Brascade Corporation

2005 Annual Report

Brascade Corporation

Brascade Corporation is an investment company with interests in the forest products and property sectors. The common shares of Brascade are held by Brookfield Asset Management Inc., an asset manager with a focus on property, power and infrastructure assets.

Directors

Lowell A. Allen [1]
Corporate Director

Alan V. Dean
Senior Vice-President,
Corporate Affairs,
Brookfield Asset Management Inc.

Edward C. Kress
Chairman, Business Advisory Board
Brookfield Power Inc.

Duncan A. McAlpine [1]
Corporate Director

[1] Member of the Audit Committee

Officers

Edward C. Kress
Chairman and President

Bryan K. Davis
Vice-President and Treasurer

Lisa W. Chu
Vice-President and Controller

Alan V. Dean
Vice-President and Secretary

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REPORT TO SHAREHOLDERS

Brascade Corporation ("Brascade") reported net income for the year ended December 31, 2005 of $1.3 billion, compared to $222.4 million in 2004. Results for the year include a $1.2 billion gain from the disposition of substantially all of the company's investment in Falconbridge Limited.

During 2005, Brascade disposed of substantially all of its investment in Falconbridge, the successor company resulting from the merger of Noranda Inc. with its subsidiary Falconbridge Limited on June 30, 2005. In August 2005, Brascade received approximately $230 million in proceeds on the redemption by Falconbridge of retractable preferred shares held by the company and approximately $1.7 billion in proceeds on the sale by the company of substantially all its common shares of Falconbridge to Xstrata plc. Brascade's current ownership of Falconbridge consists of 1.3 million common shares, representing approximately 1% of the outstanding common shares, as well as $340 million junior preferred shares and $59 million convertible debentures.

Mining and metal investments, which included equity accounted earnings from the company's investment in Falconbridge, contributed $87.0 million for the year ended December 31, 2005, compared with $122.8 million in 2004. The substantially improved earnings reported by Falconbridge during 2005 were more than offset by the reduction in our interest in these earnings following the sale of Falconbridge common shares during the third quarter.

Forest product investments contributed $74.0 million for the year ended December 31, 2005, up from $70.9 million in 2004. These results reflect an increase in the company's ownership in Norbord Inc. from 21% to 36% during 2004 and the continued strong performance of Norbord's investment in the oriented strandboard business ("OSB"), partly offset by a reduction in OSB prices from their record levels in 2004.

During 2005, the company received a £106 million ($183 million) in cash dividends from its investment in Canary Wharf in London, U.K.

The company's investments are benefitting from higher panelboard prices as well as the productivity improvement and cost containment measures taken over the past two years.

On behalf of the Board:

Edward C. Kress
Chairman and President

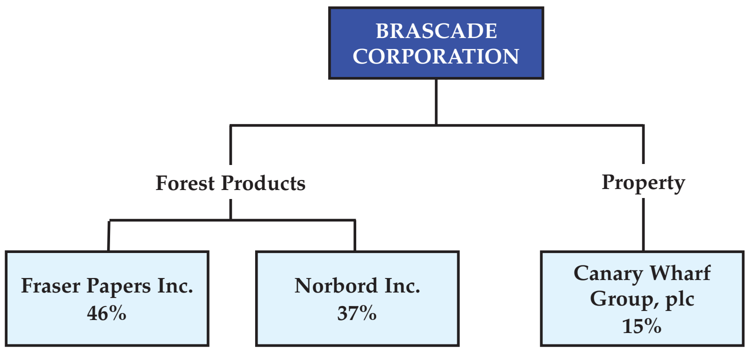
March 7, 2006

MANAGEMENT'S DISCUSSION & ANALYSIS

Brascade Corporation ("Brascade" or "the company") is an investment company with interests in the forest products and property sectors. Brascade is the successor company to Brascade Resources Inc. ("Brascade Resources"), which amalgamated on September 13, 2004 with 4250231 Canada Limited, a wholly owned subsidiary of Brookfield Asset Management Inc. ("Brookfield"). Brookfield changed its name from Brascan Corporation on November 10, 2005.

Brascade's principal investments as at December 31, 2005 are a 46% common share interest in Fraser Papers Inc. ("Fraser Papers"), a specialty paper and lumber company with operations in Canada and the United States; a 37% common share interest in Norbord Inc. ("Norbord"), a lumber and panelboard company with operations in Canada, the U.S.A. and the United Kingdom; and a 15% ordinary share interest in Canary Wharf Group, plc ("Canary Wharf"), which owns a complex of commercial properties in London, United Kingdom.

