BRASCAN POWER INC.

# CONSOLIDATED FINANCIAL STATEMENTS
# MARCH 31, 2005

# BRASCAN POWER INC.
# CONSOLIDATED BALANCE SHEET

| US$ millions | note | March 31 2005 | December 31 2004 |
|---|---|---|---|
| | | (unaudited) | (restated- note 2) |
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **$ 417** | $ 517 |
| Accounts receivable and other | | **272** | 263 |
| Securities | | **416** | 418 |
| | | **1,105** | 1,198 |
| **Other assets** | | **796** | 753 |
| **Long-term investments** | | **239** | 239 |
| **Power generating assets** | | **2,850** | 2,829 |
| | | **$ 4,990** | $ 5,019 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and other | | **$ 255** | $ 189 |
| Credit facilities and current portion of long-term liabilities | **4** | **102** | 283 |
| | | **357** | 472 |
| Long-term liabilities | | | |
| Property specific borrowings | **4** | **2,249** | 2,234 |
| Term debentures | **4** | **455** | 417 |
| Deferred credits | **5** | **184** | 175 |
| Debt portion of capital securities | **2,7** | **1,110** | 1,119 |
| Non-controlling interests | | **299** | 297 |
| | | **4,297** | 4,242 |
| **Shareholders' equity** | **6** | **336** | 305 |
| | | **$ 4,990** | $ 5,019 |

See accompanying notes to the consolidated financial statements.

# BRASCAN POWER INC.
# CONSOLIDATED STATEMENT OF INCOME

| (unaudited)<br>US$ millions, except per share amounts | note | | Three months ended March 31<br>**2005** | | 2004<br>(restated- note 2) |
|---|---|---|---|---|---|
| **Revenues** | | **$** | **229** | **$** | 174 |
| **Net operating income** | | | | | |
| Power generation | | | **127** | | 99 |
| Transmission and distribution | | | **7** | | 6 |
| | | | **134** | | 105 |
| Investment income and other | | | **29** | | 17 |
| | | | **163** | | 122 |
| **Expenses** | | | | | |
| Interest and financing fees | | | **52** | | 44 |
| Interest on capital securities | | | **28** | | 3 |
| Depreciation and amortization | | | **26** | | 16 |
| Provision for income taxes | | | **7** | | 11 |
| Non-controlling interests | | | **10** | | 11 |
| | | | **123** | | 85 |
| **Net income** | | **$** | **40** | **$** | 37 |
| **Net income per common share** | | | | | |
| Diluted | **6** | **$** | **0.33** | **$** | 0.31 |
| Basic | **6** | **$** | **0.40** | **$** | 0.36 |

See accompanying notes to the consolidated financial statements.

# BRASCAN POWER INC.
# CONSOLIDATED STATEMENT OF (DEFICIT) RETAINED EARNINGS

| (unaudited)<br>US$ millions | | Three months ended March 31<br>**2005** | | 2004<br>(restated- note 2) |
|---|---|---|---|---|
| **(Deficit) retained earnings** | | | | |
| Balance, beginning of period | **$** | **(222)** | **$** | 368 |
| Net income | | **40** | | 37 |
| Distributions to holders of common shares and equivalents | | **( 13)** | | (12) |
| Balance, end of period | **$** | **(195)** | **$** | 393 |

See accompanying notes to the consolidated financial statements.

