ONTARIO POWER GENERATION

News
from Ontario Power Generation

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ONTARIO POWER GENERATION REPORTS FIRST QUARTER 2004 EARNINGS

[Toronto]: Ontario Power Generation Inc. ("OPG") today reported its financial and operating results for the three months ended March 31, 2004. Net income for the three months ended March 31, 2004 was $64 million or $0.25 per share compared with a net income of $73 million or $0.28 per share for the three months ended March 31, 2003.

First quarter 2004 earnings decreased by $9 million compared to that of the first quarter of 2003 due primarily to lower average energy prices, lower sales volumes and higher depreciation related to increased fixed assets in service and the planned early shut down of the coal-fired generating stations. These decreases in earnings were partially offset by a change in the generation mix towards lower marginal cost generation and lower fossil fuel costs.

First quarter 2004 electricity production of 28.2 terawatt-hours (TWh) was lower than that of the same period last year by 0.9 TWh. The decrease was primarily due to the addition of lower marginal cost nuclear generation capacity in Ontario that displaced OPG's higher marginal cost fossil-fueled generation.

Cash flow provided by operating activities during the first quarter of 2004 was $223 million compared to $1,076 million during the first quarter of 2003, a decrease of $853 million. The decrease in cash flow compared to last year was primarily due to lower electricity prices, higher Market Power Mitigation Agreement rebate payments and an increase in contributions to the nuclear fixed asset removal and nuclear waste management funds. In addition, in 2003, OPG received proceeds of $225 million from the note receivable from Bruce Power.

During the first quarter of 2004, three reports containing findings and recommendations for Ontario's electricity industry and OPG were released: the report of the Energy Conservation and Supply Task Force; the report on the financial review of OPG's operations; and the report of the OPG Review Committee titled "Transforming Ontario's Power Generation Company". The

Government, after reviewing these reports, released some of its proposals for Ontario's electricity sector on April 15, 2004. The Government intends to introduce legislation on these proposed reforms in June. The proposed reforms would address long-term supply of electricity, conservation, and private sector investment; and would establish a pricing structure based on a combination of price-regulation and competitive market prices.

HIGHLIGHTS

For the three months ended March 31 *(millions of dollars)*	**2004**	**2003***
Revenue before Market Power Mitigation Agreement rebate	1,791	2,333
Market Power Mitigation Agreement rebate (revenue reduction)	(441)	(853)
Fuel expense	(338)	(483)
Operations, maintenance and administration	(624)	(624)
Other expenses	(280)	(254)
Income taxes	(44)	(46)
Net income	64	73
Cash flow provided by operating activities	223	1,076
Market Power Mitigation Agreement rebate payments	314	-
Electricity generation (TWh)	28.2	29.1

* In 2003, OPG early adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standard for asset retirement obligations. In accordance with the CICA requirements, OPG has retroactively applied the new standard and accordingly restated the previously published financial results for the three months ended March 31, 2003.

Ontario Power Generation Inc. is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario and to interconnected markets. Our focus is on the risk-managed production and sale of electricity from our generation assets, while operating in a safe, open and environmentally responsible manner.

Ontario Power Generation Inc.'s unaudited consolidated financial statements and management's discussion and analysis of financial condition and results of operations as at and for the three months ended March 31, 2004 can be accessed on OPG's website (www.opg.com), the Canadian Securities Administrators' website (www.sedar.com), or can be requested from the company.

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FIRST QUARTER 2004 MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and accompanying notes of Ontario Power Generation Inc. ("OPG" or the "Company") as at and for the three months ended March 31, 2004. It should also be read in conjunction with OPG's audited consolidated financial statements, accompanying notes, Management's Discussion and Analysis, and the Annual Information Form for the year-ended December 31, 2003. OPG's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles and are presented in Canadian dollars. Certain 2003 comparative amounts have been reclassified to conform with the 2004 financial statement presentation. Also, certain 2003 amounts have been restated for the retroactive adoption of the new accounting standard on asset retirement obligations.

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis 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", "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 will not, however, mean that a statement is not a forward-looking statement.

All forward-looking statements involve inherent assumptions, risks and uncertainties and, therefore, could be wrong to a material degree. In particular, forward-looking statements may contain assumptions such as those relating to OPG's nuclear recovery plan, fuel costs and availability, nuclear decommissioning and waste management, pension and other post-employment benefit obligations, spot market electricity prices, the on-going evolution of the Ontario electricity industry, market power mitigation, environmental and other regulatory requirements, and the weather. Accordingly, undue reliance should not be placed on any forward-looking statement.

THE COMPANY

OPG is an Ontario-based electricity generation company whose principal business is the generation and sale of electricity in Ontario and to interconnected markets. OPG's focus is on the risk-managed production and sale of electricity from its generating assets, while operating in a safe, open and environmentally responsible manner. OPG was incorporated under the *Business Corporations Act* (Ontario) and is wholly owned by the Province of Ontario (the "Province"). As discussed in the section entitled "Changing Marketplace and Role of OPG", the nature of the Ontario electricity market and OPG's role in the market are under review. The implications for OPG could be material.

As at March 31, 2004, OPG's electricity generating portfolio consisted of three nuclear stations, six fossil-fueled generating stations, 36 hydroelectric generating stations and an EcoLogo[M] - certified green power portfolio including 29 small hydro and two wind generating stations. In addition, there is a wind generating facility which is co-owned by OPG and Bruce Power L.P. ("Bruce Power"), and a gas-fired generating station, currently under construction, which is co-owned with ATCO Power Canada Ltd. and ATCO Resources Ltd. OPG's Pickering A nuclear generating station was laid up in 1997. During 2003, OPG completed the return to service of the first unit (Unit 4) of this four-unit station. In addition, there are two other nuclear generating stations owned by OPG and leased on a long-term basis to Bruce Power.

HIGHLIGHTS

This section provides an overview with respect to OPG's operating results. A detailed review of OPG's performance by business segment is included in a later section.

For the three months ended March 31	2004	2003*
(millions of dollars)		
Revenue before Market Power Mitigation Agreement rebate	**1,791**	2,333
Revenue after Market Power Mitigation Agreement rebate	**1,350**	1,480
Income before tax	**108**	119
Net income	**64**	73
Cash flow provided by operating activities	**223**	1,076
Physical electricity sales volume (TWh)		
Electricity generation	**28.2**	29.1
Purchased power – Energy Marketing segment	**0.9**	0.7
Total	**29.1**	29.8

* In 2003, OPG early adopted the new Canadian Institute of Chartered Accountants ("CICA") accounting standard for asset retirement obligations. In accordance with the CICA requirements, OPG has retroactively applied the new standard and accordingly restated the previously published financial results for the three months ended March 31, 2003.

Net income for the three months ended March 31, 2004 was $64 million compared to net income of $73 million for the three months ended March 31, 2003. The income before tax for the three months ended March 31, 2004 was $108 million compared to income before tax of $119 million for the same period last year. The significant factors contributing to the change in income before tax included the following:

(millions of dollars)	
Income before tax for the three months ended March 31, 2003	119
Decrease in average energy prices from 4.9¢/kWh in 2003 to 4.4¢/kWh in 2004	(75)
Change in generation mix - higher hydroelectric and nuclear generation and lower fossil generation	89
Decrease in Generation segment sales volume of 0.9 TWh	(40)
Lower fossil fuel costs and other changes in gross margin	41
Lower Pickering A return to service expenses	32
Increased OM&A expenses primarily due to increase in pension and OPEB	(32)
Higher depreciation related to increase in fixed assets in service and planned early shut down of coal-fired generating stations	(51)
Higher earnings on nuclear fixed asset removal and nuclear waste management funds	44
Other net changes	(19)
Decrease in income before tax	(11)
Income before tax for the three months ended March 31, 2004	108

Cash flow provided by operating activities during the first quarter of 2004 was $223 million compared to $1,076 million during the first quarter of 2003, a decrease of $853 million. The decrease in cash flow compared to last year was primarily due to lower electricity prices, higher payments of the Market Power

Mitigation Agreement rebate and an increase in contributions to the nuclear fixed asset removal and nuclear waste management funds. In addition, in 2003, OPG received proceeds of $225 million from the note receivable from Bruce Power.

Total production from OPG's generating stations during the three months ended March 31, 2004 was 28.2 TWh compared to 29.1 TWh during the three months ended March 31, 2003. The decrease in generation was primarily due to the addition of lower marginal cost nuclear generation capacity by Bruce Power, at the Bruce A nuclear generating station, that displaced OPG's higher marginal cost fossil-fueled generation.

CORE BUSINESS AND STRATEGY

Changing Marketplace and Role of OPG

In December 2003, the Government of Ontario (the "Government") asked OPG's new Board of Directors to undertake a financial review of operations of OPG. In January 2004, the Board appointed KPMG LLP ("KPMG") to conduct a review of OPG's actual financial performance compared to the results projected in the Company's 1999 business plan ("1999 Baseline Plan") for the 1999 to 2003 period, and to identify and quantify the impact of the changes that occurred relative to the 1999 Baseline Plan, as well as those changes that occurred each year compared to the plan for that year.

On March 16, 2004, OPG's Board of Directors released the report on the financial review of operations. The report was primarily focused on comparing the actual financial results to the 1999 Baseline Plan. The initial projection of earnings before taxes in OPG's 1999 Baseline Plan for the 1999 to 2003 period was $3.097 billion. The actual earnings before taxes for this period were $2.063 billion, resulting in an unfavourable variance of $1.034 billion. A number of factors influenced this unfavourable variance. Of these, KPMG concluded that the financial results were primarily impacted by the under-performance of OPG's nuclear stations. The nuclear budget in the 1999 Baseline Plan had been established based on assumptions in a 1997 Nuclear Asset Optimization Plan.

