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## 2004 FINANCIAL STATEMENTS

# CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004

## MANAGEMENT RESPONSIBILITY

### To the Shareholders of Brascan Power Inc.

The attached financial statements and other financial information have been prepared by the Company's management which is responsible for their integrity and objectivity. To fulfill this responsibility, the Company maintains systems of internal control and policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality, consistent with reasonable costs. These policies and procedures are designed to provide reasonable assurance that relevant and reliable financial information is produced. These statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management. Financial information presented elsewhere in this Annual Report is consistent with that shown in the accompanying consolidated financial statements.

Deloitte & Touche LLP, the independent auditors appointed by the shareholders, have examined the financial statements of the Company in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the financial statements. Their report as auditors is set out below.

These statements have been further examined by the Board of Directors and by its Audit Committee, which meets regularly with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have full access to the Audit Committee and meet with the committee both with and without the presence of management. The Board of Directors, through its Audit Committee, oversees management's financial reporting responsibilities and is responsible for reviewing and approving the financial statements.



Donald Tremblay  
Senior Vice-President and Chief Financial Officer  
February 16, 2005

# AUDITORS' REPORT

## To the Shareholders of Brascan Power Inc.

We have audited the consolidated balance sheets of Brascan Power Inc. (formerly Great Lakes Power Inc.) as at December 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Deloitte & Touche LLP*

Chartered Accountants  
Toronto, Canada  
February 16, 2005

# BRASCAN POWER INC. CONSOLIDATED BALANCE SHEET

As at December 31

<i>millions</i>	note	2004	2003
<b>Assets</b>			
<i>Current assets</i>			
Cash and cash equivalents	3,4	\$ 556	\$ 192
Accounts receivable and other	3,5	275	253
Securities	6	501	544
		<b>1,332</b>	989
<b>Other assets</b>	7	<b>82</b>	17
<b>Long-term investments</b>	8	<b>288</b>	444
<b>Power generating assets</b>	9	<b>3,195</b>	2,130
		<b>\$ 4,897</b>	<b>\$ 3,580</b>
<b>Liabilities</b>			
<i>Current liabilities</i>			
Accounts payable and other		\$ 159	\$ 113
Credit facilities	11	32	21
Current portion of property specific borrowings and term debentures	12,13	308	235
		<b>499</b>	369
<b>Property specific borrowings</b>	12	<b>1,672</b>	1,087
<b>Term debentures</b>	13	<b>500</b>	260
<b>Deferred credits</b>	14	<b>195</b>	153
<b>Non-controlling interests</b>	17	<b>321</b>	329
<b>Shareholders' equity</b>	18	<b>1,710</b>	1,382
		<b>\$ 4,897</b>	<b>\$ 3,580</b>

See accompanying notes to the consolidated financial statements.

Approved on behalf of Brascan Power Inc.:



Richard Legault  
President and Chief Operating Officer



Donald Tremblay  
Senior Vice-President and Chief  
Financial Officer

## BRASCAN POWER INC. CONSOLIDATED STATEMENT OF INCOME

Years ended December 31

<i>millions, except per share amounts</i>	<i>note</i>	<b>2004</b>	<b>2003</b>
<b>Revenues</b>	3	<b>\$ 687</b>	<b>\$ 448</b>
<b>Net operating income</b>			
Power generation		<b>302</b>	192
Transmission and distribution		<b>25</b>	26
		<b>327</b>	218
Investment income and other	6,8	<b>84</b>	89
		<b>411</b>	307
<b>Expenses</b>			
Interest and financing fees	19	<b>111</b>	102
Depreciation and amortization		<b>76</b>	55
Non-controlling interests	17	<b>26</b>	22
Provision for income taxes	15	<b>64</b>	31
		<b>277</b>	210
<b>Net income</b>		<b>\$ 134</b>	<b>\$ 97</b>
<b>Net income per common share</b>			
Diluted	18	<b>\$ 0.85</b>	<b>\$ 0.77</b>
Basic	18	<b>\$ 0.97</b>	<b>\$ 0.81</b>

See accompanying notes to the consolidated financial statements.

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

Years ended December 31

<i>millions</i>	<i>note</i>	<b>2004</b>	<b>2003</b>
<b>Retained earnings (deficit)</b>			
Balance, beginning of year		<b>\$ 540</b>	<b>\$ 523</b>
Net income		<b>134</b>	97
Distributions to holders of common shares and equivalents	18	<b>(921)</b>	(80)
Future tax recovery	18	<b>21</b>	-
Balance, end of year		<b>\$ (226)</b>	<b>\$ 540</b>

See accompanying notes to the consolidated financial statements.

# BRASCAN POWER INC.

## CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31

<i>millions</i>	<b>note</b>	<b>2004</b>	<b>2003</b>
<b>Operating activities</b>			
Net income		\$ 134	\$ 97
Add non-cash items			
Depreciation and amortization		76	55
Louisiana Hydro equity pick-up		(36)	(19)
Non-controlling interests		26	22
Tax and other		49	21
		249	176
Net change in non-cash working capital	20	88	(73)
		337	103
<b>Financing activities and shareholder distributions</b>			
Borrowings		1,395	846
Issuance of subordinated convertible debentures	18	1,100	-
Debt repayments		(420)	(635)
Distributions:			
- Great Lakes Hydro Income Fund unitholders		(29)	(29)
- Common shares and equivalents	18	(921)	(80)
		1,125	102
<b>Investing activities</b>			
Securities purchases		(2)	(108)
Securities sales		190	154
Long-term investments		7	115
Acquisition of power generating assets		(1,058)	(30)
Additions to power generating assets		(163)	(126)
Other assets		(72)	(14)
		(1,098)	(9)
<b>Cash and cash equivalents</b>			
Increase in cash and cash equivalents		364	196
Balance, beginning of year		192	(4)
Balance, end of year		\$ 556	\$ 192
<b>Supplementary information</b>			
Interest paid		\$ 76	\$ 95
Taxes paid		\$ 2	\$ 16

See accompanying notes to the consolidated financial statements.

# **BRASCAN POWER INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

### **1. SUMMARY OF ACCOUNTING POLICIES**

#### **Business Operations**

Brascan Power Inc. (the "Company") is incorporated under the laws of Ontario and develops and operates hydroelectric and other power generating facilities in Canada, the United States and Brazil and a transmission and distribution system in northern Ontario. The Company also conducts investment activities, which include the receipt of interest and dividends on the Company's financial assets as well as gains and losses realized on investment transactions. The Company is wholly owned, by Brascan Corporation.

Effective December 1, 2004, the Company changed its name from Great Lakes Power Inc. to Brascan Power Inc.

#### **Basis of Presentation**

These consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"), applied on a consistent basis with the prior year. All figures are reported in Canadian dollars, unless otherwise noted.

