FINANCIAL ANALYSIS AND REVIEW

Great Lakes Power Inc. ("Great Lakes" or the "company") operates directly and through a number of wholly and partly owned affiliates. Great Lakes' direct and indirect ownership interests at December 31, 2000 are depicted in an abridged form on the following chart.

Great Lakes Power Inc.			
Integrated Power Systems	**Other Hydroelectric Power Operations**	**Other Operations**	**Financial Investments**
Northern Ontario Power 100%	***Valerie Falls Power*** 65%	***Lake Superior Power*** 50%	***Diversified Security Portfolio***
	Pontiac Power 100%		
Maclaren Energy Inc. 50%(1)	***Louisiana HydroElectric*** 75%(2)	***Highvale Power*** 100%	***Long-term Financial Investments***

(1) Held through the Great Lakes Hydro Income Fund

(2) Residual interest

OPERATIONS REVIEW

Power production and sales statistics for the company's power generating operations for 2000 and 1999 are shown below[1]:

gigawatt hours	2000	1999
Northern Ontario Power		
Electricity sales	2,309	2,341
Electricity generation	1,369	1,503
Maclaren Energy [2]		
Electricity sales	1,573	193
Electricity generation	1,554	192
Valerie Falls Power		
Electricity sales and generation	51	51
Pontiac Power		
Electricity sales	214	202
Electricity generation	217	205
Louisiana HydroElectric Power		
Electricity sales	520	780
Electricity generation	538	810
Lake Superior Power [3]		
Electricity sales and generation	852	843
Total		
Electricity sales	5,519	4,410
Electricity generation	4,581	3,604

1 All data in this Review are for years ended December 31

2 Maclaren Energy's sales and generation for 1999 are included only from November 18

3 Including energy equivalents of contracted gas sales

The company's power generating operations sold 5,519 gigawatt hours ("GWh") of electricity during 2000, up from 4,410 GWh in 1999. The impact of the purchase of the Maclaren Energy power assets ("Maclaren Energy") in November 1999 was partly offset by decreased sales at Louisiana HydroElectric Power as a result of abnormally low water flows on the Mississippi River.

The company's revenue from power operations consists of sales to regional electric companies, commercial, industrial and residential customers, and wholesale commodity markets known as "power pools" for further resale to end users.

Northern Ontario Power

Northern Ontario Power's operating performance in 2000 compared to 1999 is shown in the following table:

	2000	1999
Installed capacity (MW) [1]	327	321
Electricity sales (GWh)	2,309	2,341
Electricity generation (GWh)	1,369	1,503
Internal power generation (%) [2]	57	62

1 MW – megawatts

2 Measured as a percentage of electricity available for sale before distribution and line loss

Electricity sales in 2000 were 1% lower than in 1999, mainly due to lower demand from the system's main industrial customers. Power sales to its main customers for 2000 and 1999 are shown below:

gigawatt hours	2000	1999
City of Sault Ste. Marie	722	716
Algoma Steel	821	844
St. Marys Paper	396	417
Other customers	370	364
	2,309	2,341

In 2000, Northern Ontario Power supplied electric power to a total of 43,893 customers, of which 11,497 were supplied directly and 32,396 via the City of Sault Ste. Marie Public Utilities Commission ("P.U.C."), which distributes power within the city of Sault Ste. Marie. The P.U.C. accounted for 31% of 2000 gigawatt hour power sales.

Algoma Steel is the system's largest industrial customer, accounting for 36% of 2000 sales. St. Marys Paper is its second largest industrial customer, accounting for 17% of 2000 sales. Power was also supplied directly to other residential and commercial customers in areas of the Algoma District north and east of Sault Ste. Marie, which together accounted for 16% of 2000 sales.

In 2000, the system generated 1,369 GWh of its power sales from its own stations and purchased the balance from Ontario Power Generation Inc. ("OPGI"). Internal power generation was 57% of total sales, lower than the ten-year average of 64% due to drier than normal weather conditions in northern Ontario throughout 2000.