The Government also announced, in December 2003, the formation of a separate OPG Review Committee to provide advice on long-term issues relating to OPG. The committee was given responsibility for making recommendations to the Government regarding: the appropriate role of OPG in the Ontario electricity market; the future structure of OPG; the appropriate corporate governance and senior management structure; and the potential restart of OPG's Pickering A Units 1, 2 and 3.

On March 15, 2004, the OPG Review Committee finalized its report on the future of OPG entitled "Transforming Ontario's Power Generation Company". The report of the OPG Review Committee contained detailed recommendations, including the following:

- That the Province remain the sole shareholder of OPG;
- That OPG retain ownership of its nuclear, major hydroelectric, and fossil-fueled generating stations;
- That OPG remain a single, commercially-oriented company under the *Business Corporations Act* (Ontario); that the current arrangement in which the Province does not guarantee OPG's debt continue; and that OPG be divided internally into two principal operating divisions, the nuclear division and the hydroelectric/fossil division;
- That the Ontario Energy Board ("OEB"), acting as an independent body, approve the rate or rates at which the output of each OPG generating division is sold;
- That OPG as a regulated company have a capital structure similar to other regulated utilities;
- That, for each generating division, the OEB base the rate or rates on the cost of production plus a reasonable rate of return on capital that is comparable to the return earned by a regulated commercial company (or division of a company) with a similar business profile;
- That OPG explore joint ventures, partnerships and leases for the operation and maintenance of its core generating assets where it is in its commercial interests to do so;
- That OPG proceed with the project to return Pickering A Unit 1 to service;

- That the Board of OPG maintain the highest level of oversight for the duration of the project, including monitoring by third-party experts with direct accountability to the Board;
- That the Board of OPG wait until there is clear evidence of success on the Unit 1 project before proceeding with any further developments on Units 2 and 3;
- That the same level of due diligence applied on the decision to proceed with Unit 1, including a business case analysis, be applied to any decision on Units 2 and 3; and
- That OPG focus on Ontario's needs, not growth in the North American market.

Upon receipt of the report of the OPG Review Committee, the Government confirmed that the Minister of Energy would review the report in detail and bring forward a plan to reform Ontario's electricity sector.

On January 14, 2004, the Government released the report of the Electricity Conservation and Supply Task Force ("Supply Task Force") that was established in June 2003 to provide an action plan outlining ways to attract new electricity generation and to identify and review options for the delivery of demand side management and demand response activities within the electricity sector. Recommendations of the Supply Task Force pertaining to market design addressed regulated pricing of electricity, authority of the Independent Electricity Market Operator ("IMO") and supply arrangements. In addition, the Supply Task Force provided a variety of recommendations designed to encourage conservation; promote renewable power technologies and distributed generation; and improve the responsiveness and reliability of the power system. The Supply Task Force also made recommendations specifically related to the future role of OPG, but recognized that the OPG Review Committee would be providing more advice on longer term issues related to OPG.

On April 15, 2004, the Government released its proposals for Ontario's electricity sector. The Government intends to propose reforms in legislation to be introduced this June. The reforms are to include:

- A new Ontario Power Authority ("OPA") tasked with ensuring an adequate, long-term supply of electricity, including a new Conservation Secretariat, headed by a Chief Conservation Officer;
- A requirement that the Ministry of Energy set targets for conservation, the use of renewable energy, and the overall supply mix of electricity in the province on Ontario;
- Greater encouragement of private sector investment in new generation, including contracting for new supply by the OPA, to help meet growing demand;
- A combination of a regulated and an unregulated, competitive electricity generation sector, which would see prices for electricity in Ontario set in two ways: part of the supply would be price-regulated by the OEB, which for OPG is expected to be its nuclear and baseload hydroelectric assets, and prices for all other supply would be set by the competitive market;
- A new standard rate plan offered to homeowners and small businesses, with prices that would be adjusted and approved periodically by the OEB, intended to ensure price stability while passing on the true cost of the electricity; and
- Choice for industrial and commercial consumers, who would continue to have flexibility offered by the market, or could use other tools, such as fixed-price contracts, to help them manage their energy costs.

In addition, the Minister of Energy announced that the Honourable Jake Epp has been confirmed as OPG's Chairman of the Board effective immediately, and that the Government has asked the Board of Directors to commence a search for nine new members of OPG's Board of Directors, as well as a new Chief Executive Officer.

Strategic Initiatives and Future Direction

The proposed reforms announced on April 15, 2004 will bring significant changes to Ontario's electricity market. In addition, further anticipated reforms and recommendations are expected to impact OPG's structure and the role of OPG within the market. The new reforms and other future changes are expected to alter the objectives, rules, regulations and operations of Ontario's electricity marketplace and significantly impact OPG and its role in the Ontario electricity market. As a result, the operating and financial position of OPG, as outlined in this management's discussion and analysis, may not be reflective of the on-going operations, financial position and prospects of OPG.

Until further direction is obtained from the Government, OPG is continuing to pursue initiatives to ensure sufficient liquidity, increase productivity and the cost competitiveness of its generating assets, address the return to service of the Pickering A nuclear generating station, optimize its organizational structure, undertake sustainable development initiatives aimed at continuous and measurable improvement in environmental performance, and continue with initiatives related to corporate governance.

BUSINESS SEGMENTS

OPG has two reportable business segments: Generation and Energy Marketing. A separate category, Non-Energy and Other, includes revenue and certain costs that are not allocated to the business segments.

Generation Segment

OPG's principal business segment operates in Ontario, generating and selling electricity. All of OPG's electricity generation is sold into the IMO-administered real-time energy spot market. As such, the majority of OPG's revenue is derived from spot market sales. In addition to revenue earned from spot market sales, revenue is also earned through offering available generating capacity as operating reserve and through the supply of other ancillary services including voltage control/reactive support, certified black start facilities and automatic generation control.

OPG has entered into various energy and related sales contracts with its customers to hedge commodity price exposure to changes in electricity prices associated with the spot market for electricity in Ontario. Contracts that are designated as hedges of OPG's generation revenues are included in Generation segment activities. Gains or losses on these hedging instruments are recognized in revenue over the term of the contract when the underlying hedged transactions occur.

Energy Marketing Segment

The Energy Marketing segment derives revenue from various physical energy market and financial transactions with large and medium volume end-use customers and intermediaries such as utilities, brokers, aggregators, traders and other power marketers and retailers. OPG purchases and sells electricity through the IMO spot market and the interconnected markets of other provinces and the U.S. northeast and midwest. Energy marketing includes trading, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions. All contracts that are not designated as hedges are recorded as assets or liabilities at fair value, with changes in fair value recorded in Energy Marketing revenue as gains or losses.

Non-Energy and Other

OPG derives non-energy revenue under the terms of a lease arrangement with Bruce Power related to the Bruce nuclear generating stations. This includes lease revenue, interest income and revenue from engineering analysis and design, technical and other services. Non-energy revenue also includes isotope sales to the medical industry and real estate rentals.

DISCUSSION OF OPERATING RESULTS

Generation Segment

For the three months ended March 31	2004	2003
(millions of dollars)		
Revenue, net of Market Power Mitigation Agreement rebate	**1,256**	1,382
Fuel expense	**338**	483
Gross margin	**918**	899
Operations, maintenance and administration:		
Expenses excluding Pickering A return to service	**555**	521
Pickering A return to service	**59**	91
Depreciation and amortization	**169**	114
Accretion on fixed asset removal and nuclear waste management liabilities	**113**	108
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(98)**	(54)
Property and capital taxes	**23**	25
Income before income taxes	**97**	94

Gross Margin

Gross margin from electricity sales in the Generation segment was $918 million for the three months ended March 31, 2004 compared to $899 million for the same period last year, an increase of $19 million. The increase in gross margin was mainly due to a change in generation mix related to higher production from OPG's lower marginal cost hydroelectric and nuclear generating stations and lower production from higher marginal cost fossil-fueled generating stations. In addition, gross margin increased as a result of lower fossil fuel costs. The impact of these factors on gross margin was largely offset by lower average electricity prices and lower electricity generation.

Revenue

For the three months ended March 31	2004	2003
(millions of dollars)		
Spot market sales, net of hedging instruments	**1,666**	2,217
Market Power Mitigation Agreement rebate	**(441)**	(853)
Other	**31**	18
Total generation revenue	**1,256**	1,382

Generation revenue was $1,256 million for the three months ended March 31, 2004 compared to $1,382 million for the same period last year, a decrease of $126 million. The decrease in generation revenue was primarily due to lower average electricity sales prices and lower electricity generation.

Electricity Prices

OPG's average spot market sales price for the three months ended March 31, 2004 was 5.9¢/kWh compared to 7.9¢/kWh for the three months ended March 31, 2003. After taking into account the Market Power Mitigation Agreement rebate, OPG's average spot market sales price for the three months ended March 31, 2004 was 4.4¢/kWh compared to 4.9¢/kWh for the same three month period last year. Spot market prices in Ontario during the first quarter of 2004 were lower compared to the same period last year due primarily to additional sources of lower marginal cost generation available to serve the Ontario electricity market.