#### **Principles of Consolidation**

The consolidated financial statements include:

- i. the accounts of all subsidiaries and other controlled entities of the Company including Great Lakes Power Limited ("Great Lakes Power"), Great Lakes Hydro Income Fund (the "Income Fund"), Lake Superior Power, Valerie Falls Power, Hydro Pontiac Inc. ("Pontiac Power"), Brascan Energy Marketing Inc., and Great Lakes Holding America Co. ("GLHO");
- ii. the accounts of all wholly owned holding companies, which carry out investing and other financial transactions for the Company; and
- iii. the accounts of incorporated and unincorporated joint ventures and partnerships to the extent of the Company's proportionate interest in their respective assets, liabilities, revenue and expenses, including the Company's investments in Powell River Energy and Pingston Power.

The Company accounts for its 75% residual interest in the equity of Louisiana Hydroelectric Power under the equity method.

All significant intercompany balances and transactions have been eliminated upon consolidation.

#### **Use of Estimates**

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 and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. During the years presented, management has made a number of estimates and valuation assumptions in the determination of accruals, useful lives, asset impairment, purchase price allocations and pension amounts. Actual results could differ from those estimates.

#### **Revenue and Expense Recognition**

The Company records revenues from the sale of energy, energy-related products and energy services under the accrual method of accounting in the period when we deliver energy commodities or products or render services. Sales contracts that are eligible for accrual accounting include non-derivative transactions and derivative commodity contracts that will be physically delivered.

Investment income is recorded on the accrual basis.

The Company maintains hydrological insurance which partially compensates for the effect of variations in water inflows when measured against long-term averages. Hydrology insurance income is recognized when insurance proceeds can be reasonably estimated and collection is reasonably assured. For 2004, revenues include no hydrology insurance (2003 - \$ 6 million).

Power purchases are recorded upon delivery and are included as a component of net operating income. All other expenses are recorded on an accrual basis when incurred.

## **Financing Costs**

Expenses related to the issuance of debt are capitalized and amortized over the term of the debt.

## **Income Taxes**

The Company uses the asset and liability method in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse, taking into account the organization of the Company's financial affairs and its impact on taxable income and tax losses.

## **Derivative Financial Instruments**

The Company uses derivative financial instruments to manage commodity price risk, interest rate risk and foreign exchange risk associated with the Company's production, operating and risk management activities. Hedge accounting is applied when the derivative is designated and documented as a hedge of a specific exposure and there is reasonable assurance that it will continue to be highly effective as a hedge based on an expectation of offsetting cash flows or fair values. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. The fair value of the derivative that was deferred by the application of hedge accounting is recognized in income when the original hedged transaction is recorded through income. Derivative financial instruments that are not designated as hedges are carried at estimated fair values and gains and losses arising from changes in fair values are recognized in income in the period the changes occur. The use of non-hedging derivative contracts is governed by documented risk management policies and approved limits.

### **(a) Commodity derivative instruments**

The Company generates power in Ontario, Quebec, British Columbia, New York, New England and Louisiana. Some of its generation is sold on the wholesale markets at the prevailing market price. To reduce price risk caused by market fluctuations, the Company, through a wholly owned subsidiary, enters into derivative contracts that mitigate price exposure such as swaps that exchange the floating energy clearing price for a fixed price to hedge its anticipated exposures.

The Company also mitigates its price exposure to natural gas sales by entering into derivative contracts. To reduce price risk caused by market fluctuations, the Company, through a wholly owned subsidiary, enters into derivative contracts, such as swaps, that exchange the floating natural gas clearing price for a fixed price to hedge its anticipated exposures.

Commodity derivative instruments that qualify as hedges are deferred and recorded in power generation income in the same period as the hedged commodity sale transaction. Those commodity derivative instruments that are not accounted for as hedges are recorded at fair value within accounts receivable and other with changes in fair value recorded in power generation income each period.

### **(b) Interest rate hedging instruments**

The Company enters into interest rate swap agreements to alter the interest characteristics of a portion of its outstanding debt. These agreements involve the receipt of fixed-rate amounts in exchange for floating rate interest payments or vice-versa over the life of the agreement without an exchange of the underlying principal amount. The differential paid or received as a result of interest rate swap agreements designated as hedges is recognized on an accrual basis as an adjustment to interest expense related to the debt.

### **(c) Foreign exchange and hedges of net investments in foreign operations**

The accounts of self-sustaining foreign operations are translated using the current rate method, under which all assets and liabilities are translated at the exchange rate prevailing at year 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. Gains or losses on translation of these amounts are not included in the consolidated statements of income, but deferred and shown as a separate item 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 same manner as translation adjustments. Foreign-denominated monetary assets and liabilities of US operations and integrated foreign operations are translated at the exchange rates prevailing at the year end, and revenue and expenses at average rates of exchange during the year. Exchange gains and losses arising on the translation of these amounts are included in investment and other income.



**Cash and Cash Equivalents**

Cash and cash equivalents is defined as cash and demand deposits with affiliates with original maturity dates of less than 90 days. The Company's demand deposits with affiliates are considered to be cash equivalents and are recorded at cost, which approximates current market value due to their short-term nature.

**Securities**

Securities consist of investments that are short-term in nature and demand promissory notes issued by Brascan Corporation. Securities are carried at the lower of cost and their estimated net realizable value.

**Long-term Investments**

Long-term investments are carried at the lower of cost and net realizable value.

**Power Purchase Agreements and Licenses**

Power purchase agreements and Federal Energy Regulatory Commission ("FERC") licenses are recorded at cost and amortized on a straight line basis over the life of the agreements or licenses.

**Property, Plant and Equipment**

Property, plant and equipment included in power generating assets are recorded at cost. The cost of the power generating assets less estimated residual value is depreciated over the service lives of the assets on a straight line basis. Service lives of the assets are generally 60 years for hydroelectric generation, 20 years for cogeneration and 40 years for transmission, distribution and other. Assets are tested for impairment based on an assessment of net recoverable amounts in the event of adverse developments. A write-down to estimated net realizable value is recognized if an asset's estimated undiscounted future cash flow is less than its carried value. The projections of the future cash flow take into account the operating plan and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

**Pension and Employee Future Benefits**

The cost of retirement benefits for the Company's defined benefit pension plans and post-employment benefits is recognized as the benefits are earned by employees. The Company uses the projected benefit method pro-rated on the length of service and management's best estimate assumptions to value its pension and other retirement benefits. Assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are being amortized on a linear basis over the average remaining service period of active members expected to receive the benefits under the plan. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. The average remaining service life under each plan as at December 31, 2004 varies from 12.0 to 18.5 years. For the defined contribution plan, the Company expenses payments based on employee earnings.

**Financial Instruments**

The carrying value of the Company's financial instruments included in current assets and current liabilities approximate fair value due to their short-term nature, unless otherwise noted.

**Changes in Accounting Policies**

Effective January 1, 2004, the Company adopted CICA Handbook section 3110, "Asset Retirement Obligations". Section 3110 addresses the recognition and re-measurement of obligations associated with the retirement of a tangible long-lived asset. This standard provides that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. These obligations are capitalized to the book value of the related long-lived assets and are depreciated over the useful life of the related asset. The Company does have asset retirement obligations associated with its generating stations. The retirement date for these generating stations cannot be reasonably estimated and therefore the fair value of the associated liability cannot be estimated at this time. As a result, no liability has been accrued in these financial statements.