Brascade's investment ownership interests in these investments at December 31, 2005 are shown in the following chart:



The following analysis describes the components of Brascade's revenues and expenses, the related assets and liabilities, and the business environment for its operations.

The company's functional currency is the United States dollar ("U.S. dollar"), because most of its revenues are denominated in that currency and a significant portion of its investments have the US dollar as its functional currency. Accordingly, its financial results are reported in U.S. dollars, and all financial information is presented in U.S. dollars unless otherwise indicated.

All financial data included in Management's Discussion & Analysis have been in accordance with Canadian generally accepted accounting principles.

The information in this section should be read in conjunction with the company's audited consolidated financial statements, which are included on pages 6 through 12 of this report. Additional information, including the company's Annual Information Form, is available on SEDAR's web site at *www.sedar.com*.

INCOME ANALYSIS

Brascade reported net income for the year ended December 31, 2005 of $1.3 billion, compared to $222.4 million for the year ended December 31, 2004.

Results for 2005 include a $1.2 billion gain from the disposition of substantially all of Brascade's investments in the mining and metals sector. On August 14, 2005, the company sold approximately 73 million common shares of Falconbridge Limited ("Falconbridge") to Xstrata plc ("Xstrata") for proceeds of approximately $1.7 billion, including $1.3 billion of cash and $375 million of convertible debentures of Xstrata. Brascade's remaining 1% interest in Falconbridge is now included in Securities. Falconbridge is the continuing company resulting from the amalgamation of Noranda Inc. with its subsidiary Falconbridge Limited in June 2005.

Brascade's equity accounted income from Falconbridge contributed $87.0 million for the year ended December 31, 2005, compared with $122.8 million in 2004. The substantially improved earnings reported by Falconbridge during 2005 were more than offset by the reduction in the company's interest in these earnings following the sale of Falconbridge common shares during the third quarter.

Brascade's investments in the forest product sector contributed $74.0 million for the year, compared with $70.9 million in 2004. These results reflect an increase in the company's ownership in Norbord from 21% to 36% during 2004 and the continued strong performance of Norbord's oriented strandboard business ("OSB"), partly offset by a reduction in OSB prices from their record levels in 2004.

A foreign exchange loss of $10.6 million was recorded in 2005, compared to $18.3 million in 2004. The loss resulted from converting the company's Canadian dollar and British pound denominated monetary assets and liabilities to United States dollars.

Other income, which included interest on the company's investment in Falconbridge convertible debentures, loans made to affiliates, dividend income on the Falconbridge retractable preferred shares, and a revaluation gain on the exchangeable debentures issued by Brascade that are exchangeable into 20 million Norbord common shares, was $30.5 million for 2005 compared to a loss of $0.2 million for 2004.

Interest expense includes $13.3 million on the company's term debt, $25.6 million on the Norbord exchangeable debentures, which included the impact of a special dividend during the year, as well as $18.9 million related to the retractable preferred shares dividend payment.

BALANCE SHEET ANALYSIS

Brascade's long-term investments currently consist of a 46% common share interest in Fraser Papers, a 37% common share interest in Norbord and a 15% ordinary share interest in Canary Wharf.

During the second quarter of 2005, Falconbridge repurchased approximately 64 million common shares in exchange for $1.25 billion of retractable preferred shares and issued 132.8 million common shares upon amalgamating with its major operating subsidiary. As a result, Brascade's common share interest in Falconbridge declined from 73.5 million (25%) to 44.6 million (12%), and the company received $569 million of the retractable preferred shares which were included in Securities.

On August 11, 2005, Brascade received approximately $230 million in proceeds on the redemption by Falconbridge of $569 million of these retractable preferred shares. During the third quarter, Brascade acquired 29.8 million common shares of Falconbridge from Brookfield, which increased the company's direct ownership of Falconbridge common shares to 74.4 million or approximately 20% of the common shares. As consideration for this acquisition, Brascade issued to Brookfield approximately 5.5 million junior preferred shares and approximately 21.0 million common shares. Brascade subsequently sold approximately 73.1 million Falconbridge common shares to Xstrata for proceeds of approximately $1.7 billion, including $1.3 billion cash and $375 million of convertible debentures of Xstrata. As a result, the company's common share interest declined to 1.3 million shares or approximately 1%. The debentures were then sold to a common control company. Further information on Falconbridge is available through its web site at *www.falconbridge.com*.

During 2005, the company received a £106 million ($183 million) cash dividend from its investment in Canary Wharf, which is shown as a reduction of the company's investment in this asset.