Financial results for Northern Ontario Power for 2000 and 1999 are shown below:

millions	2000	1999
Operating revenue	$123.7	$125.4
Cash flow from operations	46.3	51.4
Operating earnings	40.6	44.1

Operating earnings decreased by 8% due to lower internal power generation. In 2000, purchased power costs were partly offset by the reversal of $5.1 million (1999 – $2.1 million) of previously set aside hydrological reserves.

Maclaren Energy

Maclaren Energy's operating performance for 2000 and 1999 is shown below:

	2000	1999
Installed capacity (MW)	238	238
Electricity sales (GWh)	1,573	1,492
Electricity generation (GWh)	1,554	1,452

Power generation in 2000 increased 7% as a result of higher precipitation levels in western Quebec.

Maclaren Energy sells its electrical power to two main industrial companies with operations in the area: Papier Masson Lteé, which operates a newsprint mill; and Nexfor Inc., which operates a pulp mill.

Financial results for Maclaren Energy for 2000 and 1999 are shown below:

millions	2000	1999
Operating revenue	$54.1	$46.6
Cash flow from operations	39.0	30.3
Operating earnings	30.9	27.9

Great Lakes acquired a 40% interest in the Maclaren Energy power assets in November and December 1999 through the Great Lakes Hydro Income Fund. Results from Maclaren Energy for 1999 are included in the company's results for the last 43 days of that year. In May 2000, Great Lakes increased its ownership of the Fund to 50% at a cost of $22.3 million.

At Maclaren Energy, the portion of the electricity generated and not sold pursuant to long-term contracts is sold into the short-term contract or spot electricity markets. The prices paid for electricity in the spot markets can be, and have been from time to time, volatile. This volatility is influenced by peak demand requirements, weather conditions, competition, electricity transmission constraints and fuel prices, as well as plant availability and other relevant factors. As a result, the sales revenues (consisting of both volume and price considerations) from these businesses are less predictable and subject to potentially greater variability from period to period than those businesses selling under long-term sales contracts.

Valerie Falls Power

Valerie Falls Power's operating performance for 2000 and 1999 is shown below:

	2000	1999
Installed capacity (MW)	10	10
Electricity generation and sales (GWh)	51	51

Power sales and generation were unchanged from 1999.

Financial results for 2000 and 1999 are shown below:

millions	2000	1999
Operating revenue	$3.5	$3.5
Cash flow from operations	2.8	2.9
Operating earnings	2.4	2.4

Pontiac Power

Pontiac Power's operating performance for 2000 and 1999 is shown below:

	2000	1999
Installed capacity (MW)	28	28
Electricity sales (GWh)	214	202
Electricity generation (GWh)	217	205

Power sales increased 6% with higher precipitation levels in western Quebec.

Financial results for Pontiac Power for 2000 and 1999 are shown below:

millions	2000	1999
Operating revenue	$13.3	$12.3
Cash flow from operations	9.6	8.8
Operating earnings	7.9	7.0

Louisiana HydroElectric Power

Louisiana HydroElectric Power's operating performance for 2000 and 1999 is shown below:

	2000	1999
Installed capacity (MW)	192	192
Electricity sales (GWh)	520	780
Electricity generation (GWh)	538	810

Power sales in 2000 decreased 33% as a result of substantially lower water flows on the lower Mississippi River caused by abnormally dry conditions in the US Midwest throughout most of 2000.

Financial results for Louisiana HydroElectric Power for 2000 and 1999 are shown in the following table:

millions ($US)	2000	1999
Operating revenue	$94.6	$119.3
Cash flow from operations	55.5	66.7
Operating earnings	62.3	83.8

Lake Superior Power

Lake Superior Power's operating performance for 2000 and 1999 is shown in the following table:

	2000	1999
Installed capacity (MW)	110	110
Gas consumption (MMcf) [1]	8,162	7,020
Electricity generation and sales (GWh) [2]	852	843

1 MMcf — million cubic feet
2 Including power equivalent of gas sales

Sales increased during 2000 as a result of the decision to sell contracted gas purchases to take advantage of the significant increase during the year in natural gas prices.