To address the potential for OPG to exercise market power in Ontario, OPG is required by its generation licence, issued by the OEB, to comply with prescribed market power mitigation measures, including a rebate mechanism. Under the Market Power Mitigation Agreement, for the first four years after May 1, 2002 ("market opening"), a significant portion (approximately 75 per cent) of OPG's expected energy sales in Ontario is subject to an average annual revenue cap of 3.8¢/kWh. OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for the amount of energy sales subject to the rebate mechanism.

Although the legislation and the related regulations governing the Ontario electricity market have been modified to fix prices for certain customers, these changes have not affected the calculation of the rebate payments made by OPG to the IMO. OPG continues to be responsible for a rebate commitment based on the existing Market Power Mitigation Agreement.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during the three months ended March 31, 2004 and 2003 exceeded the 3.8¢/kWh revenue cap, OPG recorded a Market Power Mitigation Agreement rebate of $441 million during the first quarter of 2004 and $853 million during the first quarter of 2003. The Market Power Mitigation Agreement rebate has totaled $2,858 million since market opening.

Under OPG's generation licence, 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 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. As a result of decisions by the OEB in 2003, the amount of energy generated by OPG that is subject to the rebate mechanism was reduced to 81.4 TWh, reflecting the transfer of effective control of the Bruce nuclear generating stations and four hydroelectric stations located on the Mississagi River.

The Government has stated that there will be no further sale of publicly owned generation assets. No additional details have been provided regarding the impact of this position on OPG's mandated requirement to decontrol and the impact on the Market Power Mitigation Agreement.

Volume

For the three months ended March 31	**2004**	**2003**
Electricity generation (TWh):		
Nuclear	**10.4**	10.1
Fossil	**9.0**	11.8
Hydroelectric	**8.8**	7.2
Total electricity generation	**28.2**	29.1

Demand for electricity in Ontario during the first quarter of 2004 was relatively consistent with that of the same period last year. The impact of warmer winter weather was offset by increased economic activity in the Province. There were 1,958 Heating Degree Days[1] during the three months ended March 31, 2004 compared to 2,091 Heating Degree Days during the same period last year. The ten-year weather normal average for this three month period is 1,860 Heating Degree Days.

OPG's electricity sales volume for the three months ended March 31, 2004 was 28.2 TWh compared to 29.1 TWh for the three months ended March 31, 2003. The decrease in volume was primarily due to the addition of lower marginal cost nuclear generation capacity in Ontario that displaced OPG's higher marginal cost fossil-fueled generation, with the return to service of two nuclear units by Bruce Power at the Bruce A nuclear generating station. Nuclear stations and some hydroelectric generating stations are used primarily to provide base load capacity as they have low marginal operating costs and, in the case of nuclear plants, are not designed for frequent variations in production level to meet peaking demand. Other hydroelectric and fossil stations provide the bulk of the intermediate and peaking capacity.

Nuclear generation increased by 0.3 TWh during the three months ended March 31, 2004 compared to the same period last year. The increase was primarily due to generation of 1.0 TWh from the Pickering A nuclear generating station with the return to service of the first unit, Unit 4, in September 2003. This increase was partially offset by a decrease in nuclear generation of 0.7 TWh primarily due to higher planned and forced outage days at OPG's Darlington nuclear generating station. Hydroelectric generation increased by 1.6 TWh during the three months ended March 31, 2004 compared to the same period last year as a result of significantly higher water levels. Fossil generation decreased by 2.8 TWh in the first quarter of 2004 compared to the first quarter of 2003 as a result of the additional lower marginal cost nuclear generation from the Pickering A and Bruce A nuclear generating stations and higher hydroelectric generation.

Fuel Expense

Fuel expense for the three months ended March 31, 2004 was $338 million compared to $483 million for the same period last year, a decrease of $145 million. The decrease was primarily due to a change in generation mix related to higher production from OPG's hydroelectric and nuclear generating stations and lower production from fossil-fueled generating stations. In addition, fuel expense decreased due to favourable foreign exchange rates that reduced the cost of fossil fuel. Current market prices for coal have increased and, at these levels, would have a significant impact on fuel prices in future years. OPG's current hedge position for expected coal-fired generation in 2005 is approximately 40 per cent.

Operations, Maintenance and Administration

Operations, maintenance and administration ("OM&A") expenses, excluding the Pickering A return to service initiative, were $555 million for the first quarter of 2004 compared to $521 million for the first quarter of 2003, an increase of $34 million. The increase was mainly due to increases in pension and other post employment benefits of $29 million reflecting changes in economic assumptions related to discount rates and the inflation rate. Other changes relate to increases for nuclear maintenance and repairs for planned outages and other improvements of $5 million.

[1] Heating Degree Days represent the aggregate of the average daily temperatures below 18^{0}C, as measured at Pearson International Airport in Toronto.

Pickering A Return To Service

OM&A expenses related to the Pickering A return to service initiative were $59 million during the first three months of 2004 compared to $91 million for the first three months of 2003, a decrease of $32 million. The decrease was primarily due to a reduction in the level of construction activities during the three months ended March 31, 2004 as compared to the same period last year. During the first quarter of 2003, OPG was continuing with the construction of Unit 4, which was returned to service in September 2003. During the first quarter of 2004, activities were focused on planning, assessing and other activities required to finalize the cost estimate and schedule for Unit 1, and a limited amount of prerequisite and advance project construction activity.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2004 was $169 million compared to $114 million for the same period in 2003, an increase of $55 million. The higher depreciation during the first quarter of 2004 compared to the same period last year was primarily due to an increase in the value of assets in service with the completion of Unit 4 at the Pickering A nuclear generating station and the completion of the selective catalytic reduction equipment at the Nanticoke and Lambton fossil-fueled generating stations. As well, depreciation expense has increased due to a decrease in the estimated useful lives of the coal-fired generating stations as a result of the Government's commitment to close these stations by the end of 2007. Depreciation expense is expected to increase by approximately $500 million during the period from 2004 to 2007, compared to what would otherwise be recorded during that period if the coal-fired generating stations remained in service until the end of their previously estimated useful lives.

Accretion

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis, using a credit-adjusted risk-free rate of 5.75 per cent to discount the expected cash flows. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. Accretion expense for the three months ended March 31, 2004 was $113 million compared with $108 million for the three months ended March 31, 2003. The increase of $5 million was due to the higher liability base during the first quarter of 2004 compared to the same period last year, to which the credit-adjusted risk-free rate is applied.

Prior to the third quarter of 2003, OPG reported a revalorization expense that was comprised of accretion expense, net of the interest earned on the receivable from the OEFC and earnings on the nuclear fixed asset removal and nuclear waste management funds. Beginning in the third quarter of 2003, earnings on the funds and accretion expense are disclosed separately. Comparable amounts for the first quarter of 2003 have been reclassified.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

In July 2003, OPG and the Province completed arrangements pursuant to the Ontario Nuclear Funds Agreement ("ONFA"), which required the establishment of a segregated custodial funds arrangement to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to segregated custodial funds called the Decommissioning Fund and the Used Fuel Fund.

Prior to the establishment of the new segregated funds, investments were primarily made in fixed income securities. Assets in the new segregated funds are invested in debt and equity securities. The segregated fund assets are treated as long-term investments and accounted for at amortized cost. As such, there may be unrealized gains and losses at each reporting date. Earnings on the nuclear fixed asset removal and nuclear waste management funds for the three months ended March 31, 2004 were $98 million compared to $54 million for the three months ended March 31, 2003, an increase of $44 million. Earnings have increased due to favourable equity and debt market returns. At March 31, 2004, net unrealized gains in the Decommissioning Fund totaled approximately $215 million (fund assets at amortized cost of $3,719 million and market value of $3,934 million), compared to net unrealized gains at December 31, 2003 of $160 million (fund assets at amortized cost of $3,641 million and market value of $3,801 million).

Under ONFA, the Province guarantees the rate of return in the Used Fuel Fund at the Ontario Consumer Price Index ("CPI") plus 3.25 per cent ("committed return"). OPG recognizes the committed return on the Used Fuel Fund as earnings on the nuclear fixed asset removal and nuclear waste management funds. The difference between the committed return on the Used Fuel Fund and the actual net return, based on the fair value of the fund assets, which includes realized and unrealized returns, is due to or due from the Province. As a result of the committed return, the recognized income of the Used Fuel Fund, using either amortized cost of investments or market values, is the same.

Energy Marketing Segment

OPG transacts with counterparties in Ontario and neighbouring energy markets in predominantly short-term trading activities ranging up to one year in duration. These activities relate primarily to physical energy that is purchased and sold at the Ontario border, the sale of financial risk management products and sales of energy-related products and services to meet customers' needs for energy solutions.

For the three months ended March 31	**2004**	**2003**
(millions of dollars)		
Revenue, net of power purchases	**15**	21
Operations, maintenance and administration	**2**	2
Income before income taxes	**13**	19

Revenue

For the three months ended March 31, 2004, Energy Marketing revenue was $15 million compared to $21 million during the same period last year. The decrease of $6 million was primarily due to reduced physical trading opportunities in the interconnected markets.

Interconnected purchases and sales (including those to be physically settled) and mark-to-market gains and losses (realized and unrealized) on energy trading contracts are disclosed on a net basis in the consolidated statements of income. On a gross basis, revenue and power purchases for the three months ended March 31, 2004 would have increased by $39 million (three months ended March 31, 2003 - $38 million), with no impact on net income.

