your government will phase out coal-fired generating stations no later than 2015*". The Company is assessing the potential implications of this announcement on its operations, and will continue to evaluate the impact as further information becomes available.