Effective January 1, 2004, the Company adopted Accounting Guideline 13, "Hedging Relationships" (AcG 13), the new accounting guideline issued by the CICA which increases the documentation, designation and effectiveness criteria to achieve hedge accounting. The guideline requires the discontinuance of hedge accounting for hedging relationships previously established that do not meet the criteria at the date it is first applied. AcG 13 does not change the method of accounting for derivatives in hedging relationships, but EIC 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", effective when AcG 13 is adopted, requires fair value accounting for derivative financial instruments that do not qualify for hedge accounting. Realized and unrealized gains and losses on derivative financial instruments designated as hedges of financial risks are included in income in the same period as when the underlying asset, liability or anticipated transaction affects income.

### Future Accounting Policy Changes

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG 15). AcG 15 provides guidance for applying the principles in Section 1590, "Subsidiaries", to those entities (defined as Variable Interest Entities (VIEs)), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack any of voting control, an obligation to absorb expected losses, or the right to share expected residual returns. Effective for the Company's year end beginning January 1, 2005, AcG15 requires consolidation of VIE'S by the Primary Beneficiary, which is defined as the party which has exposure to the majority of a VIE'S expected losses and/or expected residual returns. The Company is in the process of assessing the complete impact of the standard on the consolidated financial statements and believes that the most significant impact will be the consolidation of Louisiana Hydroelectric Power which is currently accounted under the equity method.

In January 2004, the CICA issued amendments to CICA Handbook Section 3860, "Financial Instruments - Presentation and Disclosure" ("Section 3860"), to require obligations that may be settled, at the issuer's option, by a variable number of the issuer's own equity instruments to be presented as liabilities. Thus, securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or in the equivalent value of its own equity instruments will no longer be presented as equity. The amendments to Section 3860 are applicable to the Company beginning January 1, 2005 on a retroactive basis. Adoption of these amendments may require reclassification of a portion of the subordinated convertible debentures.

### Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the 2004 presentation.

## 2. ACQUISITIONS

All acquisitions have been accounted for using the purchase method of accounting and the results of their operations have been included in these consolidated financial statements from the date of acquisition.

On September 28, 2004 the Company completed the acquisition of 71 hydroelectric power generating plants and one co-generation facility in upstate New York from Reliant Energy Inc. for approximately US\$881 million. These assets have a combined generating capacity of 674 MW.

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

<i>US millions</i>	<b>2004</b>
Power generating assets	<b>\$ 832</b>
FERC licenses	<b>40</b>
Working capital	<b>25</b>
Pension obligation	<b>( 16)</b>
Net assets acquired	<b>\$ 881</b>
Consideration paid – \$US	<b>\$ 881</b>
Consideration paid - \$CAN	<b>\$1,120</b>

In November 2003, the Company completed the acquisition of leasehold interests in three hydroelectric generating stations in New England for cash consideration of US\$ 28 million. This acquisition includes two generating stations on the Androscoggin River in New Hampshire and one on the Moose River in Maine, having a combined generating capacity of 16.5 MW.

The fair value assigned to the assets acquired was as follows:

<i>US millions</i>	<b>2003</b>
Power generating assets	<b>\$ 24</b>
Power purchase agreements	<b>6</b>
Working capital	<b>( 2)</b>
Net assets acquired	<b>\$ 28</b>
Consideration paid – \$US	<b>\$ 28</b>
Consideration paid - \$CAN	<b>\$ 37</b>

### 3. RELATED PARTY TRANSACTIONS

All related party transactions are carried out in the normal course of operations and are recorded at market value.

(a) The Company has entered into a power supply contract with Noranda Aluminum Inc. ("Noranda Aluminum"), a wholly owned subsidiary of Noranda Inc. ("Noranda"), a company related by common ownership. The Company agreed to provide Noranda Aluminum's aluminum smelter with its power requirement at a fixed price for a two year period commencing June 1, 2003 in addition to a limited sharing arrangement of the profit or loss incurred.

(b) The Company provided gas to Noranda, a company related by common ownership, at market value prices as required. This agreement expired in December 2004.

(c) The Company purchased energy and resold it to Brookfield Properties Corporation ("Brookfield"), a company related by common ownership, at a fixed price. This agreement commenced in November 2002 and expired in October 2004.

(d) The Company was engaged in two financial transaction agreements during the year with Brookfield requiring periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. This agreement involves the payment of floating power rates in exchange for fixed power rates. The differential paid or received as a result of this swap agreement is accrued and recognized as an adjustment to power generation revenues. One of these agreements expired in June 2004 and the other expires in December 2005.

(e) Pursuant to a power purchase agreement expiring in January 2012, the Company provides Katahdin Paper Company, a company related by common ownership, ("KPC") with energy at a fixed rate.

(f) Pursuant to a power purchase agreement expiring in December 2012, the Company provides Fraser New Hampshire ("FNH"), a company related by common ownership, with energy at a fixed rate. Also, under a tolling agreement expiring in December 2013, the Company provides FNH with the use of a cogenerator. The payments under this agreement are comprised of a capacity charge and an energy charge based on energy supplied

(g) The Company has demand deposits in the amounts of \$446 million (2003 - \$161 million) with Brascan Corporation in both US and Canadian dollars. See note 4 for further details.

(h) The Company has entered into interest swap agreements expiring June 16, 2023 with Brascan Corporation requiring periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. This agreement involves the payment of a floating rate amount in exchange for a fixed rate interest payment. The differential paid or received as a result of interest rate swap agreement is accrued and recognized as an adjustment to interest expense.

(i) The Company holds securities and long-term investments with related parties, which produce investment income. See notes 6 and 8 for further details.

(j) During 2004, the Company repaid US\$125 million of its existing Great Lakes Hydro America ( "GLHA" ) bridge loan facility outstanding from Brascan Corporation. The remaining US\$11 million of the GLHA bridge loan facility rests with Brascan Corporation, bearing interest at US prime plus 150 basis points, and has been classified in the current portion of property specific borrowings at December 31, 2004. As a result of the GLHA refinancing that took place in 2004, financing fees of \$1 million were paid to Brascan Corporation to assist in the financing of the senior secured notes. These financing fees were accounted for as deferred financing fees and will be amortized over the term of the senior secured notes.