# BRASCAN POWER INC.
# CONSOLIDATED STATEMENT OF CASH FLOWS

| (unaudited)<br>US$ millions | note | Three months ended March 31<br>**2005** | 2004<br>(restated- note 2) |
|---|---|---|---|
| **Operating activities** | | | |
| Net income | | **$ 40** | $ 37 |
| Add non-cash items: | | | |
| Depreciation and amortization | | **26** | 16 |
| Non-controlling interests | | **10** | 11 |
| Tax and other | | **( 3)** | 9 |
| | | **73** | 73 |
| Net change in non-cash working capital | | **66** | 33 |
| | | **139** | 106 |
| **Financing activities and shareholder distributions** | | | |
| Borrowings | | **85** | 1 |
| Debt repayments | | **(204)** | ( 2) |
| Distributions: | | | |
| - Great Lakes Hydro Income Fund unitholders | | **( 6)** | ( 6) |
| - Common shares and equivalents | | **( 13)** | (12) |
| | | **(138)** | (19) |
| **Investing activities** | | | |
| Securities sales | | **-** | 15 |
| Acquisitions | **3** | **( 33)** | - |
| Additions to power generating assets | | **( 43)** | (43) |
| Other assets | | **( 25)** | - |
| | | **(101)** | (28) |
| **Cash and cash equivalents** | | | |
| (Decrease) increase in cash and cash equivalents | | **(100)** | 59 |
| Balance, beginning of period | | **517** | 176 |
| Balance, end of period | | **$ 417** | $ 235 |
| **Supplementary information** | | | |
| Interest paid | | **$ 21** | $ 18 |
| Taxes paid | | **$ 4** | $ 3 |

See accompanying notes to the consolidated financial statements.

# BRASCAN POWER INC.
# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
## March 31, 2005
(all unaudited figures in US$ millions)

## 1. SUMMARY OF ACCOUNTING POLICIES

Brascan Power Inc.'s (the "Company") unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements. These unaudited interim consolidated financial statements should be read in conjunction with the 2004 annual consolidated financial statements.

These unaudited consolidated financial statements have been prepared on a basis consistent with the disclosed audited financial statements for the fiscal year ended December 31, 2004 with the exception of the changes in accounting policies described in note 2.

The preparation of these unaudited interim consolidated financial statements requires management to make assumptions and estimates that affect the amounts reported in the consolidated financial statements and the notes. In management's opinion, these unaudited interim consolidated financial statements reflect any adjustments (consisting of normal recurring adjustments) that are necessary to a fair statement of results for the interim periods. Actual results could differ from these estimates. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The Company is incorporated under the laws of Ontario and develops, owns and operates hydroelectric and other power generating facilities principally in North America. The Company also conducts investment activities, which include the receipt of interest and dividends on the Company's financial assets as well as gains realized on investment transactions.

## 2. CHANGES IN ACCOUNTING POLICIES

**Translation of foreign currencies**

Effective January 1, 2005, the Company's functional currency changed from the Canadian ("CDN") dollar to the United States ("US") dollar as a result of the increase in US dollar denominated activity in its operations as compared to prior years. The Company has adopted the US dollar as its reporting currency.

Since January 1, 2005, the assets and liabilities of the Company's self-sustaining operations having a functional currency other than the US dollar are translated into US dollars using the exchange rate prevailing at the period end and revenues and expenses are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the period. Exchange gains and losses on translation of the Company's net equity investment in these operations are deferred within the cumulative translation adjustment in shareholders' equity. Gains or losses on foreign currency liabilities and forward foreign exchange contracts that are designated as hedges of a net investment in self-sustaining foreign operations are reported in shareholders' equity in the cumulative translation adjustment in the same manner as translation adjustments. Foreign-denominated monetary assets and liabilities of integrated Canadian operations are translated at the exchange rates prevailing at the period end, and revenue and expenses at average rates of exchange during the period. Exchange gains and losses arising on the translation of these amounts are included in investment and other income. Non-monetary assets and liabilities are translated at historical rates of exchange.

In accordance with Canadian generally accepted accounting principles, the Company translated all amounts presented for comparative purposes into US dollars using the current rate method whereby all revenues, expenses and cash flows are translated at the average rates that were in effect during the period and all assets and liabilities are translated at the prevailing rate in effect at the end of the period. Equity transactions have been translated at historic rates, with opening equity restated at the rate of exchange on December 31, 1999. The resulting net translation adjustment on the change in reporting currency has been credited to the cumulative translation adjustment.