Financial results for Lake Superior Power for 2000 and 1999 are shown below:

millions	2000	1999
Operating revenue	$60.8	$47.1
Cash flow from operations	23.0	19.3
Operating earnings	16.5	14.8

Highvale Power

During 2000, Highvale Power earned royalty income on 4.0 million tonnes of coal mined at the Highvale I and II mine properties in Alberta. Highvale Power contributed $7.5 million to operating income during 2000, comparable to 1999.

PRODUCTIVITY INITIATIVES

Great Lakes continues to be among the lowest-cost producers of electric power in North America. Great Lakes' production control system identifies the most cost-efficient generators for use at any given time to make best use of available water resources. Fibre-optic and microprocessor-based relay and control systems used to operate its stations have reduced the impact of electrical storms and improved the efficiency of its generating facilities.

A new supervisory control and data acquisition system ("SCADA"), installed in 1999 at Great Lakes'

Ontario power operations, has state-of-the-art capabilities for system monitoring and energy and water resource management.

The company has a comprehensive maintenance program to extend the operating life of its generating facilities and to maintain unit efficiency. This program includes annual examinations of major items of equipment, intensive reviews of dams, weirs and spillways every four to five years, and complete overhauls of generating units as required.

During 2000, the three generating units at the Andrews, MacKay and Hogg power stations were returbined. These improvements added 6 MW of capacity at significantly lower costs than building new capacity.

The productivity gains from these initiatives, along with further planned improvements in generation and transmission facilities, should enable the company to maintain its position as a low-cost generator of electricity.

SAFETY AND THE ENVIRONMENT

It is the company's policy that each of its operations manage its activities having regard to high standards of safety and well-being for its employees, and that they demonstrate care for the environment through the use of recognized sustainable development practices in compliance with all relevant laws and regulations. Great Lakes has also adopted the Canadian Electricity Association *Environmental Commitment and Responsibility Program*, which is based on the ISO's 14001 Environmental Standard criteria.

Compliance is required with established safety, health and environmental practices from all employees, contractors and agents, and training is provided to achieve the desired compliance. Compliance is monitored through management systems that form an integral part of the daily business activities. Regular reports are made to the company's Board of Directors on the results of the company's Safety, Health and Environmental Programs.

During 2000, there were no lost-time accidents and no high-risk incidents at any of the company's power operations.

NEW DEVELOPMENTS

In November 2000, the Company announced a $500 million capital investment program with the stated objective of doubling the operating earnings from its power business by the year 2005. The following is a summary of the major projects currently being pursued under this plan.

High Falls, Ontario

The company is proceeding to develop the High Falls generating facility on the Michipicoten River near Wawa, Ontario, to replace the existing 27 MW plant with a larger, more efficient 45 MW station with increased peak-period generating capability. This project has an expected cost of $75 million and will start construction during 2001.

Sault Ste. Marie, Ontario/Michigan

Detailed planning studies are under way for the construction of a 230 kilovolt high voltage transmission interconnection to link the company's Ontario power system in Sault Ste. Marie, Ontario, with the neighbouring power grid at Sault Ste. Marie, Michigan. This 300 MW interconnection is expected to enhance the company's ability to access other electricity markets to maximize the value of its generation output.

Powell River Energy, British Columbia

In February 2001, the Great Lakes Hydro Income Fund acquired from Pacifica Papers Inc., a 50% interest in two hydroelectric stations with water storage facilities in the City of Powell River in southwestern British Columbia for a total consideration of $56 million. These facilities have a total installed capacity of 82 MW and are capable of generating 500 GWh of electricity annually, for sale to an industrial company on a take-or-pay contract.

Pingston Creek, British Columbia

During 2000, the company entered into a 50/50 partnership with Canadian Hydro Developers Inc. to proceed with the development of the 30 MW Pingston Creek hydroelectric power station near Revelstoke in central British Columbia. Environmental and other development approvals have been

received, and construction is expected to start in 2001 after negotiating related power sales and transmission agreements.

Brascan Energética, Southern Brazil

Through Brascan Energética S.A. ("BESA"), a wholly-owned subsidiary of its principal shareholder, Brascan Corporation, the company is developing five hydroelectric stations in southern Brazil having a combined generating capacity of 81 MW. As part of this program, BESA recently acquired an 80% interest in the Pedrinho project, a 16 MW generating station to be built in the State of Paraná. BESA has also commenced site development work at the 30 MW Passo do Maio generating station in the State of Rio Grande do Sol.