Non-Energy and Other

For the three months ended March 31	**2004**	**2003**
(millions of dollars)		
Revenue	**79**	77
Operations, maintenance and administration	**8**	10
Depreciation and amortization	**23**	27
Property and capital taxes	**5**	3
Income before net interest expense:	**43**	37
Net interest expense	**45**	31
Income (loss) before income taxes	**(2)**	6

Revenue

Non-energy revenue primarily consists of lease and other revenue derived under the lease agreement with Bruce Power. Under this agreement, the Company leased its Bruce A and Bruce B nuclear generating stations until 2018, with options to renew for up to another 25 years. Non-energy revenue for the three months ended March 31, 2004 was $79 million compared to $77 million for the three months ended March 31, 2003. The increase in revenue of $2 million during the first quarter of 2004 was mainly due to an increase in supplemental rent, largely offset by the reduction of interest income related to the $225 million note receivable from Bruce Power, upon receipt of the amount outstanding in February 2003, and lower sales of technical and engineering services.

Net Interest Expense

Net interest expense for the three months ended March 31, 2004 was $45 million compared to $31 million for the three months ended March 31, 2003. The increase in expense of $14 million during the first quarter of 2004 was mainly due to a reduction in interest capitalized on construction in progress and a decrease in interest income.

Income Tax

The effective income tax rate for the three months ended March 31, 2004 was 40.7 per cent compared to 38.7 per cent for the same period last year. The increase in the effective income tax rate was primarily due to the higher Ontario income tax rate for 2004.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities during the three months ended March 31, 2004 was $223 million compared to $1,076 million during the three months ended March 31, 2003, a decrease of $853 million. The decrease in cash flow compared to last year was primarily due to lower electricity prices, higher payments of the Market Power Mitigation Agreement rebate and an increase in contributions to the nuclear fixed asset removal and nuclear waste management funds. Changes in electricity prices have a significant impact on cash flow due to differences in the timing of collection of revenue subject to the market Power Mitigation Agreement rebate and payment of those amounts to the IMO. In addition, in 2003, OPG received proceeds of $225 million from the note receivable from Bruce Power.

Electricity prices exhibit seasonal variations related to changes in demand. Prices are expected to be higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. Although the Market Power Mitigation Agreement rebate and the Company's hedging strategies significantly reduce the impact of the seasonal price fluctuations on the Company's results from operations, there can be significant volatility in earnings resulting from fluctuations in prices related to weather and other factors such as natural gas prices.

OPG is in a capital intensive business that requires OPG to continue to invest in plant and technologies to improve operating efficiencies, increase generating capacity of its existing plant and to maintain and improve service, reliability, safety and environmental performance. Capital expenditures during the first quarter of 2004 were $96 million compared with $158 million during the same period last year. The decrease was primarily due to the completion of the return to service of Unit 4 at the Pickering A nuclear generating station and completion of the installation of selective catalytic reduction equipment at the Nanticoke and Lambton fossil-fueled generating stations. OPG's anticipated capital expenditures for 2004 are approximately $600 million. These expenditures will be funded through existing short-term bank credit facilities.

OPG made contributions of $38 million to the pension plan during the three months ended March 31, 2004 compared to $53 million during the three months ended March 31, 2003.

As required under ONFA, which came into effect in July 2003, OPG made contributions of $114 million to the nuclear fixed asset removal and nuclear waste management funds during the three months ended March 31, 2004. OPG did not make any contributions during the first quarter of 2003. The increase in the first quarter contributions in 2004 compared to last year was due to the timing of payments.

OPG has not paid any dividends to the Province during the three months ended March 31, 2004, compared with $17 million of dividend payments during the three months ended March 31, 2003. Dividends are declared and paid to achieve an effective 35 per cent pay-out based on annual net income.

In March 2003, OPG renewed its $1,000 million revolving short-term committed bank credit facility. The credit facility had a revolving 364-day term, whereby if drawn, it could be extended for a two-year term. In December 2003, OPG extended the facility renewal date from March 2004 to May 2004. OPG has since agreed with its bank lending group to renew the facility for a further 364-day term, without the two year extension option, commencing May 2004.

Notes issued under the Company's commercial paper program are supported by the bank credit facility. During the three months ended March 31, 2004, $142 million of commercial paper was issued to cover short-term funding requirements (three months ended March 31, 2003 - $205 million). During the three months ended March 31, 2004, $142 million of commercial paper was repaid (three months ended March 31, 2003 - $197 million). At March 31, 2004, OPG had no commercial paper outstanding under its program (December 31, 2003 - nil).

OPG also maintains $27 million (December 31, 2003 - $28 million) in short-term uncommitted overdraft facilities as well as $173 million (December 31, 2003 - $173 million) of short-term uncommitted credit facilities, in the form of Letters of Credit. OPG is required to post the Letters of Credit as collateral with Local Distribution Companies ("LDCs") as prescribed by the OEB's Retail Settlement Code, and to support the supplementary pension plan. At March 31, 2004, there were approximately $127 million (December 31, 2003 - $125 million) of Letters of Credit issued for collateral requirements to support the supplementary pension plan, and with the LDCs.

PICKERING A RETURN TO SERVICE

OPG is continuing to focus on the planning, estimating and assessing for the return to service of Unit 1, the second unit to be returned to service at the Pickering A nuclear generating station. The planning, assessing and other activities that are required to finalize a release quality estimate and schedule are expected to be largely complete by the spring of 2004. A limited amount of prerequisite and advance project construction activity is underway to reduce the critical path, should there be a decision to proceed with Unit 1. All engineering and other work on Units 3 and 4 have been suspended in order to reduce cost in 2004 and permit a complete focus on Unit 1.

The OPG Review Committee, appointed by the Government, recommended to the Minister of Energy that the restart of Unit 1 at the Pickering A nuclear generating station should proceed. The Company, through its Board of Directors, will make a recommendation to the Government, as shareholder, on whether to proceed with the restart of Unit 1 at the Pickering A nuclear generating station.

Total cumulative expenditures to the end of March 31, 2004 for Unit 1 were $330 million. The total cumulative expenditures for the refurbishment of all four units to the end of March 31, 2004, including the common operating systems for the station, were $1,633 million.

RECENT DEVELOPMENTS

Standby Generator Capacity

As a follow-up to the August 14, 2003 blackout, some modifications are likely to be required to improve the ability of OPG's generating stations to respond to transmission system instability and withstand extended transmission system interruptions. The most significant impact is expected to be at OPG's Pickering B nuclear generating station. Additional standby generator capacity would be added, which is initially estimated to require investments in the range of $100 million in total, over the next two to three years.

Fuel Channels

OPG has comprehensive inspection and testing programs in place in order to ascertain the physical condition of its nuclear generating stations. As a result of recent inspections of fuel channels, conditions were identified that will require acceleration of planned remediation programs at the Pickering B station. These findings will result in additional inspections of the fuel channels and will advance certain maintenance procedures in 2004 to 2006. Although the matter is subject to on-going assessment, and is being monitored by the Canadian Nuclear Safety Commission, it is initially estimated that this will have a before tax impact of approximately $25 to $50 million in 2004. The impact on 2005 and 2006 is under review.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

OPG's significant accounting policies are outlined in Note 3 to the consolidated financial statements as at and for the year-ended December 31, 2003. Certain of these policies are recognized as critical accounting policies by virtue of the subjective and complex judgments and estimates required around matters that are inherently uncertain and could result in materially different amounts being reported under different conditions or assumptions. The critical accounting policies and estimates that affect the Company's financial statements, the likelihood that materially different amounts would be reported under varied conditions and estimates and the impact of changes in certain conditions or assumptions, are highlighted on pages 20 to 23 of the Management's Discussion and Analysis for the year-ended December 31, 2003. There have not been any significant changes in the critical accounting policies or estimates during the three months ended March 31, 2004.

RISK MANAGEMENT

OPG's portfolio of generation assets and its electricity trading and marketing operations are subject to inherent risks, including financial, operational, regulatory and strategic risks, as defined on page 24 of the Management's Discussion and Analysis for the year-ended December 31, 2003. To manage these risks, OPG has implemented an enterprise-wide risk management framework, which includes policies governing organizational structure and segregation of duties, and risk identification, measurement, monitoring and reporting processes. While OPG believes it is pursuing appropriate risk management strategies, there can be no assurance that one or more of the risks outlined will not have a material adverse impact on OPG. The results following from the proposed reforms announced by the Government on April 15, 2004 and other future changes to the Ontario electricity marketplace and OPG's role in it could have a material impact on these issues.

Market Risk

OPG's market risk, a component of financial risk, is composed of (i) commodity price risk; (ii) foreign exchange and interest rate risk; (iii) equity risk; and (iv) market liquidity risk (see Commodity Price Risk section).

Commodity Price Risk

Commodity price risk is the risk that changes in the market price of electricity or of the fuels used to produce electricity, will adversely impact OPG's earnings and cash flow from operations. A variable portion of both OPG's electricity production and overall fuel requirements are exposed to fluctuating spot market prices. To manage this risk, the Company maintains a balance between the commodity price risk inherent in its electricity production and plant fuel portfolios. To manage the input risk, OPG has implemented a fuel hedging program. In addition to fixed price contracts for fossil and nuclear fuels, OPG periodically employs derivative instruments to hedge its fuels price risk.

The percentage of OPG's generation and fuel requirements hedged over the next three years is shown below:

	2004	**2005**	**2006**
Estimated generation output hedged [1]	82%	79%	73%
Estimated fuel requirements hedged [2]	96%	81%	78%

[1] Represents the portion of megawatt-hours of expected future generation production, including power purchases, for which the Company has sales commitments and contracts including the obligations under its Market Power Mitigation Agreement rebate and transition rate option contracts.