During 2004, the company sold 10 million common shares of Norbord, reducing its interest in Norbord from 42% to 36%. At the same time, the company also issued through a subsidiary C$255 million principal amount of 25-year debentures due September 2029, which are exchangeable for up to 20 million common shares of Norbord. Further information on Norbord is available through its web site at *www.norbord.com*.

During 2004, the company received from Norbord, 12.8 million of Fraser Papers common shares on the distribution of its specialty paper business. These shares represent a 42% equity interest in Fraser Papers. During the year, the company acquired additional 0.7 million Fraser Papers common shares for total consideration of $5.9 million, increasing our interest from 42% to 46%. Further information on Fraser Papers is available through its web site at *www.fraserpapers.com*.

Loans receivable include funds on deposit with Brookfield, which bear interest at the prime rate and are available on demand.

Accounts payable includes $211 million representing the debentures exchangeable into 20 million Norbord common shares, which will mature on September 30, 2029.

The company's retractable preferred shares are retractable at the option of the holder and, accordingly, are recorded as liabilities.

LIQUIDITY AND CAPITAL RESOURCES

Brascade's cash flow from operations was $47.5 million for 2005, compared to $85.3 million for 2004. Cash flow used in financing activities was $1.8 billion for 2005, reflecting $1.9 billion of share redemptions funded by proceeds received from the sale of Falconbridge, compared to $25.5 million in 2004. Cash flow from investing activities amounted to $1.7 billion during 2005, compared to cash flow used in investing activities of $59.8 million for 2004.

During the year, Brascade issued to Brookfield approximately 5.5 million junior preferred shares and approximately 21.0 million common shares for the acquisition of approximately 30 million Falconbridge common shares. Subsequent to the sale of the 20% interest in Falconbridge to Xstrata, Brascade used the cash proceeds from the sale to redeem 58.3 million of the Class 2 junior preferred shares for approximately $1.8 billion.

During 2005, Brascade also redeemed approximately 1.6 million of the company's Class 1 Senior Preferred Shares Series B for approximately $53.0 million. In addition, Brascade repaid term debt by issuing approximately 9.6 million Class 2 junior preferred shares.

The company generates sufficient cash flow from operations to fund its interest expense obligations. In addition, the company maintains funds on deposit and securities which, with varying degrees of timing, can be liquidated and utilized to fund cash requirements. The company has issued $439.9 million of retractable preferred shares that are held directly or indirectly by its sole common shareholder. The remaining $38.3 million of retractable preferred shares issued are held by other holders, and satisfaction of any retractions can be made through the company's general cash resources or through the proceeds from the sale of assets.

CONTRACTUAL OBLIGATIONS

The following table presents the contractual obligations of the company by payment periods:

		Payments Due by Period			
US$Millions	Total	Less Than One Year	1-3 Years	4-5 Years	After 5 Years
Retractable preferred shares(1)	$478.2	$ 478.2	—	—	—

(1) Retractable at the option of the holder.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The company accounts for its long-term corporate investments in Norbord and Fraser Papers on the equity basis. The excess of acquisition costs over the net underlying book value of these investments has been allocated to goodwill. The company evaluates the carrying values of this excess for potential impairment on a regular basis in conjunction with its review of the carrying values of its overall investments. The company's investment in Canary Wharf is accounted for under the cost method, with dividends generally being recognized as income on the record date. Dividends received in excess of the company's share of post-acquisition earnings of Canary Wharf are treated as a reduction of the company's investment.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are required in the determination of cash flows and probabilities in assessing net recoverable amounts and net realizable values; assessing other than temporary impairments of long-term investments; tax and other provisions; and fair values for disclosure purposes.

CHANGE IN ACCOUNTING POLICIES

(i) Consolidation of Variable Interest Entities, AcG 15

Effective January 1, 2005, the company implemented the new Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG 15) without restatement of prior periods. AcG 15 provides guidance for applying the principles in CICA Handbook 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 voting control, an obligation to absorb expected losses, or the right to share expected residual returns. AcG 15 requires consolidation of VIEs 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 adoption of AcG 15 resulted in the deconsolidation of a wholly-owned subsidiary, NIED Holdings Limited, which was the issuer of the C$255 million debentures, exchangeable for up to 20 million common shares of Norbord, that were issued on September 30, 2004. Accordingly, the exchangeable debentures are no longer included as a separate line item and are due to NIED Holdings Limited under the arrangement that represents a secured demand loan included in accounts payable. There was no impact to common equity as a result of implementing the new guideline.