**Subordinated convertible debentures**

On January 1, 2005, the Company adopted the revisions to CICA Handbook Section 3861, Financial Instruments – Disclosure and Presentation on the classification of financial instruments as debt or equity, with retroactive restatement of prior periods. The new rules require that subordinated convertible debentures that are convertible into a variable number of common shares at the Company's option and interest payments on the subordinated convertible debentures that can be paid by way of a variable number of common shares at the Company's option be classified as liabilities. The Company reclassified the CDN $248 million subordinated convertible debentures maturing in September 2013 to debt portion of capital securities due to the fact that the principal and interest is convertible into a variable number of common shares. The Company also reclassified CDN $1,096 million of the CDN $1,100 million subordinated convertible debentures maturing in June 2054 to debt portion of capital securities due to the fact that the interest may be paid in a variable number of common shares. For the year ended December 31, 2004, a total of $43 million of the interest expense on the subordinated convertible debentures has been reclassified from shareholders equity to interest expense on the Consolidated Statement of Income (period ended March 31, 2004 – $3 million), with the remainder recorded through retained earnings. This change did not impact earnings per share or net income available to common shareholders since subordinated convertible debenture interest expense was deducted from net income in determining those measures in the previous years.

**Variable interest entities**

On January 1, 2005, the Company adopted the Accounting Guideline 15, Consolidation of Variable Interest Entities ("AcG 15"), issued by the Canadian Institute of Chartered Accountants ("CICA"). A Variable Interest Entity ("VIE") is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that absorbs the majority of the expected losses, receives the majority of the expected residual returns, or both. As a result of the adoption of this new standard, the Company is now fully consolidating its proportionate joint venture interests in Powell River Energy Inc. ("PREI") and Powell River Energy Partnership ("PREP"), versus the proportionate consolidation method previously used. The Company is also fully consolidating its 75% residual interest in Louisiana Hydroelectric Power ("LAH"), versus the equity accounting method previously used. The consolidation of these entities did not have an impact on the Company's net income. All 2004 financial comparatives included within these consolidated financial statements have been restated to reflect the full consolidation of PREI, PREP and LAH.

The financial impact on the restatement of the comparative periods for the adoption of AcG 15 is summarized as follows:

| **Balance Sheet**<br>US$ millions | **December 31, 2004**<br>(restated) | **December 31, 2004**<br>(previously reported)[1] | **Financial Impact** |
|---|---:|---:|---:|
| Current assets | $ 1,198 | $ 1,110 | $ 88 |
| Long-term assets | 3,821 | 2,971 | 850 |
| Current liabilities | 472 | 416 | 56 |
| Long-term liabilities | 4,242 | 3,360 | 882 |

| **Statement of Income** US$ millions | **March 31, 2004** (restated) | **March 31, 2004** (previously reported)[1] | **Financial Impact** |
|---|---|---|---|
| Revenues | $ 174 | $ 136 | $ 38 |
| Net operating income | 105 | 75 | 30 |
| Investment income | 17 | 16 | 1 |
| Interest and financing fees | 44 | 21 | 23 |
| Interest on capital securities | 3 | 3 | - |
| Depreciation and amortization | 16 | 11 | 5 |
| Provision for income taxes | 11 | 11 | - |
| Non-controlling interests | 11 | 8 | 3 |
| Net income | 37 | 37 | - |

[1]As previously reported subsequent to adoption of revisions to CICA Handbook Section 3861 and the change in reporting currency to the US dollar.

## 3. ACQUISITIONS

### a) Hydro Kennebec and West Delaware

On January 20, 2005, the Company acquired the leasehold interests in two hydroelectric generating facilities in Maine and New York for US $33 million, including US $12 million of assumed debt. The acquisition has been accounted for using the purchase method and results of operations have been included in these consolidated financial statements from the date of acquisition.

The fair values assigned to the assets acquired were as follows:

| US$ millions | |
|---|---|
| Power generating assets | $ **12** |
| Power purchase agreement | **15** |
| Other intangible assets | **3** |
| Working capital | **3** |
| Total assets acquired | $ **33** |

The acquisition was funded through:

| US$ millions | |
|---|---|
| Cash | $ **21** |
| Senior secured term notes | **12** |
| Consideration paid | $ **33** |

The $12 million senior secured term notes bear interest at 5.98% and are repayable in quarterly blended principal and interest payments, maturing on September 30, 2008.