[2] Represents the approximate portion of megawatt-hours of expected generation production from all types of facilities (fossil, nuclear and hydroelectric) for which OPG has entered into some form of contractual arrangements or obligations in order to secure either the expected availability and/or price of fuel and/or fuel related services. Fuel in inventory is included. The percentage hedged by fuel type varies considerably and therefore a change in circumstances could have a significant impact on OPG's overall position.

Open trading positions are subject to measurement against Value at Risk (VaR) limits. VaR is a measure of the potential change in a portfolio's market value due to price changes over a one-day holding period, with a 95 per cent confidence interval. VaR utilization ranged between $0.7 million and $1.0 million during the first quarter of 2004, and $0.2 million and $1.6 million during the same period in 2003. VaR utilization is within the risk tolerance of the Company, under approved VaR limits.

Trading liquidity continues to be constrained in Ontario and interconnected markets due to broader energy market fundamentals as well as uncertainty with the direction of the Ontario electricity market structure. Constrained liquidity continues to limit portfolio hedging and optimization opportunities.

Foreign Exchange and Interest Rate Risk

OPG's foreign exchange risk exposure is against the U.S. dollar and is primarily due to the following two off-setting factors (i) payment of U.S. dollar denominated transactions such as the purchase of fossil fuels and associated transportation costs; and (ii) receipt by OPG of spot electricity market revenues which in effect have an embedded foreign exchange pricing component, as Ontario spot electricity prices are influenced by fuel prices which are quoted in U.S. dollars but are priced in Canadian dollars. These exposures are offsetting and as such act as a natural hedge. OPG currently manages the net exposure by periodically hedging portions of its anticipated U.S. dollar cash flows according to approved risk management policies.

Equity Risk

Equity risk is the risk of loss due to unexpected adverse changes in the value of equity securities. OPG is subject to equity risk primarily through its pension fund holdings and the nuclear fixed asset removal and nuclear waste management funds, and to equity-type risks through its strategic and venture capital investments. Risk oversight is provided by or through formal committees.

Credit Risk

Credit risk is the financial risk of non-performance by contractual counterparties. Credit risk excludes any operational risk resulting from a third party failing to deliver a product or service as expected. The majority of OPG's revenues are derived from sales through the IMO-administered spot market. OPG also derives revenue from several other sources including the sale of financial risk management products to third parties.

OPG's credit exposure is concentrated in the physical electricity market with the IMO. Credit exposure to the IMO fluctuates based on timing and is reduced each month upon settlement of the accounts. Credit exposure to the IMO peaked at $901 million during the first quarter of 2004, and at $1,207 million during the first quarter of 2003. OPG's management believes that the IMO is an acceptable credit risk due to its primary role in the Ontario market. The IMO manages its own credit risk and its ability to pay generators by mandating that all registered IMO spot market participants meet specific IMO standards for creditworthiness and collateralization. Additionally, in the event of an IMO participant default, each market participant shares the exposure pro rata. Given OPG's position in the marketplace, the Company would bear approximately 40 per cent of the exposure, residual of collateral and recovery. OPG also measures its credit concentrations with counterparties. OPG's management believes these are within acceptable limits and does not anticipate any material effect on its results of operations or cash flows arising from potential defaults.

The following table provides information on credit risk from energy sales and trading activities as at March 31, 2004:

			Potential Exposure [2] for Largest Counterparties	
Credit Rating [1]	Number of Counterparties	Potential Exposure [2]	Number of Counterparties	Counterparty Exposure
(millions of dollars)				
AAA to AA-	14	17	-	-
A+ to A-	45	101	2	44
BBB+ to BBB-	85	98	3	23
BB+ to BB-	26	117	5	107
B+ to B-	21	10	-	-
	191	343	10	174
IMO	1	432	1	432
Total	192	775	11	606

[1] Credit ratings are based on OPG's own analysis, taking into consideration external rating agency analysis where available, as well as recognizing explicit credit support provided through guarantees and Letters of Credit or other security.
[2] Potential exposure represents OPG's assessment of the maximum exposure over the life of each transaction at 95 per cent confidence.

For all other counterparties, OPG's contracts allow for active collateral management to mitigate credit exposures. The contracts provide for a counterparty to post Letters of Credit or cash for exposure in excess of the established threshold. This could happen as a result of market moves or upon the occurrence of credit-related events. The threshold amount represents credit limits established in accordance with the corporate credit policy. Inability to post collateral is sufficient cause to terminate a contract and liquidate all positions.

Liquidity Risk

OPG operates in a capital-intensive business. Significant financial resources are required to fund capital improvement projects and maintenance at generating stations, and potential expenditures necessary to comply with environmental or other regulatory requirements. In addition, the Company has other significant disbursement requirements including Market Power Mitigation Agreement rebate payments, annual funding obligations under ONFA, pension funding and continuing debt maturities with the OEFC.

The cash requirements currently anticipated beyond the next twelve-month period could exceed OPG's current credit facilities. In order to meet these longer-term liquidity requirements and funding commitments, OPG must successfully access extended or additional sources of liquidity. OPG is currently examining options that could include additional payment deferrals, incremental borrowings, or other forms of financial or operating restructuring.

OPG's ability to arrange third-party financing is dependent on a number of factors including: general economic and capital market conditions; credit and capital availability from its Shareholder, banks and other financial institutions; maintenance of acceptable credit ratings; and the status of electricity market restructuring in Ontario.

The Company's liquidity is highly dependent on its debt rating. A downward change in the rating could result in additional collateral requirements with counterparties, depending on the mark-to-market value of the contracts between OPG and these counterparties, as well as limiting OPG's ability to access funding in the commercial paper market. At March 31, 2004, OPG's long term debt rating was BBB+ by Standard & Poor's and A-1 (low) by Dominion Bond Rating Service. Maintaining an investment grade credit rating is essential for corporate liquidity, capital market access and to facilitate energy and financial product sales and trading activities.

CORPORATE GOVERNANCE AND CONTINUOUS DISCLOSURE

OPG is a reporting issuer under the *Ontario Securities Act*. Commencing in 2004, reporting issuers will become subject to amended continuous disclosure rules that were published in December 2003, and subject to three separate rules regulating auditor oversight, certification of disclosure and audit committees that were finalized in January, 2004.

OPG has continued to enhance corporate governance and related controls over the past two years following the initiatives introduced in the United States and the more recently released requirements in Canada. While OPG is exempt from certain of these initiatives as a venture issuer, OPG's controls and governance over annual and interim filings are adapted to follow enhanced practices. The following is a summary of certain controls, procedures and other enhancements implemented by OPG:

- Disclosure controls over financial reporting were enhanced to include a comprehensive internal certification process and due diligence procedures. These controls support the certification of disclosure controls over financial reporting by OPG's CEO and CFO;
- OPG has initiated a project to review and update business process documentation, identify risk areas related to internal controls, assess the effectiveness of controls and conduct detailed testing;
- OPG has established a disclosure committee to review annual and interim filings and other disclosures to ensure compliance with legal and regulatory requirements;
- The audit committee charter has been revised and a public markets disclosure committee charter drafted for implementation, subject to approval by the Board of Directors;
- OPG's Board and Audit Committee pre-approve audit and non-audit services by OPG's external auditor; and
- OPG has a practice of early adopting required changes in disclosure where practical.

Summary of Quarterly Results

The following tables set out certain unaudited consolidated financial statement information for each of the eight most recent quarters ended March 31, 2004. The information reflects the retroactive change in accounting for asset retirement obligations adopted during 2003. The information has been derived from OPG's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements. These operating results are not necessarily indicative of results for any future period.

(millions of dollars)	2003 Quarters Ended June 30	 September 30	 December 31	2004 Quarter Ended March 31
Revenue after Market Power Mitigation Agreement rebate	**1,246**	**1,224**	**1,228**	**1,350**
Net income (loss)	**8**	**34**	**(606)**	**64**
Net income (loss) per share	**$0.03**	**$0.13**	**$(2.36)**	**$0.25**

(millions of dollars)	2002 Quarters Ended June 30	 September 30	 December 31	2003 Quarter Ended March 31
Revenue after Market Power Mitigation Agreement rebate	1,270	1,612	1,314	1,480
Net (loss) income	70	220	(10)	73
Net (loss) income per share	$0.27	$0.86	$(0.04)	$0.28

Off-Balance Sheet Arrangements

Securitization

In October 2003, OPG completed a revolving securitization agreement with an independent trust. Under the securitization agreement, the Company sold an undivided co-ownership interest in certain current and future accounts receivable generated in the normal course of business. The amount of the co-ownership interest sold is removed from the balance sheet with each revolving securitization. The company also retains an undivided co-ownership interest in the receivables sold to the trust. This retained interest is accounted for at cost on OPG's balance sheet. The independent trust is not controlled by OPG and as such is not consolidated.

The securitization provides OPG with an opportunity to obtain an alternative source of funding. For the three months ended March 31, 2004 the average all-in cost of funds was 2.7 per cent and the pre-tax charges on sales to the trust were $2 million. The initial net cash proceeds from this transaction of $300 million were used by OPG in the operation of its business. Termination of the arrangement, which in the absence of early termination occurs in August 2006, would likely require OPG to pursue alternative liquidity arrangements to meet the ongoing operations of the business.

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.

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. As at March 31, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to $20 million. OPG has 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.

Derivative Instruments

The majority of OPG's derivative instruments are treated as hedges, with gains or losses recognized upon settlement 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. Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. When such derivative instrument ceases to exist or when designation of a hedging relationship is terminated, any associated deferred gains or losses are carried forward to be recognized in income in the same period as the corresponding gains or losses associated with the hedged item. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's consolidated statement of income. The deferred loss of these derivative instruments treated as hedges was $115 million as at March 31, 2004, compared to a deferred loss of $16 million as at December 31, 2003. See Note 9 to the Consolidated Financial Statements for more information.