(ii) Liabilities and Equity, CICA Handbook Section 3860

Effective January 1, 2005, the company adopted the amendment to CICA Handbook Section 3860, Financial Instruments: Disclosure and Presentation with retroactive restatement of prior periods. The amendment requires certain obligations that must or could be settled with a variable number of the issuer's own equity instruments to be presented as a liability. As a result, dividends paid on these equity instruments have been reclassified as interest expense. Unrealized foreign exchange movements have been recorded in income by the company's equity accounted investee. The retroactive adoption of this amendment resulted in a cumulative adjustment to opening retained earnings at January 1, 2004 of $10 million. Net income attributable to common shares for the year ended December 31, 2004 was reduced reflecting the foregoing items by $8 million due to equity accounted investee.

FUTURE ACCOUNTING POLICIES

The following future accounting policy changes may have an impact on the company, although the impact, if any, has not been determined at this time.

(i) Comprehensive Income, CICA Handbook Section 1530

As a result of adopting this standard, a new category, Accumulated Other Comprehensive Income, will be added to Shareholders' Equity on the Consolidated Balance Sheets. Major components for this category will include: unrealized gains and losses on financial assets classified as available-for-sale; unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations; and changes in the fair value of the effective portion of cash flow hedging instruments.

(ii) Financial Instruments – Recognition and Measurement, CICA Handbook Section 3855

Under the new standard, all financial instruments will be classified as one of the following: Held-to-maturity; Loans and Receivables; Held-for-trading; or Available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net Income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

(iii) Hedges, CICA Handbook Section 3865

This new standard now specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges on a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk which are recognized in Net Income and are offset by changes in the fair value of the derivative to the extent that the hedging relationship is effective, which are also recognized in Net Income. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in Other Comprehensive Income. The ineffective portion will be recognized in Net Income. The amounts recognized in Accumulated Other Comprehensive Income will be recorded in or recognized as Net Income in the periods in which Net Income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in Other Comprehensive Income, whereas they are currently recognized in the company's Cumulative Translation Account.

(iv) Implicit Variable Interests, Emerging Issues Committee Abstract 157

In October 2005, the Emerging Issues Committee issued Abstract No. 157, "Implicit Variable Interests Under AcG 15" ("EIC 157"). This EIC clarifies that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgement that depends on the relevant facts and circumstances.

Summary of Financial Information

The following table summarizes selected consolidated financial information of the company for the eight recently completed quarters:

	2005				2004			
US$Millions, except per share amounts	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income (loss)	**$ 18.1**	$780.5	$460.6	$ 83.6	$ 18.2	$113.6	$ 53.8	$ 55.6
Net income (loss)	**$ 9.0**	$770.2	$433.1	$ 72.4	$ (0.2)	$113.3	$ 53.8	$ 55.5
Net income (loss) per common share	**$ 0.20**	$19.74	$17.32	$ 2.90	$(0.01)	$ 4.20	$ 1.83	$ 1.89

Net income during the fourth quarter of 2005 was $9.0 million compared to a loss of $0.2 million in the same period of 2004. Net income in the fourth quarter of 2005 reflects improved earnings from Norbord, a foreign exchange gain as a result of stronger Canadian dollar and British pound, and lower interest expense as a result of the term debt repayment, partly offset by the discontinuance of equity accounting of Falconbridge as a result of the sale of substantially all of the company's shares of Falconbridge to Xstrata in the third quarter of 2005.

Disclosure Controls and Procedures

Brascade maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is compete, reliable and timely. The company's Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the company's disclosure controls and procedures (as defined in "Multilateral Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings") as at December 31, 2005 and have concluded that the disclosure controls and procedures are operating effectively.

Business Risks and Outlook

Brascade's forest product investments are cyclical. Fluctuations in the general level of economic activity in the world's major economies influence the demand for and prices of the various products produced by its investee companies, although the cycles for individual products may be at different phases at any time. Brascade's earnings from this sector are particularly sensitive to changes in the prices of panelboards and paper. Brascade's commercial property investments are subject to general economic conditions as well as risks specifically associated with the commercial property market. Brascade believes that the current environment is favourable for the operations of its investee companies. A further discussion on the risks associated with each of the company's investments is included in Management's Discussion and Analysis in each of their respective annual reports, which can be accessed through SEDAR or through their web sites as provided earlier in this report.