The following table summarizes related party transactions for the period:

<i>millions</i>	<b>2004</b>	<b>2003</b>
<b>Revenues</b>		
Sale of power to Noranda Aluminum	<b>\$ 154</b>	\$ 95
Physical gas sales to Noranda	<b>13</b>	16
Sale of power and financial transactions with Brookfield	<b>14</b>	18
Sale of power to KPC	<b>29</b>	17
Sale of power and tolling agreement with FNH	<b>13</b>	8
	<b>\$ 223</b>	\$ 154
<b>Investment income and other</b>		
Interest earned on demand deposits	<b>6</b>	( 1)
Income from securities with affiliated companies	<b>27</b>	34
Income from investments with affiliated companies	<b>36</b>	44
	<b>\$ 69</b>	\$ 77
<b>Expenses</b>		
Profit/ loss sharing with Noranda <sup>1</sup>	<b>(17)</b>	3
Income on interest rate swaps with Brascan Corporation	<b>( 7)</b>	( 3)
Interest expense on bridge facility with Brascan Corporation	<b>5</b>	10
	<b>\$ (19)</b>	\$ 10

<sup>1</sup> Included in power purchases

As a result, the following balances are receivable and included in the accounts receivable and other financial statement line item:

<i>millions</i>	<b>2004</b>	<b>2003</b>
Noranda	<b>\$ 14</b>	\$ 15
Brookfield	<b>-</b>	2
Katahdin	<b>5</b>	5
Fraser New Hampshire	<b>1</b>	1
	<b>\$ 20</b>	\$ 23

#### 4. CASH AND CASH EQUIVALENTS

The major components of cash and cash equivalents are as follows:

<i>millions</i>	<b>2004</b>	<b>2003</b>
Cash	<b>\$ 110</b>	\$ 31
Demand deposits with affiliates	<b>446</b>	161
	<b>\$ 556</b>	\$ 192

The demand deposits are held with Brascan Corporation in both Canadian and US dollars. They include both funds on deposit and payable to Brascan Corporation, and are presented net given the Company's intention and ability to settle these balances on a net basis. These amounts are considered highly liquid in nature and can be settled with two days notice. Interest is received or paid at banker's acceptance ("BA") plus 25 basis points on US balances and at BA plus 30 basis points on Canadian balances.

Interest earned on the demand deposits for 2004 amounted to \$6 million (2003 – interest expense of \$1 million).

#### 5. ACCOUNTS RECEIVABLE AND OTHER

The composition of accounts receivable and other is as follows:

<i>millions</i>	<b>2004</b>	<b>2003</b>
Coal royalty receivables	<b>\$ 70</b>	\$ 70
Trade receivables	<b>148</b>	145
Prepays and other	<b>57</b>	38
	<b>\$ 275</b>	\$ 253

## 6. SECURITIES

The composition of securities by business sector is as follows:

<i>millions</i>	<b>2004</b>	2003
Real estate	<b>\$ 60</b>	\$ 151
Natural resources	<b>43</b>	126
Financial services and diversified	<b>207</b>	242
Promissory notes	<b>166</b>	-
Other	<b>25</b>	25
	<b>\$ 501</b>	\$ 544

Promissory notes were issued by Brascan Corporation. These notes are due on demand and bear interest at the Canadian prime rate. Interest earned on the notes for the year amounted to \$3 million.

The fair value of the Company's securities at December 31, 2004 is \$503 million (2003 – \$552 million). The securities portfolio is comprised primarily of preferred shares. In determining fair values, quoted market prices are used where available and, where not available, management estimates the amounts which could be recovered over time or through a transaction with knowledgeable and willing third parties under no compulsion to act.

The securities consist of 69% floating rate securities (2003 – 46%) and 31% fixed rate securities (2003 – 54%) with an average yield at December 31, 2004 of 5.2% (2003 – 4.5%).

Financial and investment transactions with affiliated companies are at conditions similar to non-arms length transactions. Affiliated companies include Brascan Corporation and its subsidiaries and equity accounted investees. At December 31, 2004, the carrying value of securities with affiliated companies amounted to \$501 million (2003 – \$536 million). In 2004, income from securities with affiliated companies amounted to \$27 million (2003 – \$34 million).

## 7. OTHER ASSETS

<i>millions</i>	<b>2004</b>			2003
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>	Net Book Value
Power purchase agreements	<b>\$ 7</b>	<b>\$ 1</b>	<b>\$ 6</b>	\$ 7
FERC licences	<b>48</b>	-	<b>48</b>	-
Deferred financing fees	<b>35</b>	<b>7</b>	<b>28</b>	10
	<b>\$ 90</b>	<b>\$ 8</b>	<b>\$ 82</b>	\$ 17

Cost and accumulated amortization for the year ended December 31, 2003 were \$24 million and \$7 million, respectively.

In 2004, the Company incurred \$24 million of financing fees (2003 – \$10 million) which have been deferred and are being amortized over the term of the underlying debt. Amortization totaled \$6 million (2003 – \$3 million). During 2004, the Company wrote off fully amortized deferred financing fees of \$6 million.

## 8. LONG-TERM INVESTMENTS

Long-term investments include the Company's direct and indirect interests in Brascan Corporation. In 2003, long-term investments also included Noranda Inc.

The book values of the Company's long-term investments and the underlying securities at December 31, 2004 and 2003 are shown below:

<i>millions</i>	<b>2004</b>	2003
Brascan Corporation	<b>\$ 195</b>	\$ 195
Noranda Inc.	-	146
Other investments	<b>93</b>	103
	<b>\$ 288</b>	\$ 444

During 2004, the Company sold \$156 million of investments for proceeds of \$155 million to Brascan Corporation in the form of cash and promissory notes.

At December 31, 2004, the carrying value of investments with affiliated companies amounted to \$282 million (2003 – \$434 million). In 2004, income from investments with affiliated companies amounted to \$36 million (2003 – \$44 million).

## 9. POWER GENERATING ASSETS

The composition of the Company's power generating assets at December 31, 2004 and 2003 is shown below:

<i>millions</i>	<b>2004</b>			2003
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	Net Book Value
<b>Property, plant and equipment</b>				
Generation	<b>\$ 2,947</b>	<b>\$ 358</b>	<b>\$ 2,589</b>	\$ 1,559
Transmission	<b>198</b>	<b>47</b>	<b>151</b>	125
Distribution	<b>84</b>	<b>37</b>	<b>47</b>	43
Other	<b>46</b>	<b>3</b>	<b>43</b>	72
	<b>3,275</b>	<b>445</b>	<b>2,830</b>	1,799
<b>Equity accounted investment in Louisiana Hydro</b>	<b>293</b>	-	<b>293</b>	296
<b>Investment in Brascan Energetica (at cost)</b>	<b>72</b>	-	<b>72</b>	35
<b>Total</b>	<b>\$ 3,640</b>	<b>\$ 445</b>	<b>\$ 3,195</b>	\$ 2,130

Cost and accumulated depreciation for the year ended December 31, 2003 were \$2,514 million and \$384 million, respectively.

The Company's 75% residual interest in Louisiana HydroElectric Power's hydroelectric generating station is shown on an equity accounted basis. The Company's share of equity accounted earnings was \$36 million in 2004 (2003 – \$18 million).

The financial accounts of Louisiana HydroElectric Power for 2004 and 2003 are as follows:

<i>millions</i>	<b>2004</b>	2003
Assets	<b>\$ 1,265</b>	\$ 1,357
Property specific borrowings	<b>979</b>	1,056
Other liabilities	<b>118</b>	129
Operating revenues	<b>207</b>	193
Operating expenses	<b>49</b>	50
Net income	<b>52</b>	29

The excess of acquisition costs over the underlying net book values of the Company's investment in Louisiana Hydroelectric Power is evaluated for impairment in conjunction with the evaluation of the carrying value of the investment. Management assesses the recoverability of its investment as a whole based on a review of the expected future operating income and cash flows of the investment on a discounted basis.