All contracts not designated as hedges are recorded as assets or liabilities at fair value with changes in fair value recorded in Energy Marketing revenue.

Other Future Liabilities

During the three months ended June 30, 2004, OPG expects to record a charge for severance and termination benefits associated with its Lakeview generating station. OPG is required by regulation to cease burning coal at its Lakeview generating station by the end of April 2005.

SUPPLEMENTAL EARNINGS MEASURES

In addition to providing earnings measures in accordance with Canadian generally accepted accounting principles, OPG presents gross margin as a supplemental earnings measure. This measure does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and is, therefore, unlikely to be comparable to similar measures presented by other companies. This measure is provided to assist readers of the financial statements in assessing income performance from on-going operations, and has been consistently applied as in prior years and throughout these financial statements and management's discussion and analysis.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Three Months Ended March 31 *(millions of dollars except where noted)*	**2004**	**Restated *(notes 2 and 7)* 2003**
Revenues		
Revenue before Market Power Mitigation Agreement rebate	**1,791**	2,333
Market Power Mitigation Agreement rebate	**(441)**	(853)
	1,350	1,480
Fuel expense	**338**	483
Gross margin	**1,012**	997
Expenses		
Operations, maintenance and administration	**624**	624
Depreciation and amortization *(note 4)*	**192**	141
Accretion on fixed asset removal and nuclear waste management liabilities	**113**	108
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(98)**	(54)
Property and capital taxes	**28**	28
	859	847
Income before net interest expense	**153**	150
Net interest expense	**45**	31
Income before income taxes	**108**	119
Income tax expenses (recoveries)		
Current	**8**	77
Future	**36**	(31)
	44	46
Net income	**64**	73
Basic and diluted earnings per common share *(dollars)*	**0.25**	0.28
Common shares outstanding *(millions)*	**256.3**	256.3

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2004**	**Restated *(notes 2 and 7)* 2003**
(Deficit of assets over liabilities) retained earnings, **beginning of period as previously reported**	**(147)**	257
Adjustment *(note 2)*	**-**	104
(Deficit of assets over liabilities) retained earnings, **beginning of period as restated**	**(147)**	361
Net income	**64**	73
Dividends	**-**	(17)
(Deficit of assets over liabilities) retained earnings, end of period	**(83)**	417

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31 *(millions of dollars)*	**2004**	**Restated** ***(notes 2 and 7)*** **2003**
Operating activities		
Net income	**64**	73
Adjust for non-cash items:		
Depreciation and amortization	**192**	141
Accretion on fixed asset removal and nuclear waste management liabilities	**113**	108
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(98)**	(54)
Pension cost	**23**	1
Other post employment benefits and supplemental pension	**40**	33
Future income taxes	**36**	(31)
Transition rate option contracts	**(17)**	(24)
Mark to market on energy contracts *(note 9)*	**1**	2
Provision for used nuclear fuel	**9**	4
Other	**4**	6
	367	259
Contributions to nuclear fixed asset removal and nuclear waste management funds	**(114)**	-
Expenditures on fixed asset removal and nuclear waste management	**(13)**	(15)
Contributions to pension fund	**(38)**	(53)
Expenditures on other post employment benefits and supplemental pension	**(14)**	(10)
Expenditures on restructuring *(note 11)*	**(42)**	(29)
Net changes to other long-term assets and liabilities	**-**	(10)
Changes in non-cash working capital balances *(note 14)*	**77**	934
Cash flow provided by operating activities	**223**	1,076
Investing activities		
Proceeds on sale of decontrol and other fixed assets	**-**	1
Purchases of fixed assets	**(96)**	(158)
Cash flow used in investing activities	**(96)**	(157)
Financing activities		
Issuance of long-term debt *(note 6)*	**8**	28
Repayment of long-term debt	**(2)**	-
Dividends paid	**-**	(17)
Issuance of short-term notes	**142**	205
Repayment of short-term notes	**(142)**	(197)
Cash flow provided by financing activities	**6**	19
Net increase in cash and cash equivalents	**133**	938
Cash and cash equivalents, beginning of period	**286**	624
Cash and cash equivalents, end of period	**419**	1,562

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	**March 31 2004**	**December 31 2003**
Assets		
Current assets		
Cash and cash equivalents	**419**	286
Accounts receivable *(note 3)*	**310**	331
Income taxes recoverable	**4**	16
Fuel inventory	**408**	524
Materials and supplies	**89**	73
	1,230	1,230
Fixed assets		
Property, plant and equipment	**14,862**	14,775
Less: accumulated depreciation	**2,727**	2,541
	12,135	12,234
Other long-term assets		
Deferred pension asset	**479**	464
Nuclear fixed asset removal and nuclear waste management funds *(note 7)*	**5,440**	5,228
Long-term materials and supplies	**222**	231
Long-term accounts receivable and other assets	**63**	64
	6,204	5,987
	19,569	19,451

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	**March 31 2004**	**December 31 2003**
Liabilities		
Current liabilities		
Accounts payable and accrued charges *(note 11)*	**828**	1,064
Market Power Mitigation Agreement rebate payable *(note 12)*	**536**	409
Deferred revenue due within one year	**12**	12
Long-term debt due within one year *(note 6)*	**254**	4
	1,630	1,489
Long-term debt *(note 6)*	**3,149**	3,393
Other long-term liabilities		
Fixed asset removal and nuclear waste management *(note 7)*	**8,032**	7,921
Other post employment benefits and supplemental pension	**1,039**	1,013
Long-term accounts payable and accrued charges	**263**	276
Deferred revenue	**165**	168
Future income taxes	**248**	212
	9,747	9,590
Shareholder's equity		
Common shares	**5,126**	5,126
Deficit of assets over liabilities	**(83)**	(147)
	5,043	4,979
	19,569	19,451

Commitments and Contingencies *(notes 5, 9 and 10)*

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003

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 interim 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, 2003.

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 those estimates.

Certain of the 2003 comparative amounts have been reclassified from statements previously presented to conform to the 2004 financial statement presentation. In addition, certain of the 2003 comparative amounts have been restated from financial statements previously presented to recognize OPG's retroactive application of the Canadian Institute of Chartered Accountants ("CICA") new standard on accounting for liabilities associated with tangible long-lived assets and related asset retirement costs, which was adopted during 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fixed Asset Removal and Nuclear Waste Management Liability

OPG recognizes asset retirement obligations for fixed asset removal and nuclear waste management, discounted for the time value of money. OPG has estimated both the amount and timing of future cash expenditures based on current plans for fixed asset removal and nuclear waste management. The liabilities are initially recorded at their estimated fair value, which is based on a discounted value of the expected costs to be paid.

On an ongoing basis, the liability is increased by the present value of the variable cost portion of the nuclear waste generated each year, with the corresponding amounts charged to operating expenses. Expenses relating to low and intermediate level waste are charged to depreciation and amortization expense. Expenses relating to the disposal of nuclear used fuel are charged to fuel expense. The liability is also adjusted for any changes in the estimated amount or timing of the underlying future cash flows. Upon settlement of the liability, a gain or loss is recorded.

Accretion arises because liabilities for fixed asset removal and nuclear waste management are reported on a net present value basis. Accretion expense is the increase in the carrying amount of the liabilities due to the passage of time. The resulting expense is included in operating expenses.

The asset retirement cost is capitalized by increasing the carrying value of the assets. The capitalized cost is depreciated over the remaining useful life of the assets and is included in depreciation expense.

Reclassification of Accretion Expense and Earnings on Segregated Funds

Prior to the third quarter of 2003, OPG reported a revalorization charge that was comprised of accretion expense on the fixed asset removal and nuclear waste management liabilities, net of the earnings on the nuclear fixed asset removal and nuclear waste management funds and interest earned on the receivable from the Ontario Electricity Financial Corporation ("OEFC"). Beginning in the third quarter of 2003, the accretion expense and earnings on the nuclear fixed asset removal and nuclear waste management funds, including interest earned on the receivable from the OEFC, are disclosed separately in the consolidated statements of income. Prior periods were reclassified to reflect this change.

Nuclear Fixed Asset Removal and Nuclear Waste Management Funds

In July 2003, OPG and the Province of Ontario (the "Province") completed arrangements pursuant to the Ontario Nuclear Funds Agreement ("ONFA"), which required the establishment of a segregated custodial funds arrangement to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in the nuclear fixed asset removal and nuclear waste management funds to the segregated custodial funds called the Decommissioning Fund and the Used Fuel Fund. The segregated funds are invested in debt and equity securities which are treated as long-term investments and are accounted for at amortized cost. The segregated funds are reported as nuclear fixed asset removal and nuclear waste management funds in the consolidated balance sheets. Realized gains and losses on the segregated funds are recorded in earnings in the consolidated statements of income.

Following the establishment of the segregated funds in July 2003, the amount receivable from the OEFC was transferred into the custodial account in the form of an interest-bearing note and is included in the investments reported in the nuclear fixed asset removal and nuclear waste management funds. Previously, the receivable from the OEFC had been offset against fixed asset removal and nuclear waste management liabilities.