INCOME ANALYSIS

Great Lakes' net income for 2000 was $115.5 million or $0.92 per fully diluted common share, compared to $113.1 million or $0.90 per share on a comparable basis last year.

Financial results for the year ended December 31, 2000 compared to 1999 are shown below:

millions, except per share amounts	2000	1999
Power revenues		
Northern Ontario Power	$123.7	$125.4
Maclaren Energy	27.1	1.1
Energy marketing	15.2	–
Lake Superior Power	30.4	23.6
Louisiana HydroElectric Power	6.1	14.4
Pontiac Power	13.3	12.3
Valerie Falls Power	3.5	3.4
Highvale Power	7.5	7.5
	226.8	187.7
Other income		
Long-term investments	48.0	47.4
Investment and other	58.7	51.2
	333.5	286.3
Expenses		
Interest	79.2	64.4
Power and fuel costs	69.8	54.1
Operating	26.8	19.2
Depreciation	20.7	16.7
Minority interests	4.6	3.7
Income and other taxes	16.9	15.1
	218.0	173.2
Net income	$115.5	$113.1
Per fully diluted common share	$0.92	$0.90

Results for 2000 reflect the proportionate consolidation of the income and expenses of Maclaren Energy, as a result of the company's increased ownership in the Great Lakes Hydro Income Fund from 40% to 50% in May 2000.

Power Revenues

Revenue from Northern Ontario Power decreased in 2000 due mainly to lower power sales to one of the system's main industrial customers. The percentage of internal power generation decreased from 62% to 57% due to lower precipitation levels throughout 2000. This led to an increase in purchased power expenses included under "Power and fuel costs".

The company's share of the revenue of Maclaren Energy in 2000 includes Great Lakes' 50% share of power sales and 100% of energy marketing gains. The amount for Maclaren Energy for 1999 represents the company's share of income earned after its first interest was acquired through the Great Lakes Hydro Income Fund in November of that year. Energy marketing is a new business developed by Great Lakes in 2000 and conducted through Maclaren Energy.

The company's share of the revenue of Lake Superior Power increased 29% in 2000 due to the resale of contracted gas purchases to take advantage of higher natural gas prices.

The company's share of income from Louisiana HydroElectric Power decreased substantially in 2000. The impact of abnormally dry conditions in the US Midwest on water flows on the lower Mississippi River was partly offset by drawing down $26.0 million of hydrological reserves.

Revenue from Pontiac Power increased as a result of higher precipitation levels in western Quebec in 2000. Revenue from Valerie Falls Power and Highvale Power were similar to last year.

Other Income

Great Lakes maintains a portfolio of financial assets which help achieve the company's corporate financial objectives, including generating earnings and cash flow for redeployment in the power business.

Income from long-term investments consists of dividends from the company's investments. This income

was $48.0 million in 2000, up from $47.4 million in 1999. The composition of these long-term investments and the changes during 2000 are described in the Balance Sheet Analysis section of this report starting on page 6.

Investment and other income consists of dividends earned on the company's securities portfolio, interest on loans receivable and other fee income. This income increased from $51.2 million in 1999 to $58.7 million in 2000 due to higher average securities balances and interest rates during the year.

Expenses

Expenses increased from $173.2 million in 1999 to $218.0 million in 2000, due mainly to higher power purchase and operating costs, and the proportionate consolidation of the expenses of Maclaren Energy.

Interest expense on the company's term debentures and other debt increased 23% due to the inclusion of Maclaren Energy.

Power and fuel costs include the cost of power purchased by Northern Ontario Power from Ontario Power Generation Inc. and the company's share of the cost of natural gas fuel purchased for the Lake Superior Power cogeneration plant. These costs increased 29% in 2000. The cost of power purchased by Northern Ontario Power increased by $4.0 million, mainly because of higher external power purchases relative to 1999 as a result of decreased internal power generation from the company's northern Ontario hydroelectric stations. The cost of power purchases was partly reduced by $5.1 million of previously set aside hydrological reserves in 2000, compared to $2.1 million in 1999.