## 10. JOINT VENTURES

The following amounts represent the Company's proportionate interest in incorporated and unincorporated joint ventures reflected in the Company's accounts. These amounts include Powell River Energy ("PREI") and Pingston Power.

<i>millions</i>	Ownership Interest	Income before taxes		Net assets/ (Deficiency)	
		2004	2003	2004	2003
PREI	50%	-	-	<b>\$(17)</b>	\$(16)
Pingston Power	50%	<b>3</b>	2	<b>39</b>	33
		<b>\$ 3</b>	<b>\$ 2</b>	<b>\$ 22</b>	<b>\$ 17</b>

<i>millions</i>	2004	2003
Current assets	<b>\$ 3</b>	\$ 2
Long-term assets	<b>96</b>	91
Current liabilities	<b>4</b>	3
Long-term liabilities	<b>52</b>	52
Shareholders' notes	<b>21</b>	21
Operating revenues	<b>15</b>	13
Operating expenses	<b>12</b>	11
Net income	<b>3</b>	2
Cash flows from operating activities	<b>7</b>	4
Cash flows from investing activities	<b>(3)</b>	(7)
Cash flows from financing activities	<b>\$ (2)</b>	<b>\$ 4</b>

## 11. CREDIT FACILITIES

The Company has a \$118 million unsecured credit facility for general corporate purposes which can be drawn down at any time, bearing interest at the prime rate. As of December 31, 2004 and December 31, 2003, there were no direct borrowings under this credit facility.

Great Lakes Power Trust ("GLPT"), a 100% wholly owned subsidiary of the Income Fund, has available a credit facility comprised of a \$25 million line of credit and a \$25 million term loan for general corporate purposes which can be drawn upon in Canadian or US dollars and bears 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. The credit facility is due on the earlier of (i) the date on which issued Series 1 first mortgage bonds are due or redeemed, and (ii) May 15, 2005. The credit facility ranks pari passu with GLPT first mortgage bonds and is secured by a first ranking lien on all GLPT's assets.

PREI has a credit facility in the amount of \$3 million available by way of advances in Canadian dollars of (i) prime rate loans (ii) banker's acceptance ("BAs") loans and (iii) letters of credit. Standby fees of 17.5 basis points are charged on the undrawn PREI credit facility. If not renewed, the credit facility will be due on December 15, 2005.

At December 31, 2004, the Company had drawn \$32 million (2003 - \$21 million) on the GLPT credit facility and line of credit combined, in the form of BAs. At December 31, 2004, the Company had drawn nil (2003 - \$0.3 million) on the PREI credit facility in the form of BAs.

The Company has a commercial paper program with an authorized amount of \$100 million. The Company's commercial paper is currently rated R-1 (low) by Dominion Bond Rating Service, A-2 stable by Standard and Poors and P-3 Stable by Moody's. At December 31, 2004 and December 31, 2003, the Company had drawn nil on the commercial paper.

The Company has established a US\$100 million loan facility with Brascan Corporation, its principal shareholder, which backs the commercial paper program and can be drawn down at any time, bearing interest at the prime rate and secured by the Company's residual interest in Louisiana HydroElectric Power. At either party's option, the facility may be drawn down and converted into a fixed-rate financing at 9.75% repayable in 2015. As of December 31, 2004 and December 31, 2003, there were no direct borrowings under this credit facility.



## 12. PROPERTY SPECIFIC BORROWINGS

<i>millions</i>	<b>2004</b>	2003
Great Lakes Power Limited		
First Mortgage Bonds		
Series 1	<b>\$ 384</b>	\$ 384
Subordinated	<b>115</b>	115
	<b>499</b>	499
Great Lakes Power Trust		
First Mortgage Bonds		
Series 1	<b>50</b>	50
Series 2	<b>25</b>	25
Series 3	<b>25</b>	25
	<b>100</b>	100
Pontiac Power	<b>59</b>	60
Valerie Falls Power	<b>32</b>	32
Powell River Energy	<b>39</b>	39
Lake Superior Power	<b>73</b>	13
Mississagi Power	<b>175</b>	175
Great Lakes Hydro America (US\$136 million; 2003 – US\$136 million)	<b>163</b>	177
New York bridge financing (US\$500 million)	<b>600</b>	-
	<b>\$1,141</b>	496
	<b>\$1,740</b>	\$1,095
Less : Current portion of property specific borrowings	<b>(68)</b>	(8)
	<b>\$1,672</b>	\$1,087

The fair value of the Company's property specific borrowings is \$1,749 million (2003 – \$1,088 million) based on current market prices for debt with similar terms and risks.

The \$384 million First Mortgage Bonds Series 1 and the \$115 subordinated First Mortgage Bonds bear interest at the rate of 6.60% and 7.80% respectively, are due on June 16, 2023 and are secured by a charge on all present and future real property of the electricity power generating assets of Great Lakes Power.

The Great Lakes Power Trust First Mortgage Bonds Series 1, 2 and 3 bear interest at 7.33%, 7.55% and 7.78%, respectively and are due April 24, 2005, April 24, 2010 and April 24, 2015, respectively. These Mortgage Bonds are secured by charges on all present and future real and personal property of Great Lakes Power Trust, including the Lièvre River Power system. Great Lakes Power Trust is a wholly owned subsidiary of the Income Fund.

The \$59 million Pontiac Power mortgage loans bear interest at a blended rate of 10.52%, amortize monthly to a maturity on December 1, 2020 and are secured by charges on the respective Pontiac Power generating assets.

The \$32 million Valerie Falls Power First Mortgage Bonds bears interest at 6.84%, with interest only payments semi-annually for the first 20 years and blended principal and interest payments for the remaining 20 years to a maturity of December 20, 2042.

The Company's proportionate share of the \$75 million Powell River Energy First Mortgage Bonds bears interest at 6.40%, is due July 24, 2009 and is secured by a charge on the respective Powell River Energy Inc operating assets. Great Lakes Power Trust owns 50% of Powell River Energy Inc.

The \$73 million Lake Superior Power Series A, fully amortizing senior secured bonds bear an interest rate of 4.39%, payable in quarterly instalments. The bonds mature on September 23, 2009 and are secured by a first ranking lien on all Lake Superior Power assets. These bonds replaced the \$13 million Lake Superior Power mortgage loan, outstanding as at December 31, 2003.

The \$175 million Mississagi Power First Mortgage Bonds bear interest at 6.92% and mature on November 27, 2020. The bonds are secured by a charge on all present and future real and personal property of Mississagi Power Trust, a subsidiary of Great Lakes Power Trust.



The Company refinanced US\$110 million and US \$15 million of the ("GLHA") bridge loan facility in May and September 2004 respectively with senior secured notes. The US \$125 million (CDN \$150 million) notes are secured by a first ranking lien on all GLHA assets, bear an annual interest rate of 5.54% and 6.04% respectively payable quarterly and mature on May 28, 2014. The remaining balance of US\$11 million (CDN \$13 million) of the GLHA bridge loan facility provided by Brascan Corporation bears interest at US prime plus 150 basis points and matures on January 29, 2006. The loan is secured by a charge on all present and future real and personal property of GLHA and its subsidiaries. GLHA is a wholly owned subsidiary of Great Lakes Power Trust.

