

# **Brascan Power Corporation**

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## **2004 Management's Discussion and Analysis**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

In December 2003, the Canadian securities regulators released National Instrument 51-102, "Continuous Disclosure Obligations". The management discussion and analysis ("MD&A") of Brascan Power Corporation (the "Company") for December 31, 2004 has been prepared to comply with the requirements of regulation 51-102, to the extent that they apply to the limited categories of revenues and expenses of the Company.

The purpose of this discussion and analysis is to provide a framework for understanding the Company's business activities. In addition, this discussion and analysis is intended to complement and supplement the Company's financial statements. It should be read in conjunction with the audited consolidated financial statements for the period ended December 31, 2004. Additional information relating to the Company can also be found on the Company's website at [www.brascanpower.com](http://www.brascanpower.com) and on the SEDAR website. Unless expressly indicated otherwise, all dollar amounts reflected are Canadian.

## OVERVIEW OF THE BUSINESS

Brascan Power Corporation (the "Company") was incorporated and organized under the Business Corporations Act (Ontario) on June 20, 2002. The Company is a wholly-owned subsidiary of Brascan Power Inc. (formerly Great Lakes Power Inc.) ("Brascan Power"). The activities of the Company commenced on December 16, 2004.

Due to the strategic importance of the power business to Brascan Corporation ("Brascan") and its substantial growth, Brascan believes that it is appropriate to establish a "pure play" power company and that this will lead to enhanced investor clarity and a lower cost of capital. Accordingly, the Company has been established as a subsidiary of Brascan Power, and will acquire all of its power operations as part of a reorganization which will occur in the future as the necessary contractual and regulatory consents are received. It is expected that this reorganization will be completed within the next three years.

Brascan Power, through predecessor companies, has conducted a number of business activities, including power generation, merchant banking and investment banking. As a result, Brascan Power's assets are comprised of a blend of power generating and investment assets. Following the reorganization Brascan Power will retain ownership of the non-core investment assets that are not related to the power operations.

Presently, the Company has no significant assets or liabilities other than the subordinated promissory notes and term debentures. The Company has no employees and no subsidiaries.

## PERFORMANCE MEASUREMENT

The performance of the Company for the 16 day period is consistent with the positioning of the Company for the anticipated reorganization related to Brascan Power. Future performance measurement after the reorganization will focus principally on net operating income for performance measurement because it is tangible and reflects the value of the assets that the Company will acquire through the reorganization.

## NET OPERATING LOSS

The net operating loss of the Company for the 16 day period ended December 31, 2004 totaled \$33,000. Interest revenue of \$982,000 was charged on promissory notes of \$497,110,000 from its parent, Brascan Power. Interest expense of \$959,000 relates to Series 1 and 2 debentures issued by the Company. Financing fees of \$4,142,035 on these debentures are being amortized over the term of the debt. Financing fees expense for the period total \$47,000. Taxes include capital taxes of \$15,000 and income taxes of (\$6,000).

## BALANCE SHEET

### PROMISSORY NOTES

The Corporation received subordinated promissory notes from Brascan Power. The first subordinated promissory note, for an amount of \$397,360,000, bears interest at 4.7% per annum, is payable semi-annually and matures on December 16, 2009. The second promissory note, for an amount of \$99,750,000, bears interest at i) for the initial interest period from December 16, 2004 to March 18, 2005, the average of the 90 day bankers' acceptance rate and 180 day bankers' acceptance rate plus 0.73% and ii) for each interest period following March 18, 2005, the 90 day bankers' acceptance rate plus 0.73% payable quarterly, and matures on December 18, 2006.

### CAPITAL STRUCTURE AND FINANCING

In December 2004, the Company raised \$500,000,000 through the issuance of debentures on a private placement basis by way of \$400,000,000 of Series 1 debentures and \$100,000,000 of Series 2 FRN debentures. The Series 1 Canadian debentures bear interest at 4.65%; the Series 2 at Canadian Deposit Offering Rate ("CDOR") plus 68 basis points. The

Debentures have been assigned a rating of BBB (high) by Dominion Bond Rating Service Limited ("DBRS") and BBB by Standard and Poor's Rating Service ("S&P").

In January 2005 the Company raised \$50,000,000 through the issuance, on a private placement basis, of the additional Series 1 debentures on the same terms and conditions as the original Series 1 debentures issued in December 2004. The proceeds of that offering were used for general corporate purposes.

The abovementioned debentures will not be secured by any mortgage, pledge or other charge. The debentures are unconditionally guaranteed by Brascan Power as to the payment of principal, premium, if any, and interest thereon when and as the same shall become due and payable pursuant to a guarantee agreement. The guarantee will remain in place until such time as certain conditions with respect to its release are met.

#### **SHAREHOLDERS' EQUITY**

The authorized capital of the Company consists of an unlimited number of common shares. As at December 31, 2004, there were 10 common shares of the Company issued and outstanding. The Company has not issued dividends to date.

#### **LIQUIDITY AND CAPITAL RESOURCES**

The liquidity risk related to the debentures is directly related to the credit risk related to the promissory notes. Based on the strong credit profile and stable cash margin of Brascan Power, the issuer of the promissory note, these risks are negligible.

#### **CONTRACTUAL OBLIGATIONS**

Series 1 Canadian debentures of \$400,000,000 are due on December 16, 2009.

Series 2 Canadian debentures of \$100,000,000 are due on December 18, 2006.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

##### **Guarantees**

The Series 1 and Series 2 Canadian debentures are unconditionally guaranteed by Brascan Power as to the payment of principal, premium, if any, and interest thereon when and as the same shall become due and payable pursuant to a guarantee agreement made as of December 16, 2004 between Brascan Power and the Corporation.

#### **RELATED PARTY TRANSACTIONS**

During the period, Brascan Power and another affiliate provided advances to the Corporation in the amount of \$1,252,034. These advances are non-interest bearing and due on demand.

#### **OPERATING STRATEGY AND OUTLOOK**

The reorganization will be effected through the transfer of the power assets from Brascan Power to the Company. The proposed plan of action would involve Brascan Power obtaining the contractual consents, assignments and replacement contracts required to transfer the power assets. It is expected that the reorganization will be completed within the next three years.

#### **CRITICAL ACCOUNTING POLICIES**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in Note 2 (Summary of Significant Accounting Policies) of the 2004 financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates for the Company include determination of accruals and amortization. Actual results could differ from those estimates.

#### **BUSINESS RISKS**

Following the completion of the reorganization, the risk factors identified in the Prospectus relating to Brascan Power will apply to the Company. Those risks include hydrology, equipment failure, foreign exchange and energy price fluctuations.

#### **NET INCOME**

The Company's net loss for the 16 day period ended December 31, 2004 totaled \$33,000.

#### **PROVISION FOR INCOME TAXES**

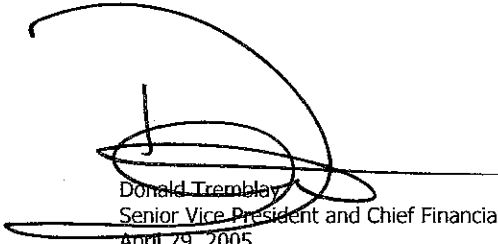
For the period ended December 31, 2004, the Corporation's current tax expense was \$8,236 and future income tax recovery was \$14,172. Taxes are accounted for under the asset and liability method.

## ANNUAL INFORMATION FORM

The Company prepares an Annual Information Form which can be accessed on SEDAR at [www.sedar.com](http://www.sedar.com).

### 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, weather 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.



Donald Tremblay  
Senior Vice President and Chief Financial Officer  
April 29, 2005