Changes in Accounting Policies

Asset Retirement Obligations

In March 2003, the CICA issued a new standard for the recognition, measurement and disclosure of liabilities associated with the retirement of tangible long-lived assets and the related asset retirement costs. The new standard is effective for fiscal years beginning on or after January 1, 2004. OPG chose to early adopt the CICA standard in 2003. In accordance with the CICA requirements, OPG retroactively applied the new standard. The increases (decreases) in the comparative amounts for the three months ended March 31, 2003, resulting from adoption of the new accounting standard, are summarized below:

For the three months ended March 31, 2003	
(millions of dollars)	
Opening retained earnings	104
Fuel expense	(1)
Depreciation and amortization	4
Accretion on fixed asset removal and nuclear waste management liabilities	2
Future income tax expense	(2)
Net income	(3)
Net income per share	$(0.01)

New Accounting Recommendations

Hedging Relationships

In December 2001, the Accounting Standards Board ("AcSB") of the CICA issued Accounting Guideline 13, *Hedging Relationships*. This Guideline establishes standards for documenting and assessing the effectiveness of hedging activities. OPG adopted the new accounting standard effective January 1, 2004, with no impact on the Company's existing accounting for its hedging relationships.

Employee Future Benefits — Additional Disclosures

In December 2003, the AcSB approved revisions to Section 3461, *Employee Future Benefits*. The additional annual disclosures are effective for years ending on or after June 30, 2004, and the additional interim disclosure is effective for periods ending on or after June 30, 2004. OPG has early adopted the interim disclosure, which requires disclosure of the amount of total benefit cost.

3. Sale of Accounts Receivable

On October 1, 2003, the Company signed an agreement to sell an undivided co-ownership interest in its current and future accounts receivable (the "receivables") to an independent trust. The Company retains an undivided co-ownership interest in the receivables sold to the trust. The Company has reflected the initial transfer to the trust of the co-ownership interest, and subsequent transfers required by the revolving nature of the securitization, as sales in accordance with CICA Accounting Guideline 12 *Transfer of Receivables*. For the three months ended March 31, 2004, the Company has recognized before tax charges of $2 million (three months ended March 31, 2003 - $nil) on such sales at an average cost of funds of 2.7 per cent (three months ended March 31, 2003 – nil per cent). As at March 31, 2004, the Company had sold receivables of $300 million from its total portfolio of $452 million.

4. Depreciation and Amortization

Depreciation and amortization expense consists of the following:

For the three months ended March 31	**2004**	**Restated 2003**
(millions of dollars)		
Depreciation and amortization	**190**	140
Nuclear waste management costs	**2**	1
	192	141

Impairment of Long-Lived Assets

The Government of Ontario appointed a panel of advisors, the OPG Review Committee, to examine the role of OPG in the Ontario electricity market, the future structure of OPG, as well as the potential refurbishing of the three units at the Pickering A nuclear station that remain out of service. On March 15, 2004, the OPG Review Committee finalized its report on the future of OPG. Recommendations included that OPG proceed with the project to return Pickering A Unit 1 to service, and that the Board of OPG wait until there is clear evidence of success on the Unit 1 project before proceeding with any further developments on Units 2 and 3. The carrying amount of fixed assets in service and construction in progress for these three units was $173 million at March 31, 2004 ($161 million at December 31, 2003). If OPG discontinues the refurbishment work required to place these units in service, an impairment loss equal to the carrying amount of these units would be recognized. In such an event, OPG would also have to assess the prospect of additional charges.

5. Short-Term Credit Facilities

In March 2003, OPG renewed its $1,000 million revolving short-term committed bank credit facility. The credit facility had a revolving 364-day term, whereby if drawn, it could be extended for a two-year term. In December 2003, OPG extended the facility renewal date from March 2004 to May 2004. OPG has since agreed with its bank lending group to renew the facility for a further 364-day term, without the two year extension option, commencing May 2004.

Notes issued under the Company's commercial paper program are supported by the bank credit facility. During the three months ended March 31, 2004, $142 million of commercial paper was issued to cover short-term funding requirements (three months ended March 31, 2003 - $205 million). At March 31, 2004, OPG does not have any commercial paper outstanding under its program (December 31, 2003 - nil).

OPG also maintains $27 million (December 31, 2003 - $28 million) in short-term uncommitted overdraft facilities as well as $173 million (December 31, 2003 - $173 million) of short-term uncommitted credit facilities, in the form of Letters of Credit. OPG is required to post the Letters of Credit as collateral with

Local Distribution Companies ("LDCs") as prescribed by the Ontario Energy Board's ("OEB") Retail Settlement Code, and to support the supplementary pension plan. At March 31, 2004, there were approximately $127 million (December 31, 2003 - $125 million) of Letters of Credit issued for collateral requirements to support the supplementary pension plan, and with the LDCs.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	March 31 2004	**December 31 2003**
(millions of dollars)		
Notes payable to the OEFC	**3,200**	3,200
Capital lease obligations	**6**	8
Share of limited partnership debt	**197**	189
	3,403	3,397
Less: due within one year		
Notes payable to the OEFC	**250**	-
Capital lease obligations	**4**	4
	254	4
Long-term debt	**3,149**	3,393

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.

Interest paid during the three months ended March 31, 2004 was $104 million (three months ended March 31, 2003 - $103 million), of which $101 million relates to interest paid on long-term debt (three months ended March 31, 2003 - $100 million). Interest on the notes payable to the OEFC is paid in the first and third quarters of the year. Interest of $8 million was capitalized during the three months ended March 31, 2004 (three months ended March 31, 2003 - $16 million).

7. FIXED ASSET REMOVAL AND NUCLEAR WASTE MANAGEMENT

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

	March 31 2004	**December 31 2003**
(millions of dollars)		
Liability for nuclear used fuel management	**4,517**	4,451
Liability for nuclear decommissioning and low and intermediate level waste management	**3,332**	3,289
Liability for non-nuclear fixed asset removal	**183**	181
Fixed asset removal and nuclear waste management liability	**8,032**	7,921

The change in the fixed asset removal and nuclear waste management liability for the three months ended March 31, 2004 and year ended December 31, 2003 is as follows:

	March 31 2004	December 31 2003
(millions of dollars)		
Liability, beginning of period	**7,921**	7,539
Increase in liability due to accretion	**113**	430
Increase in liability due to nuclear used fuel and nuclear waste management variable expenses	**11**	24
Liabilities settled by expenditures on waste management	**(13)**	(72)
Liability, end of period	**8,032**	7,921

Ontario Nuclear Funds Agreement

On July 24, 2003, OPG and the Province completed arrangements pursuant to the ONFA, which required the establishment of a custodial segregated funds arrangement to hold the nuclear fixed asset removal and nuclear waste management funds. To comply with ONFA, OPG transferred the assets in its existing nuclear fixed asset removal and nuclear waste management funds to a Decommissioning Fund and a Used Fuel Fund, held in custodial accounts. In addition, a receivable due from the OEFC of $3.1 billion was transferred into the Decommissioning Fund in the form of a $1.2 billion cash payment and a $1.9 billion interest bearing note receivable.

The Used Fuel Fund will be used to fund future costs of long-term nuclear used fuel waste management. OPG is responsible for the risk and liability for cost increases for used fuel waste management, subject to graduated liability thresholds specified in ONFA, which limit OPG's total financial exposure at approximately $6.0 billion, a present value amount at April 1, 1999 (approximately $7.9 billion in 2004 dollars). OPG will continue to make annual payments over the life of its nuclear generating stations, as specified in ONFA. Funding for 2004 will be $454 million, of which a portion will be deposited into The Ontario NFWA Trust.

The *Nuclear Fuel Waste Act* (Canada) ("NFWA") was proclaimed into force in November 2002. In accordance with NFWA, the Nuclear Waste Management Organization was formed during 2002 to prepare and review alternatives, and to provide recommendations for long-term management of nuclear fuel waste. This submission is to occur within three years of NFWA coming into force. The Federal Government will determine the strategy for dealing with the long-term management of nuclear fuel waste based on submitted plans. As required under the NFWA, OPG made an initial deposit of $500 million into a trust fund (The Ontario NFWA Trust) in November 2002 and contributed $100 million in 2003. During the three months ended March 31, 2004, OPG contributed $50 million to the trust fund, partly satisfying its $100 million funding requirement for the year. Under the NFWA, OPG will deposit $100 million annually until the Federal Government has approved a long-term plan, which is not expected before 2006. Future contributions beyond this time will be dependent on the plan chosen. The trust fund forms part of the Used Fuel Fund, and as such, contributions to the trust fund, as required by the NFWA, are applied towards the ONFA payment obligations.

The Decommissioning Fund will be used to fund the future costs of nuclear fixed asset removal and long-term low and intermediate level waste management and a portion of used fuel storage costs after station life. The initial funding of the Decommissioning Fund, including the note receivable from the OEFC, is intended to be sufficient to fully discharge the 1999 estimate of the liability. Any shortfall of this fund must be made up by OPG.

The nuclear fixed asset removal and nuclear waste management funds as at March 31, 2004 and December 31, 2003 consist of the following:

	March 31, 2004		December 31, 2003	
	Amortized Cost Basis	**Fair Value**	**Amortized Cost Basis**	**Fair Value**
(millions of dollars)				
Decommissioning Fund	**3,719**	**3,934**	3,641	3,801
Used Fuel Fund[1]	**1,721**	**1,721**	1,587	1,587
	5,440	**5,655**	5,228	5,388

[1] The Ontario NFWA Trust represents $713 million as at March 31, 2004 (December 31, 2003 - $648 million) of the Used Fuel Fund on an amortized cost basis.