Lisa W. Chu
Vice President and Controller

March 7, 2006

This report contains "forward-looking statements". The words "believe", "expect", "anticipate", "intend", "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include general economic conditions, interest rates, availability of equity and debt financing and other risks detailed from time-to-time in the company's continuous disclosure documents. 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.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the company's management which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance and the communication of policies and code of conduct throughout the company. These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche, LLP, the independent auditors appointed by the shareholders, have examined the consolidated financial statements set out on pages 7 through 12 in accordance with auditing standards generally accepted in Canada to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of directors who are not officers or employees of the company. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversee's management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.

Toronto, Canada	Lisa W. Chu
March 7, 2006	Vice-President and Controller

AUDITORS' REPORT

TO THE SHAREHOLDERS:

We have audited the consolidated balance sheets of Brascade Corporation as at December 31, 2005 and 2004 and the consolidated statements of operations, retained earnings (deficit) 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 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, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

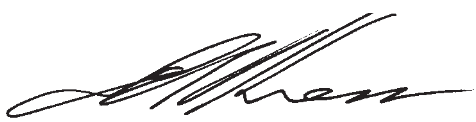
Deloitte & Touche LLP

Toronto, Canada	Deloitte & Touche, LLP
March 7, 2006	Chartered Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 *US$Millions*	Note	**2005**	2004
			(Restated-Note 2)
Assets			
Loans receivable	3	**$ 214.8**	$ 102.6
Securities	3	**434.9**	103.3
Investment in Falconbridge Limited	4	**—**	803.8
Investment in Norbord Inc.	4	**199.3**	177.3
Investment in Fraser Papers Inc.	4	**196.9**	203.8
Investment in Canary Wharf Group, plc	4	**342.3**	524.8
Other assets		**—**	8.4
		$ 1,388.2	$ 1,924.0
Liabilities			
Accounts payable		**$ 217.4**	$ 2.2
Term debt	5	**—**	291.7
Exchangeable debentures		**—**	206.7
Retractable preferred shares	6	**478.2**	1,865.7
Shareholders' equity (deficiency)	7	**692.6**	(442.3)
		$ 1,388.2	$ 1,924.0

On behalf of the Board:



Edward C. Kress

Lowell A. Allen

CONSOLIDATED STATEMENT OF OPERATIONS

Years ended December 31 *US$Millions, except per share amounts*	Note	**2005**	2004
			(Restated-Note 2)
Income			
Equity income from Falconbridge Limited		**$ 87.0**	$ 122.8
Equity income from Norbord Inc.		**87.2**	79.3
Equity loss from Fraser Papers Inc.		**(13.2)**	(8.4)
Foreign exchange loss		**(10.6)**	(18.3)
Other income (loss)		**30.5**	(0.2)
Gains on disposition	4	**1,161.9**	66.0
		1,342.8	241.2
Expenses			
Interest		**57.9**	18.4
Corporate		**0.2**	0.4
		58.1	18.8
Net income		**$ 1,284.7**	$ 222.4
Net income per common share	9	**$ 38.05**	$ 7.91

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)

Years ended December 31 *US$Millions*	Note	**2005**	2004
			(Restated-Note 2)
Deficit, beginning of year		**$ (1,008.8)**	$ (116.5)
Impact of change in accounting policy		**—**	(10.0)
Restated balance, beginning of year		**(1,008.8)**	(126.5)
Purchase of Falconbridge shares	4	**(332.2)**	—
Reorganization	1	**—**	(1,080.1)
Net income for the year		**1,284.7**	222.4
		(56.3)	(984.2)
Preferred share dividends		**—**	(24.6)
Common share dividends		**(275.0)**	—
Deficit, end of year		**$ (331.3)**	$ (1,008.8)

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 *US$Millions*	**2005**	2004
Cash flow from (used in) operating activities		
Dividend received	**$ 96.0**	$ 91.1
Other income, net of expenses	**(48.5)**	(5.8)
	47.5	85.3
Cash flow from (used in) financing activities		
Issuance of exchangeable debentures	**—**	188.5
Common share dividend paid	**(275.0)**	—
Preferred share dividend paid	**—**	(24.6)
Share issuance	**—**	19.2
Share redemption	**(1,860.7)**	(208.6)
Loan from affiliated company	**375.0**	—
	(1,760.7)	(25.5)
Cash flow from (used in) investing activities		
Investment in Canary Wharf Group, plc	**—**	(19.2)
Investment in Fraser Papers Inc.	**(5.9)**	—
Proceeds on sale of Canary Wharf Group, plc	**—**	27.9
Proceeds on sale of Norbord Inc.	**—**	94.1
Proceeds on sale of Falconbridge Limited	**1,327.3**	—
Loans receivable	**(125.0)**	(181.8)
Dividends received from Canary Wharf Group, plc	**183.0**	—
Securities	**333.8**	19.2
	1,713.2	(59.8)
Net change and closing cash balance	**$ —**	$ —