### b) Harmony Wind

On March 31, 2005, the Company purchased all of the outstanding common shares of Harmony Wind from Brascan Corporation (“Brascan”), the Company’s parent entity. The acquisition has been accounted for using the purchase method and results of operations have been included in these consolidated financial statements from the date of acquisition.

The acquisition was funded through the following non-cash consideration:

| CDN$ millions | | |
|---|---|---|
| Common shares | $ | **3** |
| Promissory notes | | **2** |
| Consideration - $ CDN | $ | **5** |
| Consideration - $ US | $ | **4** |

The Company issued 129,024 of its common shares to Brascan, valued at CDN $30.87 per common share.

## 4. FINANCING ACTIVITIES

The Company issued an additional CDN $50 million in Series 1 Canadian unsecured term debentures. These debentures bear interest at 4.65% and mature on December 16, 2009.

The Company issued CDN $35 million of Senior Secured Series 1 First Mortgage bonds. These bonds are secured by a first ranking lien on the Pingston Power Joint Venture assets, bear interest at a rate of 5.28% payable semi-annually, and mature on February 11, 2015.

The US $200 million Series 3 corporate debentures were repaid upon maturity in March 2005.

## 5. PENSION AND EMPLOYEE FUTURE BENEFITS

The Company offers a number of pension plans to its employees, as well as certain health care, dental care, life insurance and other benefits to certain retired employees pursuant to Company policy. The total benefit cost for these plans for the first quarter totaled $1 million (2004 - $1 million).

## 6. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares, of which the following were issued and outstanding:

| US$ millions | | **March 31 2005** | | December 31 2004 |
|---|---|---|---|---|
| 101,512,159 (2004 - 101,383,135) Common shares | **$** | **422** | $ | 419 |
| Deficit | | **(195)** | | (222) |
| Cumulative translation adjustment | | **105** | | 105 |
| | | **332** | | 302 |
| Equity portion of capital securities (note 7) | | **4** | | 3 |
| | **$** | **336** | $ | 305 |

On March 31, 2005, the Company issued 129,024 common shares to Brascan, valued at $3 million, as non-cash consideration for the acquisition of Harmony Wind. Refer to note 3 for further detail.

The significant elements that gave rise to the change in the cumulative translation adjustment account during the period are as follows:

| US$ millions | | 2005 |
|---|---|---|
| Balance, beginning of period | $ | 105 |
| Foreign exchange effect on net investment in self-sustaining operations | | ( 4) |
| Impact of hedging activities | | 4 |
| Balance, end of period | $ | 105 |

The components of basic and diluted earnings per share are summarized below:

| US$ millions | 2005 | 2004 |
|---|---|---|
| Net income available to common shareholders - basic | 40 | 37 |
| Dilutive effect of convertible debentures | 2 | 3 |
| Net income available to common shareholders- diluted | 42 | 40 |
| | | |
| Weighted average outstanding common shares - basic | 101.4 | 101.4 |
| Dilutive effect of the conversion of debentures | 24.8 | 24.8 |
| Common shares and common share equivalents - diluted | 126.2 | 126.2 |

During the period, debentures convertible into 35.6 million common shares were excluded from the computation of diluted earnings per share because their effects were not dilutive.

## 7. CAPITAL SECURITIES

The capital securities are comprised as follows:

| CDN$ millions | | | March 31 2005 | | | December 31 2004 |
|---|---|---|---|---|---|---|
| | Debt portion of capital securities | Equity portion of capital securities | Total | Debt portion of capital securities | Equity portion of capital securities | Total |
| Subordinated convertible debentures maturing September 30, 2013 | $ 248 | $ - | $ 248 | $ 248 | $ - | $ 248 |
| Subordinated convertible debentures maturing June 30, 2054 | 1,095 | 5 | 1,100 | 1,096 | 4 | 1,100 |
| Total | $ 1,343 | $ 5 | $ 1,348 | $ 1,344 | $ 4 | $ 1,348 |
| US $ equivalent | $ 1,110 | $ 4 | $ 1,114 | $ 1,119 | $ 3 | $ 1,122 |

For the period ended March 31, 2005, a total of $28 million was recorded as interest on capital securities on the consolidated statement of income (period ended March 31, 2004 – $3 million), with the remainder recorded through retained earnings.

