2000
first quarter report

ONTARIOPOWER GENERATION

THE COMPANY

Ontario Power Generation Inc. (the "Company" or “OPG”) is one of the largest electricity generators in North America with 69 hydroelectric, 6 fossil and 5 nuclear generating stations. As at March 31, 2000, total generating capacity of these stations was approximately 30,900 MW, consisting of 7,300 MW of hydroelectric generation capacity, 9,700 MW of fossil generation capacity and 13,900 MW of nuclear generation capacity of which 5,100 MW has been laid up.

The Company was incorporated on December 1, 1998 under the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, the Company purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro (the "Acquired Business") on April 1, 1999 and commenced operations on that date.

The Company's principal business is the generation and sale of electricity in the Ontario wholesale market and in the interconnected markets of Quebec, Manitoba and the U.S. northeast and midwest. The Company currently supplies approximately 85% of the electricity consumed in Ontario.

HIGHLIGHTS - FIRST QUARTER 2000 OPERATING RESULTS

(millions of dollars unless otherwise stated)	2000
Revenues	1,482
Net income	186
Operating cash flow	738
Electricity sales volume (TWh)	36.2

Net income for the three months ended March 31, 2000 was $186 million based on revenues of $1,482 million. Total volume of electricity sales in the Ontario and interconnected markets during the first quarter was 36.2 TWh. Warmer than normal weather during the first quarter resulted in a decrease in sales volumes to the Ontario market of approximately 1.0 TWh.

TABLE OF CONTENTS

Message From the President and CEO

Ontario Power Generation reported net income of $186 million or $0.73 per common share during the three months ended March 31, 2000. Total revenues during the first quarter were $1,482 million from electricity sales of 36.2 TWh in the Ontario and interconnected markets. Warmer than normal winter temperatures reduced sales volumes by 1.0 TWh. However, sales volumes and revenues continue to reflect the growth of the Ontario economy.

Cash flow from operating activities was $738 million during the first quarter, further strengthening the company's financial position.

OPG is focused on preparing for the scheduled November opening of the competitive electricity market in Ontario. Our short term strategy is to improve the competitive and environmental performance of our production facilities; decontrol a portion of our generation capacity in response to conditions placed on our operating license by the Ontario Energy Board; develop strong marketing and sales capabilities; ensure readiness for the market opening; and foster development of a commercial culture within the company.

Environmental performance targets were met during the first quarter in all major performance areas - regulatory compliance, air emissions, radiation emissions, waste management, and spills. By the end of 1999 all of our major production facilities achieved registration under the ISO 14001 program for environmental management systems.

During the first quarter we prepared a draft environmental assessment for the proposed return to service of the Pickering A nuclear generating station. The assessment is subject to public review in the coming months.

OPG has embarked on its program of decontrolling some of its electricity generation capacity. On February 14, we announced our intention to decontrol the 2140 megawatt Lennox generating station near Kingston, and the 1140 megawatt Lakeview generating station in Mississauga. The company is required to decontrol 4000 megawatts of predominantly fossil-fueled generation within 42 months of the opening of the Ontario electricity market.

We are also continuing to discuss potential decontrol and partnership arrangements for our 6200 megawatt Bruce A and B nuclear stations.

The company is moving ahead with our New Horizons Initiative, which in early April resulted in the selection of IBM Canada as the provider of information technology services to OPG. After a period of due diligence, OPG's Information Systems Group is planned to become part of a subsidiary of IBM.

For the months leading up to the opening of the new market, OPG has placed a major priority on ensuring commercial readiness. To this end, we are ensuring that all necessary information technology systems and business processes will be in place to participate in the market.

Finally, we have signed a major partnership agreement with the two largest unions, the Power Workers' Union (PWU) and The Society of Energy Professionals. We have also worked towards the development of a goal-sharing agreement with the unions that will see part of the compensation of unionized workers tied to the company performance. In addition, we reached a two-year agreement with the PWU, effective April 1, that includes wage and pension improvements as well as provisions to enhance the mobility of workers and therefore facilitate the decontrol of generating capacity.