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Reorganization

On September 13, 2004, Brascade Resources Inc. (“Brascade Resources”) amalgamated with 4250231 Canada Limited, a wholly owned subsidiary of Brookfield Asset Management Inc. (“Brookfield”; formerly Brascan Corporation), to form Brascade Corporation (the “company”). At the date of amalgamation, Brascade Corporation became a mutual fund corporation under the Income Tax Act (Canada). At the time of the amalgamation, Brascade Resources owned approximately 25% of the common shares of Noranda Inc. (“Noranda”), since renamed Falconbridge Limited ("Falconbridge"), 21% of the common shares of Fraser Papers Inc. (“Fraser Papers”) and 21% of the common shares of Norbord Inc. (“Norbord”), and 4250231 Canada Limited owned approximately 21% of the common shares of Fraser Papers, 21% of the common shares of Norbord and 17% of the ordinary shares of Canary Wharf Group, plc. (“Canary Wharf”). 4250231 Canada Limited acquired its interests in Fraser Papers and Norbord from Brookfield immediately prior to the amalgamation. In conjunction with this amalgamation, Brookfield became the sole holder of the company’s common shares. The publicly traded Preferred Shares of Brascade Resources, Series B and Series C, were exchanged for Senior Preferred Shares of the company, Series B and Series A, respectively, having the same terms, except for the elimination of their general voting rights and the addition of redemption rights at the option of the holders. At the time of the reorganization and amalgamation, Brascade Resources and 4250231 Canada Limited were controlled by Brookfield and, accordingly, the accounts of the company are prepared on a continuity of interest basis with the assets and liabilities being combined at their carrying values in the accounts of their predecessors, with the differences from exchange amounts being recorded as an adjustment to retained earnings (deficit).

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Basis of Presentation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary, CWG Holdings (Bermuda) Limited. Effective January 1, 2005, these consolidated financial statements exclude the accounts of wholly-owned NIED Holdings Limited as described under "Changes in Accounting Policies (i) Consolidatation of Variable Interest Entities, AcG 15".

The company’s functional currency is US dollars. Foreign exchange gains and losses on monetary items are included in income. Foreign currency gains and losses on the company’s long-term investments are included in the cumulative translation adjustment account, which is a separate component of shareholders' equity. The company adopted the US dollar as the reporting currency.

Loans Receivable

Loans receivable are carried at the lower of cost and estimated net realizable value determined based on expected future cash flows, discounted if necessary at market rates for loans of similar terms and investment risks.

Securities

Securities are carried at the lower of cost and net realizable value. Preferred and common share dividends are recorded on the record date.

Long-Term Corporate Investments

The company accounts for its long-term corporate investments in Falconbridge, Norbord, and Fraser Papers on the equity basis for periods under significant influence. The excess of acquisition costs over the underlying net book value of these investments has been allocated to goodwill. The company periodically evaluates the carrying value of this excess for potential impairment in conjunction with its review of the carrying values of its overall investments.

The company accounts for its investment in Canary Wharf on the cost basis with dividends generally being recognized as income on the record date. Dividends received in excess of the company’s share of post acquisition earnings of Canary Wharf are treated as a reduction of the company’s investment.

Foreign Currency Translation

Foreign currency denominated monetary assets and liabilities of the company are translated at the rate of exchange prevailing at the period end and revenues and expenses at average rates during the period. Gains and losses on translation of these items are included in the consolidated statement of operations.

Deferred Financing Costs

Costs incurred in connection with the arrangement of financing are deferred in other assets and charged to income over the term of the related financing.

Exchangeable Debentures

The exchangeable debentures, issued by a company no longer consolidated by Brascade, are carried at fair value determined based on the quoted market value of the shares subject to the exchange and translated into US dollars at period end rates. Brascade records the effect of this adjustment in income.

Statement of Cash Flows

The company places surplus cash on deposit with Brookfield, at market interest rates. These deposits are available on demand and are used by the company to fund its cash requirements. As the company does not maintain its own stand alone banking facilities, the statement of cash flow is reconciled to nil.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Significant estimates are required in the determination of cash flows and probabilities in assessing net recoverable amounts and net realizable values; assessing other than temporary impairments of long-term investments; tax and other provisions; and fair values for disclosure purposes. Actual results could differ from those estimates.