Operating expenses include the cost of maintaining operating facilities. These expenses increased by 40% due to increases in the operating expenses of Maclaren Energy over its first full year of operations.

Minority interest expense represents dividends paid on preferred shares of subsidiaries. Minority interest expense increased in 2000 due to higher interest rates.

Income and other taxes increased marginally from $15.1 million in 1999 to $16.9 million in 2000.

Quarterly Earnings

The following table summarizes the quarterly fully diluted earnings per share for 2000 compared to 1999:

	2000	1999
Net income per fully diluted share		
1st Quarter	$0.25	$0.25
2nd Quarter	0.26	0.25
3rd Quarter	0.22	0.23
4th Quarter	0.19	0.17
Total for the year	$0.92	$0.90

BALANCE SHEET ANALYSIS

The company's total assets increased during 2000 to $2,476 million, due mainly to investments in additional generating capacity. Assets and liabilities at December 31, 2000 and 1999 are summarized below:

millions	2000	1999
Financial assets		
Securities	$ 661.3	$ 646.1
Loans and other receivables	322.0	325.1
Long-term investments	536.2	534.9
Property, plant and equipment	956.8	899.1
	$2,476.3	$2,405.2
Liabilities		
Accounts payable and other	$ 76.4	$ 99.4
Mortgage bonds	393.5	346.2
Term debentures	558.8	543.8
Future income taxes	104.4	106.7
Minority interests	94.2	93.1
Shareholders' equity	1,249.0	1,216.0
	$2,476.3	$2,405.2

Great Lakes maintains a portfolio of securities and long-term investments, many of which represent the residual gains realized from the company's previous investment banking activities. These assets generate a stable level of cash flow for investment in the company's power generating operations and for distribution to its shareholders.

Securities Portfolio

The company's securities portfolio, which is comprised primarily of preferred shares of affiliated Canadian companies, increased from $646.1 million in 1999 to $661.3 million in 2000. The composition of the company's securities portfolio by business sector at

December 31, 2000 compared to 1999 is summarized in the following table:

millions	2000	1999
Property	$220.5	$170.5
Natural resources	147.7	188.8
Financial services	21.0	21.0
Diversified	189.4	189.4
Short-term deposits and other	82.7	76.4
	$661.3	$646.1

Loans and Other Receivables

The company's loans and other receivables decreased from $325.1 million in 1999 to $322.0 million in 2000 due principally to cash placed on interest bearing deposits with affiliates pending investment in the company's power generating operations.

Long-term Investments

The book values of the company's long-term investments and the underlying securities at December 31, 2000 compared to 1999 are shown below:

millions	2000	1999
Trilon Financial Corporation	$195.3	$195.3
Noranda Inc.	150.0	150.0
Brascan Corporation	112.0	112.0
Other investments	78.9	77.6
	$536.2	$534.9

Great Lakes holds a senior preferred share investment in Trilon Holdings Inc. which, together with Brascan Corporation ("Brascan"), owned 65% at December 31, 2000 of the common shares of Trilon Financial Corporation ("Trilon"). Trilon is a publicly-listed Canadian-based financial services company. This interest increased to 71% on January 16, 2001 following Trilon's repurchase of 14.5 million of its common shares.

Trilon's financial results for the two years ended December 31, 2000 are shown below:

millions	2000	1999
Total assets	$3,541	$3,386
Shareholders' equity	2,707	2,595
Gross revenues	414	367
Net income	236	357

Trilon's results for 1999 included a deferred investment gain of $150 million.

Great Lakes also holds a senior preferred share investment in Noranda Equities Inc., which together with Brascan, owns 40% of the common shares of Noranda Inc. ("Noranda"). Noranda, a publicly-listed company, is a major producer of mined and refined base metals.

Noranda's financial results for the two years ended December 31, 2000 are shown below:

millions	2000	1999
Total assets	$11,760	$11,379
Shareholders' equity	4,094	4,167
Gross revenues	6,957	6,468
Net income	293	186

Great Lakes owns a $112.0 million senior preferred share investment issued by a wholly owned subsidiary of Brascan, a publicly-listed property, diversified natural resources, energy and financial services company.