The US\$500 million bridge financing for the acquisition of the Erie Boulevard Hydro Power LP ("Erie Boulevard") assets, bears an interest rate of LIBOR plus 100 basis points and matures on September 28, 2006. The financing is secured by a first ranking lien on all the assets of Erie Boulevard, a 100% owned subsidiary of GLHO.

Principal repayments on the Company's outstanding property specific borrowings due over the next five years and thereafter are as follows:

<i>millions</i>	Annual Repayments
2005	\$ <b>68</b>
2006	<b>633</b>
2007	<b>19</b>
2008	<b>18</b>
2009	<b>48</b>
Thereafter	<b>954</b>
	<b>\$1,740</b>

### 13. TERM DEBENTURES

<i>millions</i>	2004	2003
US Corporate debentures		
Series 1 (US\$175)	\$ -	\$ 227
Series 3 (US\$200)	<b>240</b>	260
CDN Corporate debentures		
Series 1	<b>400</b>	-
Series 2	<b>100</b>	-
	<b>\$ 740</b>	\$ 487
Less: Current portion of term debentures	<b>(240)</b>	(227)
	<b>\$ 500</b>	\$ 260

The Series 1 US debentures were repaid upon maturity in August 2004. The Series 3 US debentures bear interest at 8.30% and are due March 1, 2005.

The \$400 million Series 1 Canadian debentures bear interest at 4.65% and are due December 16, 2009.

The \$100 million Series 2 Canadian debentures bear interest at Canadian Deposit Offering Rate ("CDOR") plus 68 basis points and are due December 18, 2006.

The fair value of the Company's term debentures is \$740 million (2003 – \$487 million) based on current market prices for debt with similar terms and risks.

## 14. DEFERRED CREDITS

Deferred credits are comprised of:

<i>millions</i>	<b>2004</b>	2003
Future income tax liability (note 15)	<b>\$ 173</b>	\$ 151
Pension and employee future benefits (note 16)	<b>22</b>	2
	<b>\$ 195</b>	\$ 153

## 15. INCOME TAXES

The Company's future income tax liability of \$173 million (2003 – \$151 million) is comprised principally of temporary differences relating to property, plant and equipment, net of unused non-capital losses and other reserves. The difference between taxes calculated at the statutory rate and those recorded and reconciled is as follows:

<i>millions</i>	<b>2004</b>	2003
Net income before tax	<b>\$ 198</b>	\$ 128
Statutory income tax rate	<b>36%</b>	36%
Statutory income tax rates applied to accounting income	<b>71</b>	46
Non-taxable dividends	<b>(23)</b>	(29)
Allowance for potential tax reassessments	<b>13</b>	-
Change in tax rates	-	13
Other	<b>3</b>	1
Provision for income taxes	<b>\$ 64</b>	\$ 31

For the year ended December 31, 2004, the Company's current tax expense was \$6 million (2003 - nil) and future income tax expense was \$58 million (2003 - \$31 million).

## 16. PENSION AND EMPLOYEE FUTURE BENEFITS

### (a) Description of benefit plans

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 benefit liabilities represent the amount of pension and other employee future benefits that the Company's employees and retirees have earned at year-end. The Company's obligation under these plans is determined through periodic actuarial reports which are based on the assumptions indicated in the following table.

<i>millions</i>	<b>2004</b>		2003	
	<b>Defined Benefit Pension Plan</b>	<b>Non-Pension Benefits Plan</b>	Defined Benefit Pension Plan	Non-Pension Benefits Plan
<b>Weighted average assumptions</b>				
<b>Benefit obligation</b>				
Discount rate	<b>6%</b>	<b>5.75%- 6%</b>	6%	6%
Rate of compensation increase	<b>3.65%</b>	<b>3.5%-4.5%</b>	3.65%	3.65%
Initial health care trend rate	-	<b>6.89%</b>	-	7.85%
Ultimate trend rate	-	<b>3.9%</b>	-	3.9%
Year ultimate rate reached	-	<b>2008</b>	-	2008
<b>Benefit Expense</b>				
Discount rate	<b>6%</b>	<b>6%</b>	6.55%	6.5%-7%
Long-term rate of return on plan assets	<b>7%</b>	-	7.22%	-
Rate of compensation increase	<b>3.65%</b>	<b>3.5%-4.5%</b>	3.7%	3.5% to 4.5%
Initial weighted average health care trend rate	-	<b>7.85%</b>	-	8.78%
Ultimate weighted average trend rate	-	<b>3.9%</b>	-	3.9%
Year ultimate rate reached	-	<b>2008</b>	-	2008
<b>Accrued pension obligations</b>				
Balance, beginning of year	<b>\$ 52</b>	<b>\$ 8</b>	\$ 45	\$ 7
Current service cost	<b>2</b>	-	1	-
Interest cost	<b>4</b>	<b>1</b>	3	-
Employee contributions	<b>1</b>	-	-	-
Benefits paid	<b>(3)</b>	-	(2)	-
Acquisitions	<b>27</b>	<b>9</b>	-	-
Net transfers in	-	<b>2</b>	-	-
Actuarial loss (gain)	<b>1</b>	<b>(1)</b>	5	1
Foreign exchange rate changes	<b>(2)</b>	<b>(1)</b>	-	-
Balance, end of year	<b>\$ 82</b>	<b>\$ 18</b>	\$ 52	\$ 8
<b>Fair value plan assets</b>				
Balance, beginning of year	<b>\$ 45</b>	-	\$ 40	-
Employer contributions	<b>3</b>	-	3	-
Employee contributions	<b>1</b>	-	-	-
Benefits paid	<b>(3)</b>	-	(2)	-
Acquisitions	<b>15</b>	-	-	-
Actual return on plan assets	<b>5</b>	-	4	-
Foreign exchange rate changes	<b>(1)</b>	-	-	-
Balance, end of year	<b>\$ 65</b>	-	\$ 45	-
<b>Reconciliation of accrued benefit asset (liability)</b>				
Plan deficit	<b>\$ (17)</b>	<b>\$ (18)</b>	\$ (7)	\$ (8)
Unamortized transitional obligation	<b>2</b>	<b>6</b>	3	4
Unamortized net actuarial loss	<b>5</b>	-	5	1
Accrued benefit asset (liability)	<b>\$ (10)</b>	<b>\$ (12)</b>	\$ 1	\$ (3)

<i>millions</i>	<b>2004</b>		<b>2003</b>	
	<b>Defined Benefit Pension Plan</b>	<b>Non-Pension Benefits Plan</b>	Defined Benefit Pension Plan	Non-Pension Benefits Plan
<b>Expense</b>				
Current service costs	\$ 2	\$ -	\$ 1	\$ -
Interest on accrued benefits	4	1	3	-
Actual return on plan assets	(5)	-	(4)	1
Actuarial loss (gain)	1	(1)	5	1
<b>Costs arising in the period</b>	<b>\$ 2</b>	<b>-</b>	<b>\$ 5</b>	<b>\$ 2</b>
Differences between costs arising in the period and costs recognized in the period in respect of:				
Amortization of net actuarial loss (gain)	(1)	1	(5)	(1)
Actual and expected return on plan assets	1	-	1	-
Amortization of transitional obligation	-	1	-	-
<b>Net expense</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 1</b>	<b>\$ 1</b>