Change in Accounting Policies

(i) Consolidation of Variable Interest Entities, AcG 15

Effective January 1, 2005, the company implemented the new Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG 15) without restatement of prior periods. AcG 15 provides guidance for applying the principles in CICA Handbook 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 voting control, an obligation to absorb expected losses, or the right to share expected residual returns. AcG 15 requires consolidation of VIEs 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 adoption of AcG 15 resulted in the deconsolidation of a wholly-owned subsidiary, NIED Holdings Limited, which was the issuer of the C$255 million debentures, exchangeable for up to 20 million common shares of Norbord, that were issued on September 30, 2004. Accordingly, the exchangeable debentures are no longer included as a separate line item and are due to NIED Holdings Limited under the arrangement that represents a secured demand loan included in accounts payable. There was no impact to common equity as a result of implementing the new guideline.

(ii) Liabilities and Equity, CICA Handbook Section 3860

Effective January 1, 2005, the company adopted the amendment to CICA Handbook Section 3860, Financial Instruments: Disclosure and Presentation with retroactive restatement of prior periods. The amendment requires certain obligations that must or could be settled with a variable number of the issuer's own equity instruments to be presented as a liability. As a result, dividends paid on these equity instruments have been reclassified as interest expense and unrealized foreign exchange movements have been recorded in income by the company's equity accounted investee. The retroactive adoption of this amendment resulted in a cumulative adjustment to opening retained earnings at January 1, 2004 of $10 million. Net income attributable to common shares for the year ended December 31, 2004 will be reduced reflecting the foregoing items by $8 million due to equity accounted investee.

Comparative Figures

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

3. Loans Receivable and Securities

Loans receivable represent amounts due on demand from companies under common control.

In the year ended December 31, 2005, net investment income earned on balances with affiliates amounted to $4.1 million (2004 - $5.2 million).

The fair value of the loans receivable and securities approximated their carrying value as at December 31, 2005 and 2004.

4. LONG-TERM CORPORATE INVESTMENTS

US$Millions	Accounting	Ownership	**December 31 2005**	December 31 2004
Falconbridge				
Convertible debentures	Cost	—	**$ —**	$ 59.2
Common shares	Equity accounted	—	**—**	744.6
Norbord				
Common shares	Equity accounted	37%	**199.3**	177.3
Fraser Papers				
Common shares	Equity accounted	46%	**196.9**	203.8
Canary Wharf				
Ordinary shares	Cost	15%	**342.3**	524.8
			$ 738.5	$ 1,709.7

During the second quarter of 2005 there was a substantial reorganization of Falconbridge which involved the repurchase by Falconbridge (formerly Noranda) of approximately 64 million common shares in exchange for $1.25 billion of preferred shares and the subsequent issuance of 132.8 million shares to minority shareholders of Falconbridge to effect the privatization. As a result, Brascade received $569 million retractable preferred shares in exchange for 28.9 million common shares and the company's common share interest in Falconbridge decreased to 12% from 25%. During the year, Brascade acquired 29.8 million common shares of Falconbridge from Brookfield, which increased the company's direct ownership of Falconbridge common shares to 74.4 million or approximately 20% of the common shares. Since this related party transaction did not result in a substantive change in ownership, the investment was recorded at carried value and the differences in consideration recorded as a charge to retained earnings. The company subsequently sold 73 million common shares, or substantially all of its remaining 20% ownership for proceeds of $1.7 billion, consisting of $1.3 billion cash and a $375 million convertible debenture. The debenture was transferred to a company under common control as repayment of a loan payable balance. These transactions resulted in an aggregate gain of $1,162 million. Falconbridge redeemed $228 million of the $569 million retractable preferred shares previously received by the company as part of the exchange. The company's remaining investment in these preferred shares is included in securities as at December 31, 2005.

The company owns 53,804,885 common shares (2004 - 53,804,885) of Norbord, which represents a 37% interest (2004 - 36%). The company has pledged 20,000,000 common shares of Norbord as security for the exchangeable debentures described in Note 2.

The company owns 13,439,596 common shares (2004 - 12,760,976) of Fraser Papers, representing a 46% interest (2004 - 42%). The common shares of Fraser Papers were distributed by Nexfor Inc. ("Nexfor") on June 30, 2004 to its existing shareholders on the basis of one common share of Fraser Papers for every five common shares of Nexfor held at that date. Concurrent with this distribution, Nexfor changed its name to Norbord.

The company owns 96,113,970 ordinary shares (2004 - 96,113,045) of Canary Wharf, representing a 15% interest (2004 - 17%).