Brascan's financial results for the two years ended December 31, 2000 are shown below:

millions	2000	1999
Total assets	$11,601	$11,060
Shareholders' equity	4,913	4,614
Group revenues	13,524	12,729
Net income	648	423

Brascan's results in 2000 and 1999 include investment gains of $250 million and $110 million, respectively.

Other investments include primarily the company's shares of First Toronto Investments Limited ("First Toronto"), a private company which participates in the secondary market for equity securities of Canadian corporations, including companies affiliated with Brascan. Great Lakes' investment in First Toronto provided a pre-tax equivalent yield of 7.3% in 2000.

Property, Plant and Equipment

The company's property, plant and equipment includes the following: the depreciated costs of its 12 wholly-owned hydroelectric power generating stations in northern Ontario; its 50% share of the depreciated interest in the three Maclaren Energy hydroelectric generating stations; its 75% residual interest in Louisiana HydroElectric Power's Sidney A. Murray, Jr. generating station and flood and sediment control works; the depreciated cost of the Valerie Falls Power hydroelectric generating station; the depreci-

ated cost of the two Pontiac Power hydroelectric generating stations; its share of the depreciated cost of the Lake Superior Power cogeneration plant; and the costs attributed to the undeveloped Highvale Power coal properties.

The depreciated cost of the company's property, plant and equipment increased during the year, largely due to the increased ownership in Maclaren Energy and capital improvements at Northern Ontario Power. The major components by type of asset are summarized below:

millions	2000	1999
Generation	$ 900.3	$829.3
Transmission	188.5	182.8
Distribution	49.1	49.1
Other	47.7	46.7
	1,185.6	1,107.9
Accumulated depreciation and amortization	228.8	208.8
	$ 956.8	$899.1

LIQUIDITY AND CREDIT FACILITIES

Great Lakes finances itself through mortgage bonds, corporate debentures, bank credit facilities and bridge and loan facilities provided by Brascan and its affiliates.

At December 31, 2000, the company's total debt was $952.3 million, as detailed below:

millions	2000	Average Interest Rate	1999	Average Interest Rate
Northern Ontario Power First Mortgage Bonds Series 3 and 4	$251.4	6.6%	$247.2	6.6%
Great Lakes Hydro Income Fund First Mortgage Bonds Series 1, 2 and 3	50.0	7.5%	–	–
Project loans	92.1	9.9%	99.0	9.8%
	393.5		346.2	
Term debentures	558.8	8.6%	543.8	7.9%
	$952.3		$890.0	

The Northern Ontario Power Series 3 First Mortgage Bonds, issued in December 1996, bear interest at 6.69% and are due December 31, 2001. The Series 4 First Mortgage Bonds, issued in May 1998, bear interest at 6.57% and are due June 16, 2003. The Series 3 and Series 4 First Mortgage Bonds rank equally.

The Great Lakes Hydro Income Fund Series 1, 2 and 3 First Mortgage Bonds, issued in April 2000, bear interest at the rate of 7.33%, 7.55% and 7.78% respectively; and are due April 24, 2005, April 24, 2010 and April 24, 2015, respectively.

The $9.9 million project loan for the 65%-owned Valerie Falls Power hydroelectric station bears interest at a floating rate not to exceed 9.7% with the balance due on November 30, 2001. The $64.5 million in project loans for the two Pontiac Power hydroelectric stations bear interest at a blended rate of 10.52% and amortize yearly to December 1, 2020. These loans are secured by the respective power plants and related assets. The company's $17.7 million share of the loan arranged for the 50%-owned Lake Superior Power cogeneration plant, bears interest at a rate of 9.41% and amortizes yearly to December 29, 2006.

The company's term debentures consist of two series. In 1994, US$175 million 9.0% Notes were issued maturing August 1, 2004. In August 1999, US$200 million 8.3% Notes were issued, maturing March 1, 2005.

In addition, the company has a commercial paper program with an authorized amount of $118 million. The company's commercial paper is currently rated R-1(low) by Dominion Bond Rating Service and A-1(Low) by Canadian Bond Rating Service. The company's commercial paper program, distributed in the money market by a group of investment dealers, normally provides the company with its most cost-effective source of short-term funds.