During the first quarter of 2000, OPG continued to prepare for competition by achieving key financial, operating and environmental performance targets. We look forward to the opening of the Ontario electricity market.

President and CEO

ONTARIO POWER GENERATION INC. FIRST QUARTER 2000 OPERATING RESULTS

Analysis of First Quarter 2000 Operating Results Compared with 1999 Pro Forma Results

An analysis of operating results for the three months ended March 31, 2000 is provided compared to pro forma operating results of the Acquired Business for the three months ended March 31, 1999. The pro forma operating results enhance the comparability of the historical results of the Acquired Business, given the significant differences in the business and regulatory environments from that which began on April 1, 1999, as well as the significant change in the Company's capital structure.

(millions of dollars unless otherwise stated)	2000	Pro Forma [1] 1999
Revenues	1,482	1,457
Operating expenses		
Operation, maintenance and administration	502	567
Fuel	302	300
Power purchased	23	45
Depreciation and amortization	196	192
Property and capital taxes	94	92
	1,117	1,196
Operating income	365	261
Interest expense	37	45
Income before income taxes	328	216
Income taxes	142	96
Net income	186	120
Earnings per common share ($ per common share)	0.73	0.47
Common shares outstanding (millions)	256.3	256.3
Electricity Sales Volume (TWh)	36.2	35.0

(1) The 1999 pro forma statement of income reflects the operations of the Acquired Business as if the purchase of net assets had occurred on January 1, 1999 and includes the acquisition related adjustments such as the allocation of the purchase price to the acquired assets and liabilities. The pro forma adjustments to the historical results of the Acquired Business include the following:

- Revenue for 1999 was based on a consistent rate of 4¢/kWh, thereby requiring a reduction in revenue of $327 million.
- Depreciation and amortization was reduced by $193 million reflecting the reduction in the net book value of fixed assets to fair value.
- Interest expense was reduced by $515 million resulting from a decrease in long-term debt and interest rates.
- Income taxes and property and capital taxes of $96 million and $85 million respectively were recognized as the Company is now responsible for making payments in lieu of taxes to Ontario Electricity Financial Corporation.

The pro forma results are not necessarily indicative of the results that would have occurred had the transactions occurred on the relevant dates, because of the significant changes in the business and regulatory environments, financing and other factors.

Net Income

Net income for the first quarter of 2000 was $186 million compared with the pro forma 1999 first quarter net income of $120 million. The increase in earnings was due primarily to lower operating expenses, an increase in electricity sales and higher production from the Company's generating stations.

Revenues

Total revenues for the three months ended March 31, 2000 were $1,482 million compared to total pro forma revenues of $1,457 million for the same period in 1999.

Ontario energy revenues were $1,435 million for the first three months of 2000 compared with $1,403 million on a pro forma basis for the same period in 1999. The increase in revenue was due primarily to a higher volume of electricity sales in Ontario related to a continuing robust economy, partially offset by the impact of warmer weather during the first quarter of 2000 compared to the same period in 1999. Total sales of electricity in Ontario were 35.2 TWh, an increase of 0.7 TWh over 1999 sales of 34.5 TWh. On a weather normalized basis, electricity sales were 36.2 TWh in 2000 compared to 35.1 TWh for the same period in 1999.

Revenues to interconnected markets during the first quarter were $28 million in 2000 compared to $21 million in 1999. The higher interconnected revenue for the first three months of 2000 was due to an increase in electricity sales from 0.5 TWh in 1999 to 1.0 TWh in 2000.

Non energy revenues during the first quarter of 2000 were $19 million, a reduction of $14 million compared to the same period in 1999. The decrease was due to lower cobalt and isotope sales and a reduction in the sale of services to other successor companies of Ontario Hydro.