5. TERM DEBT

The term debt due to a common control company, bears interest at 6.5% and was repaid due on September 15, 2005 by issuing 9,568,070 Class 2 Junior Preferred Shares. Interest expense on this debt amounted to $13.3 million (2004 - $11.4 million).

6. RETRACTABLE PREFERRED SHARES

The company's Authorized Share Capital includes two classes of retractable preferred shares:

(i) Unlimited Class 1 Senior Preferred shares issuable in series; and

(ii) Unlimited Class 2 Junior Preferred shares issuable in series;

US$Millions, except number of shares		***December 31*** **2005**	*December 31* 2004
5,264,536	Class 1 Senior Preferred Shares, Series B (2004 - 6,846,504)	**$ 181.6**	$ 228.3
9,568,070	Class 2 Junior Preferred Shares, Series A (2004 - 52,807,686)	**296.6**	1,637.4
		$ 478.2	$ 1,865.7

The retractable preferred shares were issued effective September 13, 2004 at the time of the reorganization and amalgamation referred to in Note 1 and were approved by the company's shareholders. All of the shares were issued in exchange for shares already in existence. These shares are retractable at the option of the holder and, accordingly, are liabilities for accounting purposes.

The following rights and privileges apply to the outstanding Class 1 Senior Preferred shares:

(i) entitlement to cumulative quarterly dividends calculated on the issue price of C$40.00 per share at a variable rate, equal to 1 1/2% plus 1/2 of the average daily prime lending rate of a specified Canadian chartered bank, subject to a minimum rate on an annual basis of 8%;

(ii) in the case of the Senior Preferred shares Series B, redeemable at the option of the company or the holder at C$40.00 per share plus accrued and unpaid dividends thereon.

The following rights and privileges apply to the outstanding Class 2 Junior Preferred Shares:

(i) entitlement to non-cumulative quarterly dividends calculated on the issue price of $31.00 per share at 4%, as and when declared by the board of directors of the company; and

(ii) redeemable at the option of the company or the holder at any time at $31.00 per share plus declared and unpaid dividends thereon.

7. Shareholders' Equity

The company's authorized share capital also includes an unlimited number of common shares.

Issued and Outstanding:

US$Millions, except number of shares		***December 31* 2005**	*December 31* 2004
46,040,326	Common shares (2004 - 25,000,003)	**$ 1,044.3**	$ 512.9
	Deficit	**(331.3)**	(1,008.8)
	Cumulative translation adjustment	**(20.4)**	53.6
		$ 692.6	$ (442.3)

The common shares of the company are redeemable at the option of the holder for 95% of the net asset value at the time of redemption.

8. Income Taxes

The company qualifies and intends to continue to qualify as a mutual fund corporation under the Income Tax Act (Canada) (the "Act"), and is subject to tax in respect of its net realized capital gains. This tax is refundable in certain circumstances.

The company's dividend income is not subject to income taxes under Part I of the Act; consequently, the company has no effective taxable income. However, the company is generally subject to a tax of 33-1/3% under Part IV of the Act on taxable dividends received. This tax is fully refundable upon payment of sufficient dividends.

As the company has the intention and ability to qualify as a mutual fund corporation to manage its affairs in such a way as to transfer any tax liability to its shareholders, no provision for income tax has been made.

9. Other Information

(a) The company and its associates arrange investment transactions between themselves without transaction costs and all such transactions are at normal market terms.

(b) The components of basic earnings per share are summarized in the following table:

Years ended *US$Millions*	**December 31 2005**	December 31 2004
Net income	**$ 1,284.7**	$ 222.4
Preferred share dividends	**—**	(24.6)
Net income attributable to common shareholders	**$ 1,284.7**	$ 197.8

(c) Cash interest paid was $54.4 million (2004 - $16.4 million).

CORPORATE INFORMATION

HEAD OFFICE

Brascade Corporation
BCE Place, 181 Bay Street
Suite 300. P.O. Box 762
Toronto, Ontario   M5J 2T3
Telephone: 416-363-9491
Facsimile: 416-363-2856

YEAR END

December 31

TRANSFER AGENT

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario   M5C 2W9
Telephone: 416-643-5500 or
1-800-387-0825
(Toll-free within North America)
Facsimile: 416-643-5501
Web site: www.cibcmellon.com
E-mail: inquiries@cibcmellon.com

STOCK EXCHANGE LISTINGS

The Senior Preferred Shares, Series B of Brascade are listed on the Toronto Stock Exchange under the symbol **BCA.PR.B**.

Brascade Corporation

BCE Place, 181 Bay Street
Suite 300, P.O. Box 762
Toronto, Ontario
M5J 2T3

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