As required by the *Nuclear Safety and Control Act* (Canada), and under the terms of ONFA, effective as at July 31, 2003, the Province issued a guarantee to the Canadian Nuclear Safety Commission ("CNSC"), on behalf of OPG, for up to $1.51 billion. This is a guarantee that there will be sufficient funds available to discharge the current nuclear decommissioning and waste management liabilities. The Provincial guarantee will supplement the Used Fuel Fund and the Decommissioning Fund until they have accumulated sufficient funds to cover the accumulated liabilities for nuclear decommissioning and waste management. The guarantee, taken together with the Used Fuel Fund and Decommissioning Fund, was in satisfaction of OPG's nuclear licencing requirements with the CNSC. OPG pays the Province an annual guarantee fee of 0.5 per cent of the amount guaranteed by the Province. OPG paid the annual guarantee fee of $8 million in the first quarter of 2004.

Under ONFA, the Province guarantees OPG's return in the Used Fuel Fund at Ontario Consumer Price Index ("CPI") plus 3.25 per cent ("committed return"). The difference between the committed return on the Used Fuel Fund and the actual net return, based on the fair value of fund assets, which includes realized and unrealized returns, is due to or due from the Province. Since OPG accounts for the investments in the funds on an amortized cost basis, the amount due to or due from the Province recorded in the consolidated financial statements is the difference between the committed return and the actual return based on realized returns only. At March 31, 2004, the Used Fuel Fund included a payable to the Province of $15 million (December 31, 2003 - $10 million receivable from the Province). If the investments in the Used Fuel Fund were accounted for at fair market value in the consolidated financial statements, at March 31, 2004, there would be an amount due to the Province of $114 million (December 31, 2003 - $71 million).

Under ONFA, a rate of return target of 5.75 per cent per annum was established for the Decommissioning Fund. If the rate of return deviates from 5.75 per cent, or if the value of the liabilities changes under the OPG Reference Plan (1999), the Decommissioning Fund may become over or under funded. Under ONFA, if there is a surplus in the Decommissioning Fund such that the liabilities, as defined by the OPG Reference Plan (1999), are at least 120 per cent funded, OPG may direct up to 50 per cent of the surpluses to be treated as a contribution to the Used Fuel Fund, and the OEFC is entitled an equal amount. At March 31, 2004, the Decommissioning Fund was fully funded.

8. Benefit Plans

The post employment benefit programs include pension, group life insurance, health care and long-term disability benefits. Pension and OPEB obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2004 costs are based on a measurement of the pension and OPEB obligations, and the pension fund assets, at December 31, 2003.

Total benefit costs for the three months ended March 31, 2004 and 2003 are as follows:

For the three months ended March 31	2004	2003
(millions of dollars)		
Registered pension plan	**23**	1
Supplementary pension plan	**4**	5
Other post employment benefits	**36**	28

9. FINANCIAL 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.

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 $3 million during the three months ended March 31, 2004 (three months ended March 31, 2003 - $7 million). Contracts for transactions outside of Ontario continue to be carried on the consolidated balance sheets 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 upon settlement 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.

	March 31, 2004			December 31, 2003		
	Notional quantity	Terms	Fair Value	Notional quantity	Terms	Fair Value
(millions of dollars)						
Gain/(loss)						
Electricity derivative instruments	**21.6 TWh**	**1-3 yrs**	**(115)**	23.9 TWh	1-3 yrs	(13)
Foreign exchange derivative instruments	**-**	**-**	**-**	$40 U.S.	Jan/04	(3)
Option to purchase emission reduction credits	**3,000,000 tonnes**	**2004**	**-**	3,000,000 tonnes	2004	-

Foreign exchange derivative instruments are used to hedge the exposure to anticipated U.S. dollar denominated purchases. There are no fixed exchange rate contracts outstanding at March 31, 2004. The weighted average fixed exchange rate for contracts outstanding at December 31, 2003 was U.S. $0.72 for every Canadian dollar.

Derivative instruments not used for hedging purposes

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

	March 31, 2004		December 31, 2003	
	Notional Quantity	**Fair Value**	**Notional Quantity**	**Fair Value**
(millions of dollars)				
Commodity derivative instruments				
Assets	**9.8 TWh**	**6**	7.9 TWh	8
Liabilities	**0.2 TWh**	**(7)**	1.6 TWh	(8)
		(1)		-
Ontario market liquidity reserve		**(3)**		(5)
Total		**(4)**		(5)

10. COMMITMENTS AND CONTINGENCIES

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. As at March 31, 2004, OPG remains responsible for contributing its share of equity related to cost overruns, up to $20 million. OPG has also provided proportional 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.

11. RESTRUCTURING

The change in the restructuring liability for severance for the three months ended March 31, 2004 and year ended December 31, 2003 is as follows:

	March 31 2004	**December 31 2003**
(millions of dollars)		
Liability, beginning of period	**52**	120
Payments	**(42)**	(68)
Liability, end of period	**10**	52

12. MARKET POWER MITIGATION AGREEMENT REBATE

OPG is required under its generating licence to comply with prescribed market power mitigation measures to address the potential for OPG to exercise market power in Ontario. The market power mitigation measures include both a rebate mechanism and the requirement to decontrol generating capacity. Under the rebate mechanism, for the first four years after the electricity market opened to competition on May 1, 2002, a significant majority of OPG's expected energy sales in Ontario are subject to an average annual revenue cap of 3.8¢/kilowatt hour ("kWh"). OPG is required to pay a rebate to the IMO equal to the excess, if any, of the average hourly spot energy price over 3.8¢/kWh for a twelve month settlement period, multiplied by the amount of energy subject to the rebate mechanism. The first settlement period ended April 30, 2003.

In accordance with the Market Power Mitigation Agreement, the rebate is calculated after taking into account the amount of energy sales subject to the rebate mechanism for only those generating stations that OPG continues to control. Since the average hourly spot price during the three months ended March 31, 2004 has exceeded the 3.8¢/kWh revenue cap, OPG provided $441 million (three months ended March 31, 2003 - $853 million) as a Market Power Mitigation Agreement rebate.

The change in the Market Power Mitigation Agreement rebate liability for the three months ended March 31, 2004 and year ended December 31, 2003 were as follows:

	March 31 2004	December 31 2003
(millions of dollars)		
Liability, beginning of period	**409**	572
Increase to provision during the period	**441**	1,510
Payments	**314**	1,673
Liability, end of period	**536**	409

13. BUSINESS SEGMENTS

Segment Income for the three months ended March 31, 2004	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	**1,697**	**15**	**79**	**1,791**
Market Power Mitigation Agreement rebate	**(441)**	**-**	**-**	**(441)**
	1,256	**15**	**79**	**1,350**
Fuel expense	**338**	**-**	**-**	**338**
Gross margin	**918**	**15**	**79**	**1,012**
Operations, maintenance and administration excluding Pickering A return to service	**555**	**2**	**8**	**565**
Pickering A return to service	**59**	**-**		**59**
Depreciation and amortization	**169**	**-**	**23**	**192**
Accretion on fixed asset removal and nuclear waste management liabilities	**113**	**-**	**-**	**113**
Earnings on nuclear fixed asset removal and nuclear waste management funds	**(98)**	**-**	**-**	**(98)**
Property and capital taxes	**23**	**-**	**5**	**28**
Income before net interest expense	**97**	**13**	**43**	**153**
Net interest expense	**-**		**45**	**45**
Income (loss) before income taxes	**97**	**13**	**(2)**	**108**

Segment Income for the three months ended March 31, 2003 (restated)	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
Revenues				
Revenue before Market Power Mitigation Agreement rebate	2,235	21	77	2,333
Market Power Mitigation Agreement rebate	(853)	-	-	(853)
	1,382	21	77	1,480
Fuel expense	483	-	-	483
Gross margin	899	21	77	997
Operations, maintenance and administration excluding Pickering A return to service	521	2	10	533
Pickering A return to service	91	-	-	91
Depreciation and amortization	114	-	27	141
Accretion on fixed asset removal and nuclear waste management liabilities	108	-	-	108
Earnings on nuclear fixed asset removal and nuclear waste management funds	(54)	-	-	(54)
Property and capital taxes	25	-	3	28
Income before net interest expense	94	19	37	150
Net interest expense	-	-	31	31
Income before income taxes	94	19	6	119

Selected Balance Sheet Information	**Generation**	**Energy Marketing**	**Non-Energy and Other**	**Total**
(millions of dollars)				
March 31, 2004				
Segment property, plant and equipment, net	**11,207**	-	**928**	**12,135**
December 31, 2003				
Segment property, plant and equipment, net	11,305	-	929	12,234
Selected Cash Flow Information				
(millions of dollars)				
Three months ended March 31, 2004				
Capital expenditures	**81**	**-**	**15**	**96**
Three months ended March 31, 2003				
Capital expenditures	141	-	17	158

14. Changes in Non-Cash Working Capital Balances

For the three months ended March 31	**2004**	**Restated 2003**
(millions of dollars)		
Accounts receivable	**20**	(239)
Note receivable	**-**	225
Income taxes recoverable	**12**	80
Fuel inventory	**116**	111
Materials and supplies	**(16)**	-
Market Power Mitigation Agreement rebate payable	**127**	853
Accounts payable and accrued charges	**(182)**	(96)
	77	934

15. Seasonal Operations

The Company's quarterly results are impacted by changes in demand resulting from variations in seasonal weather conditions. Historically, the Company's revenues are higher in the first and third quarters of a fiscal year as a result of winter heating demands in the first quarter and air conditioning/cooling demands in the third quarter. The Market Power Mitigation Agreement rebate and the Company's hedging strategies significantly reduce the impact of seasonal price fluctuations on the Company's operations.