### (b) Plan assets categories

The Company's defined benefit pension plan asset allocations at December 31, by asset category are as follows:

Asset category	% of Total Plan Assets	
	<b>2004</b>	2003
Equity securities	<b>58%</b>	56%
Debt securities	<b>34%</b>	36%
Cash equivalents	<b>8%</b>	8%
Total	<b>100%</b>	100%

### (c) Sensitivity analysis

The Company's sensitivity in the non-pension benefit plan to a 1% change in the health care cost trend rate, for the year ended December 31, 2004, is summarized as follows:

	Benefit Obligation	Benefit Expense
Impact of a 1% increase in health care cost trend rate	\$ 2	-
Impact of a 1% decrease in health care cost trend rate	\$ (2)	-

### (d) Actuarial valuations

Actuarial valuations for the Company's pension plans are required every three years. The most recent actuarial valuations for the Company's pension and non-pension benefit plans ranged from May 17, 2002 to January 1, 2004. The Company may choose to perform valuations for these plans prior to the earliest required dates.

## 17. NON-CONTROLLING INTERESTS

Non-controlling interests include preferred shares, limited partnership interests and trust units owned by minority shareholders in the Company's consolidated subsidiaries, as follows:

<i>millions</i>	<b>2004</b>	2003
Preferred shares issued by consolidated subsidiaries	<b>\$ 89</b>	\$ 90
Trust units issued by consolidated subsidiaries	<b>232</b>	239
	<b>\$ 321</b>	\$ 329

## 18. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares, of which the following were issued and outstanding as at December 31:

<i>millions</i>	<b>2004</b>	2003
101,383,135 (2003-101,383,135)		
Common shares	<b>\$ 603</b>	\$ 603
Retained earnings	<b>(226)</b>	540
Cumulative translation adjustment	<b>(15)</b>	(9)
	<b>362</b>	1,134
Subordinated convertible debentures	<b>1,348</b>	248
	<b>\$1,710</b>	\$1,382

During 2004, the Company restructured the capital base through the issuance of \$1,100 million of subordinated convertible debentures to Brascan Corporation and the payment of a dividend of \$800 million, resulting in an increase in equity of \$300 million, which was used to fund a portion of the New York acquisition. These debentures bear an annual interest rate of 11.3% payable quarterly and mature on June 30, 2054. These debentures are convertible in full at the option of the Brascan Corporation any time prior to the maturity date at \$30.87 per common share into 35.6 million common shares. Interest paid on these debentures is recorded as a reduction of retained earnings. Principal and interest are payable at the Company's option with common shares.

The remaining \$248 million subordinated convertible debentures mature September 30, 2013, bear interest at the prime rate subject to a minimum of 6% and a maximum of 8%, and are convertible at \$10.00 per common share into 24.8 million common shares at the option of the Company. Principal and interest are payable at the Company's option with common shares.

The Company is authorized to issue an unlimited number of preferred shares, none of which are currently outstanding.

The following table summarizes the Company's distributions to common shareholders and equivalents:

<i>millions</i>	<b>2004</b>	2003
Common share dividends	<b>\$ 65</b>	\$ 65
Special dividend	<b>800</b>	-
Convertible debenture interest	<b>56</b>	15
	<b>\$ 921</b>	\$ 80

The 2004 retained earnings includes a future tax recovery in the amount of \$21 million which represents taxes that are recoverable on the convertible debt interest payments totalling \$56 million that were paid during the year.

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

<i>millions</i>	<b>2004</b>	2003
Net income	<b>\$ 134</b>	\$ 97
Net convertible debenture interest	<b>(35)</b>	(15)
Net income available to common shareholders - basic	<b>\$ 99</b>	\$ 82
Dilutive effect of convertible debentures	<b>10</b>	15
Net income available to common shareholders- diluted	<b>\$ 109</b>	\$ 97
Weighted average outstanding common shares - basic	<b>101.4</b>	101.4
Dilutive effect of the conversion of debentures	<b>24.8</b>	24.8
Common shares and common share equivalents - diluted	<b>126.2</b>	126.2

In 2004, debentures convertible into 11.8 million common shares were excluded from the computation of diluted earnings per share because their effects were not dilutive.

## 19. INTEREST AND FINANCING FEES

Interest and financing fees are comprised of:

<i>millions</i>	<b>2004</b>	2003
Interest on property specific borrowings	<b>\$ 74</b>	\$ 45
Interest on term debentures	<b>30</b>	39
Interest and financing fees on bridge and credit facilities and other	<b>7</b>	18
	<b>\$ 111</b>	\$ 102

## 20. CHANGE IN NON-CASH WORKING CAPITAL

The change in non-cash working capital is comprised of the following:

<i>millions</i>	<b>2004</b>	2003
Accounts receivable and other	<b>\$ (23)</b>	\$ (52)
Accounts and other payables	<b>57</b>	(33)
Effect of foreign exchange	<b>54</b>	12
	<b>\$ 88</b>	\$ (73)

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments including commodity swaps, interest rate swaps and commodity and foreign exchange forward contracts to manage risk. Derivative financial instruments involve credit and market risk. Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Company would incur a loss in replacing the defaulted transaction. The Company minimizes credit risk through the selection, monitoring and diversification of counterparties, use of the International Swaps and Derivatives Association (ISDA) documentation, collateral and other credit risk mitigation techniques. These risks are reviewed on a regular basis and the Company believes the exposures are manageable and not material in relation to its overall business operations.

### (a) Commodity derivative instruments

The Company enters into energy derivative contracts primarily to hedge the sale of generated power. The Company links forward electricity sale derivatives to specific periods and markets in which it anticipates generating electricity for sale. Cash flows related to energy are currently partially hedged until December 2007.

The Company also enters into gas derivative contracts. Cash flows related to gas sales are currently partially hedged until December 2008.

The majority of these transactions have been designated and documented as cash flow hedges at their inception and evaluation of their effectiveness occurs on a quarterly basis. Accordingly, these transactions are generally accounted for as hedges under the hedge accounting rules. These hedges will be recorded in earnings in the same period as the anticipated transactions they are hedging. The deferred gains and losses will be recognized into earnings in the same period as the anticipated transaction they are hedging. The change in fair value of any derivatives that were not designated for hedge accounting at inception and any over hedged positions are included in earnings immediately.

As at December 31, 2004, the energy and gas derivative contracts were comprised of contracts with deferred unrealized losses in excess of that recorded in the Company's accounts of \$84 million (2003 - \$36 million) as well as contracts with deferred unrealized gains in excess of that recorded in the Company's accounts of \$76 million (2003 - \$30 million).