Operating Expenses

Operation, maintenance and administration (OM&A) expenses were $502 million during the first quarter of 2000 compared with $567 million for the same period in 1999. The decrease was primarily due to a lower pension expense related to higher returns on pension fund assets, lower expenditures resulting from the completion of the Year 2000 computer systems remediation efforts, and other reductions in salaries, wages and materials usage.

Fuel and power purchased expenses for the first quarter of 2000 totalled $325 million, a decrease of $20 million compared to the same period in 1999. Although fuel expenses during the first quarter remained relatively constant at $302 million in 2000 compared with $300 million in 1999, the Company increased its production from 33.5 TWh in 1999 (Nuclear 15.3 TWh;Hydroelectric 8.5 TWh; Fossil 9.7 TWh) to 35.3 TWh in 2000 (Nuclear 15.6 TWh; Hydroelectric 9.1 TWh; Fossil 10.6 TWh). The reduction in average fuel cost was due primarily to lower prices for coal during the first quarter of 2000 compared to 1999. Power purchased decreased by $22 million compared to the same period last year, reflecting a decrease in purchases of 1.7 TWh.

Interest Expense

The net interest expense of $37 million for the first quarter of 2000 was $8 million lower than 1999. This increase was primarily due to higher income from short-term investments in 2000.

Liquidity and Capital Resources

Capital expenditures for the first quarter of 2000 were $106 million compared with $56 million for the same period in 1999. The Company continues to invest in fixed assets to improve operating efficiencies and maintain and improve service, reliability, safety and environmental performance. Capital investment in the Pickering A station return to service project as well as expenditures related to the Company's preparation for open market access, which is scheduled to begin in November 2000, were factors contributing to the increase in spending.

The Company paid a quarterly dividend of $79.3 million (31 cents per common share) on March 31, 2000. This included the Company's regular quarterly dividend and an additional amount to achieve a 35 percent payout of earnings for 1999.

Business Activities

Decontrol

The Company is continuing the process of seeking and evaluating partnership/equity and business proposals for the Bruce Nuclear Power Development site in Southwestern Ontario. Various interested parties are continuing their due diligence efforts.

The Company is also continuing to develop plans for decontrol of approximately 4000 MW of predominantly fossil generation, including the 2,140 MW Lennox Station near Kingston and the 1,140 MW Lakeview Station in Mississauga.

Information Technology Initiative

In April, 2000, the Company selected IBM Canada Ltd. (IBM) as its strategic provider of information technology services. The agreement between IBM and the Company will be finalized after completion of a due diligence process to be performed by both companies. At that time, the Company's Information Systems Group will become part of a subsidiary of IBM. The creation of this new organization will allow the Company to focus on its core business, the generation and sale of electricity.

Labour Negotiations

The Company reached an agreement in March, 2000 with its largest labour union, the Power Workers Union. The new two year agreement is effective April 1, 2000 and includes wage escalation and pension enhancements for members. As well, provisions related to the mobility of labour are included within this agreement to allow the Company to facilitate decontrol of its generating capacity.

CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

(millions of dollars except earnings per share)	January 1 to March 31 2000
Revenues	1,482
Operating expenses	
Operation, maintenance and administration	502
Fuel	302
Power purchased	23
Depreciation and amortization	196
Property and capital taxes	94
	1,117
Operating income	365
Interest expense	37
Income before income taxes	328
Income taxes (notes 2 and 3)	
Current	73
Future	69
	142
Net income	186
Earnings per common share	0.73
Common shares outstanding (millions)	256.3

see accompanying notes to financial statements

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (UNAUDITED)