## 8. GEOGRAPHIC SEGMENTED INFORMATION

The Company owns and operates high quality hydroelectric assets in both Canada and the United States with operations in seven distinct geographic regions across North America: Ontario, Québec, British Columbia, New England, New York, Louisiana and Other. The "Other" reporting segment consists of the activities of the Company's transmission and distribution business and the Company's wholly owned holding companies. These seven regions represent the Company's reportable segments, which are used to manage the business, and are based on the location of the underlying generating facilities. The accounting policies of these reportable segments are the same as those described in Note 1 to the 2004 annual financial statements.

**March 31, 2005**

| US$ millions | **Ontario** | **Quebec** | **British Columbia** | **New England** | **New York** | **Louisiana** | **Other** | **Total** |
|---|---|---|---|---|---|---|---|---|
| Revenue | **$ 48** | **$ 22** | **$ 5** | **$ 16** | **$ 49** | **$ 52** | **$ 37** | **$ 229** |
| Net operating income | **34** | **19** | **4** | **12** | **32** | **46** | **(13)** | **134** |
| Depreciation and amortization | **6** | **2** | **1** | **3** | **6** | **6** | **2** | **26** |
| Interest and financing fees | **10** | **3** | **2** | **2** | **6** | **22** | **7** | **52** |

March 31, 2004

| US$ millions | Ontario | Quebec | British Columbia | New England | New York | Louisiana | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 52 | $ 24 | $ 5 | $ 16 | $ - | $ 44 | $ 33 | $ 174 |
| Net operating income | 39 | 21 | 4 | 12 | - | 37 | (8) | 105 |
| Depreciation and amortization | 5 | 2 | 1 | 2 | - | 4 | 2 | 16 |
| Interest and financing fees | 8 | 3 | 2 | 2 | - | 22 | 7 | 44 |

## 9. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company has entered into a 50/50 joint venture agreement with Emera Inc. to acquire a 589 megawatt pump storage hydroelectric generating facility located in New England ("Bear Swamp"). The total purchase price of the acquisition is US $92 million, of which the Company's share is US $46 million. Subject to regulatory approval, this transaction is expected to close in the second quarter of 2005.

The Company has entered into a 50/50 joint venture agreement with Emera Inc. to lease a 49 megawatt hydroelectric generating facility in Vermont ("Bellows Falls"). The total payments to lease this facility for up to 74 years are US $72 million, of which the Company's share is US $36 million. Subject to regulatory approval, this transaction is expected to close in the third quarter of 2005.

The Company provides guarantees as described in Note 23 of the 2004 annual consolidated financial statements. There have been no material changes for the period ended March 31, 2005 necessitating changes to the disclosures related to the guarantees.

## 10. SUBSEQUENT EVENT

On April 27, 2005, the Company completed the acquisition of two hydroelectric generating facilities, Piney and Deep Creek, with a total of 48 megawatts of capacity from Reliant Energy Inc. for cash consideration of US $42 million. The Piney station is a 28 megawatt facility located on the Clarion River in Pennsylvania and the Deep Creek station is a 20 megawatt facility located on the Youghhiogheny River in Maryland.

Great Lakes Power Trust ("GLPT") has available a credit facility comprised of a CDN $25 million line of credit and a CDN $25 million term loan for general corporate purposes which can be drawn upon in Canadian or US dollars and is bearing interest based on Canadian prime rate, US base rate or LIBOR plus a margin. Standby fees of 20 basis points are charged on the undrawn GLPT credit facility. On April 12, 2005, Great Lakes Hydro Income Fund extended the termination date of the GLPT credit facility from April 15, 2005 to October 15, 2005.

On April 25, 2005, the Company completed the sale of the 25 megawatt cogeneration power plant located in Berlin, New Hampshire to Fraser Papers Inc. for a total consideration of $34 million.

## 11. COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform with the 2005 presentation.