The following schedule summarizes the maturity of the company's outstanding mortgage debt:

millions	Annual Repayments
2001	$110.3
2002	5.8
2003	161.8
2004	5.0
2005	29.5
Thereafter	81.1
	$ 393.5

In addition to its undrawn credit facilities, the company's securities portfolio provides a source of liquidity.

CAPITAL BASE AND FINANCIAL POSITION

The company's capital base at December 31, 2000 of $1,249.0 million was comprised of 101.4 million common shares with a book value of $1,001.3 million or $9.87 per share and $247.7 million of subordinated debentures convertible into 24.8 million common shares at $10.00 per share.

The convertible debentures mature September 2013 and interest and principal may be paid by the company in the form of its common shares. The debentures are therefore included as part of the company's capital base. On a fully diluted basis, there would be 126.2 million common shares outstanding.

The composition of the company's capital base at the end of 2000 and 1999 is summarized below:

millions, except number of shares	2000	1999
Subordinated convertible debentures	$ 247.7	$ 247.7
Common shares	1,001.3	968.3
	$1,249.0	$1,216.0
Number of common shares		
Currently issued	101,393,934	101,393,934
Convertible debentures	24,769,030	24,769,030
Fully diluted	126,162,964	126,162,964

Regular dividends paid on the company's common shares in both 2000 and 1999 amounted to $64.9 million, representing an earnings payout ratio of 56%. The regular quarterly dividend per common share paid in both 2000 and 1999 was $0.16.

The company's policy is to distribute surplus operating cash flows not required for investment in power generating facilities to its common shareholders in the form of regular quarterly and special dividend payments.

BUSINESS ENVIRONMENT AND RISKS

Operating income from hydroelectric power generation fluctuates mainly in relation to the availability of water in the company's river systems. In the case of Northern Ontario Power, lower than average water inflows can reduce stored water levels. This can reduce the level of internal power generation, which increases the need for more expensive external power purchases, resulting in lower earnings.

The largest industrial customer of Northern Ontario Power, accounts for approximately 13% of Great Lakes' revenues. Should demand from this customer be temporarily interrupted, the immediate effect on the company's revenues would be largely offset by a reduction in purchases of higher-priced power and the sale of any surplus power to the Ontario, Quebec and neighbouring power grids at prices for electricity at any given time. In the event of a lengthy shutdown of the company's largest customers, any surplus power could be sold on a basis which recognized the higher value of firm power, since this power could be scheduled and integrated into an overall generation plan.

While changes in the level of precipitation impact the power generation of Great Lakes' individual operations, the fact that it has hydroelectric stations in several different watershed areas in Canada and the United States helps it balance the financial impact of these fluctuations. Risk is also reduced through the existence of long-term power sale contracts with major utility customers.

Investment income from a portion of the company's preferred shareholdings varies only with the amount invested, as the rate of return is generally fixed. Other investment income is sensitive to interest rate changes; however, a similar offsetting sensitivity exists with a portion of the company's debt.

OPERATING STRATEGY AND OUTLOOK

The company's primary goals are to increase earnings and cash flow, while making adequate provisions for special maintenance and low water levels, and to distribute surplus operating cash flow, not otherwise required for investment, to shareholders as dividends.

Management will continue to emphasize control over operating and maintenance costs and the application of technology; explore ways of increasing the company's customer base and the market for its hydroelectric power; and examine potential development projects within and beyond its service area. The company will also continue to work closely with joint-venture

partners on developing other projects outside its primary service area.

Drier than normal conditions continue to prevail in the US midwest and parts of northern Ontario. The financial impact of these conditions on the company's results in 2001 is expected to be offset by increased contributions from other existing operations and the initial results of its current capital investment program.

In the longer run, regulatory changes in the electricity industry in both North and South America are expected to provide new opportunities for the company's services. Continued economic growth should also, over time, help expand the market for the company's power and provide opportunities for investment in new power generating facilities.

FORWARD-LOOKING STATEMENTS

The company's financial analysis and review contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe", "expect", "anticipate", "intend", "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include general economic conditions, interest rates, availability of equity and debt financing and other risks. The company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.