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. For the periods ending December 31, 2003 and December 31, 2004, there is no ineffectiveness recorded in income for hedging contracts.

**(b) Interest rate hedging instruments**

The Company enters into interest rate swaps on its long term debt. The swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Company designates its interest rate swap agreements as hedges of the underlying debt. Interest expense is adjusted to include the payments made or received under the interest rate swaps. The total notional amount of principal underlying interest rate swap contracts in 2004 was \$524 million (2003 – \$772 million). These contracts have maturities varying from one to nineteen years, and have unrealized deferred gains in excess of that recorded in the Company's accounts of \$1 million (2003 – \$6 million) and unrealized deferred losses of \$7 million (2003 - \$16 million) in excess of that recorded in the Company's accounts.

In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instruments, any realized or unrealized gain or loss on such derivative instruments is recognized in income. In the event a derivative instrument in a designated hedge relationship is sold, extinguished or matures prior to the termination of the related hedged item, any realized or unrealized gain or loss is recognized in income on the same basis as the underlying hedged item.

**(c) Hedges of net investments in foreign operations**

The Company uses forward foreign exchange contracts and foreign-denominated liabilities to protect the value of its investments in its US self-sustaining subsidiaries. At December 31, 2004, the Company hedged its US dollar net investments in self-sustaining subsidiaries with a carrying value of \$713 million with its US debentures in the amount of \$US 200 million, US denominated funds owing to Brascan Corporation in the amount of US \$310 million and a series of short-term foreign exchange contracts of \$US 200 million to purchase US dollars.

At December 31, 2004, the Company held foreign exchange contracts with a notional amount of \$377 million at an average exchange rate of 1.214 and unrealized deferred gains in excess of that recorded in the Company's accounts of \$4 million to manage its U.S. dollar exposures, of which \$US 200 million was designated as a hedge of the net investments in foreign operations. At December 31, 2003, the Company did not hold any foreign exchange contracts. All of the foreign exchange contracts held at December 31, 2004 had a maturity of less than one year.

The significant elements that gave rise to the change in the cumulative translation adjustment account accumulated in a separate component of shareholders' equity during the year are as follows:

<i>millions</i>	<b>2004</b>
Balance, beginning of year	\$ ( 9 )
Foreign exchange effect on net investment in self-sustaining operations	(66)
Impact of hedging activities	60
Balance, end of year	<b>(15)</b>

Exchange gains and losses arising on the translation of foreign-denominated monetary assets and liabilities of US operations and integrated foreign operations in the amount of \$5 million (2003 – nil) are included in investment and other income.

**22. GEOGRAPHIC SEGMENTED INFORMATION**

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

The Company analyzes the performance of its operating segments based on net operating income which consists of revenues from the Company's power operations, net of operating and maintenance costs, fuel purchases for its cogeneration plants, power purchases, marketing and administration expenses and municipal and other generation taxes on its facilities. Net operating income is not a measure of performance under Canadian generally accepted accounting principles; however, management uses this measure to assess the operating performance of its reportable segments.

### Information by segment

<i>millions</i>	Ontario	Quebec	British Columbia	New England	New York	Other	2004
Revenue	\$ 229	\$ 90	\$ 15	\$ 63	\$ 50	\$ 240	\$ 687
Net operating income	160	74	12	44	23	14	327
Depreciation and amortization	33	10	2	10	8	13	76
Interest and financing fees	40	14	3	10	8	36	111
Power generating assets	742	430	96	314	1,006	607	3,195
Total assets	772	444	100	344	1,175	2,062	4,897
Property specific borrowings	710	159	39	163	600	69	1,740

<i>millions</i>	Ontario	Quebec	British Columbia	New England	New York	Other	2003
Revenue	\$178	\$ 63	\$ 12	\$ 39	-	\$156	\$448
Net operating income	111	48	10	24	-	25	218
Depreciation and amortization	29	11	2	6	-	7	55
Interest and financing fees	31	14	3	10	-	44	102
Power generating assets	752	426	93	288	-	571	2,130
Total assets	857	442	97	301	-	1,883	3,580
Property specific borrowings	650	160	39	177	-	69	1,095

The Company has a contract with Noranda Aluminum, a company related by common ownership. In 2004, revenues from this contract represented 22% of total revenues (2003 - 21% of total revenues). The Company agreed to provide Noranda Aluminum's aluminum smelter with its power requirement at a fixed price for a two year period commencing June 1, 2003.

## 23. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company and its subsidiaries may, from time to time, be involved in legal proceedings, claims and litigation that arise in the ordinary course of business which the Company believes would not reasonably be expected to have a material adverse effect on the financial condition of the Company.

In the course of its operations, the Company has entered into agreements for the use of water, land and/or dams. Payment under those agreements depends on the amount of power generated. The various renewable agreements extend through the year 2022 for Great Lakes Power, 2044 for Valerie Falls Power, 2011 to 2019 for Pontiac Power, 2019 for Lièvre River Power, 2012 for Brassua Power, 2023 for Errol Power, 2032 for Pontook Power, 2031 for Louisiana HydroElectric Power and 2005 to 2042 for Erie Boulevard.

In the normal course of operations, the Company has committed as at December 31, 2004 to spend approximately \$53 million on capital projects in future years.

In the normal course of operations, the Company and its consolidated subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions such as business dispositions, business acquisitions, sales of assets and sales of services. The Company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount that the Company could be required to pay third parties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, neither the Company nor its consolidated subsidiaries have made significant payments under such indemnification agreements.

The Company issues letters of credit and parental guarantees. The maximum limit allowed under standby letters of credit and guarantees is \$185 million (2003 - \$180 million), with a total of \$165 million issued as of December 31, 2004 (2003 - \$168 million). The terms of such obligations vary. Historically, the Company has not been obligated to make significant payments for these obligations. No amount was included in the Company's consolidated balance sheet for December 31, 2004 and 2003 relating to these letters of credit and parental guarantees.

On December 23, 2004, the Company entered into a 50/50 joint venture agreement with Emera Inc. to acquire a 589 megawatt pump storage hydro-electric 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.

On December 7, 2004, the Company 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 second quarter of 2005.

## **24. SUBSEQUENT EVENTS**

a) On January 20, 2005, the Company acquired leasehold interests in two hydroelectric generating facilities in Maine and New York from Delta Power Company LLC for a purchase price of US \$31 million, including approximately US \$12 million in assumed debt. Hydro-Kennebec is a 15.4 megawatt facility located on the Kennebec River in Winslow, Maine. West Delaware is a 7.5 megawatt facility located in Grahams Ville, New York. This transaction is subject to regulatory approval and is expected to close in the second quarter of 2005.

b) On January 26, 2005, the Company entered into an agreement to acquire two hydroelectric generating facilities, Piney and Deep Creek, with a total of 48 megawatts of capacity from Reliant Energy Inc. for a 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 Youghiogheny River in Maryland.

c) On January 27, 2005, the Company issued an additional \$50 million in Series 1 Canadian unsecured term debentures. These debentures bear interest at 4.65% and will mature in December 2009.

d) On February 11, 2005, the Company issued \$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.



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(Printed in Canada)