(millions of dollars)	January 1 to March 31 2000
Retained earnings, beginning of period	291
Net income	186
Dividends	(79)
Retained earnings, end of period	398

see accompanying notes to financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(millions of dollars)	January 1 to March 31 2000
Operating activities	
Net income	186
Adjust for non-cash items:	
Depreciation and amortization	196
Deferred pension asset	(31)
Future income taxes	69
Nuclear waste management	7
Other	4
	431
Nuclear waste management and asset removal fund	(94)
Expenditures on nuclear waste provisions	(7)
Changes to other long term assets and liabilities	(12)
Non-cash working capital changes	420
Cash flow from operating activities	738
Investing activities	
Expenditures for property, plant and equipment	(106)
Cash flow before financing activities	632
Financing activities	
Dividends on common shares	(79)
Increase in cash and cash equivalents during period	553
Cash and cash equivalents, beginning of period	243
Cash and cash equivalents, end of period	796

see accompanying notes to financial statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	March 31 2000	December 31 1999
ASSETS		
Current assets		
Cash and cash equivalents	796	243
Accounts receivable	797	930
Fuel	360	424
Materials and supplies	203	201
	2,156	1,798
Fixed assets		
Property, plant and equipment	13,381	13,285
Less: accumulated depreciation	515	383
	12,866	12,902
Other assets		
Deferred pension asset	547	516
Nuclear waste management and asset removal fund	461	367
Long term accounts receivable and other assets	49	27
	1,057	910
	16,079	15,610

see accompanying notes to financial statements

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(millions of dollars)	March 31 2000	December 31 1999
LIABILITIES		
Current liabilities		
Accounts payable and accrued charges	1,375	1,145
Long term debt due within one year	104	4
	1,479	1,149
Long term debt	3,322	3,422
Other liabilities		
Nuclear waste management and asset removal	4,300	4,235
Other post employment benefits	976	959
Long term accounts payable and accrued charges	334	353
Future income taxes liability (note 2)	144	75
	5,754	5,622
Shareholder's equity		
Common shares	5,126	5,126
Retained earnings	398	291
	5,524	5,417
	16,079	15,610

see accompanying notes to financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2000

1. Basis of Preparation

The accompanying unaudited quarterly consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. These statements should be read in conjunction with the Company's December 31, 1999 audited consolidated financial statements.

The Company was incorporated on December 1, 1998 under the *Business Corporations Act* (Ontario). As part of the reorganization of Ontario Hydro under the *Electricity Act, 1998* and the related restructuring of the electricity industry in Ontario, the Company purchased and assumed certain assets, liabilities, employees, rights and obligations of the electricity generation business of Ontario Hydro (the "Acquired Business") on April 1, 1999 and commenced operations on that date. The purchase of the Acquired Business was recorded at the exchange amount of $8,526 million. The aggregate value of the net assets was allocated to assets and liabilities based on their estimated fair values.

Comparative amounts for the three months ended March 31, 1999 have not been included in the quarterly consolidated financial statements. The financial position and operating results of the Company differ significantly from those of the Acquired Business prior to April 1, 1999 because of changes in the capital structure, regulatory environment and other factors.

2. Accounting Change - Income Taxes

Effective January 1, 2000, the Company changed its method of accounting for income taxes from the deferral method to the liability method of tax allocation as required by The Canadian Institute of Chartered Accountants' Handbook Section 3465, *Accounting for Income Taxes*. Under the liability method, future income taxes reflect the net tax effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and amounts used for income tax purposes. The deferral method uses an income statement approach and records deferred taxes using current tax rates with no adjustment for subsequent tax rate changes. The cumulative effect as at January 1, 2000 of adopting these recommendations was not material. Therefore, prior year financial statements have not been restated.

3. Payment in Lieu of Taxes

The Company is responsible under the *Electricity Act, 1998* for making payments in lieu of taxes to Ontario Electricity Financial Corporation. These payments are calculated in accordance with the *Income Tax Act* (Canada) and the *Corporations Tax Act* (Ontario), and are modified by regulations made under the *Electricity Act, 1998.*

The Company is also required to make payments in lieu of property and school taxes on its generating assets. The amount is equal to the difference between the amount it would be required to pay if the assets were privately owned and the amount of such taxes that the Company actually pays on those assets.

4. 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.

5. Comparative Figures

Certain of the 1999 balance sheet figures have been reclassified to conform with the 2000 financial statement presentation.