

# **Brascan Power Corporation**

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## **Q1-2005 Management's Discussion and Analysis**

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

The management's discussion and analysis ("MD&A") of Brascan Power Corporation (the "Company") for the first quarter of 2005 has been prepared to comply with the requirements of the Canadian Securities National Instrument 51-102, to the extent that they apply to the limited categories of revenues and expenses of the Company. The purpose of this discussion and analysis is to provide a framework for understanding the Company's business activities. In addition, this discussion and analysis is intended to complement and supplement the Company's financial statements. It should be read in conjunction with the Company's unaudited quarterly financial statements. Additional information relating to the Company can also be found on the Company's website at [www.brascanpower.com](http://www.brascanpower.com) and on the SEDAR website. Unless expressly indicated otherwise, all amounts are reflected in Canadian dollars.

## OVERVIEW OF THE BUSINESS

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

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

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

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

## PERFORMANCE MEASUREMENT

The performance of the Company for the three months ended March 31, 2005 is consistent with the positioning of the Company for the anticipated reorganization related to Brascan Power. Future performance measurement after the reorganization will focus principally on net operating income for performance measurement because it is tangible and reflects the value of the assets that the Company will acquire through the reorganization.

## NET LOSS

The net loss of the Company for the three months ended March 31, 2005 totaled \$0.2 million. Interest revenue of \$5.8 million is comprised of interest charged to its parent, Brascan Power, on the \$547.1 million promissory notes. Interest expense of \$5.8 million relates to the Series 1 and 2 debentures issued by the Company.

The Company incurred an additional \$0.4 million in financing fees on the issuance of the \$50 million Series 1 debentures during the period, which is being amortized over the term of the debt. Amortization of deferred financing fees for the period totaled \$0.3 million. Taxes included income tax recovery of \$0.1 million.

## PROVISION FOR INCOME TAXES

For the three months ended March 31, 2005, the Company's future income tax recovery was \$0.1 million. Taxes are accounted for under the asset and liability method.

## BALANCE SHEET

## PROMISSORY NOTES

During the quarter, the Company purchased an additional subordinated promissory note from Brascan Power totaling \$50 million. The promissory note bears interest at 4.70% per annum payable semi-annually and matures on December 16, 2009.

## CAPITAL STRUCTURE AND FINANCING

During the quarter, the Company raised \$50 million through the issuance, on a private placement basis, of additional Series 1 debentures on the same terms and conditions as the original Series 1 debentures issued in December 2004. This offering was issued at a premium of \$0.3 million, which is being amortized over the life of the debentures. The debentures have been assigned a rating of BBB (high) by Dominion Bond Rating Service Limited ("DBRS") and BBB by Standard and Poor's Rating Service ("S&P").

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

In April 2005, the Company obtained a US \$200,000 revolving unsecured credit facility for general corporate purposes which can be drawn upon in Canadian or US dollars. The credit facility bears interest based on Canadian prime rate and/or US base rate and/or banker's acceptance discount rate and/or US dollar LIBOR plus a margin. The credit facility is due on April 29, 2008 and ranks pari passu with all senior unsecured indebtedness of the Company and Brascan Power. The credit facility is unconditionally guaranteed by Brascan Power. The guarantee will remain in place until such time as certain conditions with respect to its release are met.

## SHAREHOLDER'S EQUITY

The authorized capital of the Company consists of an unlimited number of common shares. As at March 31, 2005 there were 10 common shares of the Company issued and outstanding. The Company has not issued dividends to date.

## LIQUIDITY AND CAPITAL RESOURCES

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

## CONTRACTUAL OBLIGATIONS

<i>CDN\$ millions</i>	<i>CDN\$ millions</i>				
	Total	In years 2005-2009	In years 2010-2014	In years 2015-2019	Beyond 2020
Term debentures	\$ 550	\$ 550	\$ -	\$ -	\$ -

Series 1 Canadian debentures totaling \$450 million are due on December 16, 2009.

Series 2 Canadian debentures totaling \$100 million are due on December 18, 2006.

## OFF-BALANCE SHEET ARRANGEMENTS

### Guarantees

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

## RELATED PARTY TRANSACTIONS

During the period, Brascan Power provided an advance to the Company in the amount of \$0.3 million. This advance is non-interest bearing and due on demand.

## CRITICAL ACCOUNTING POLICIES

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

## BUSINESS RISKS

Following the completion of the reorganization, the risk factors identified in the Final Prospectus dated March 16, 2005 relating to Brascan Power will apply to the Company. Those risks include hydrology, equipment failure, foreign exchange and energy price fluctuations.

## **ANNUAL INFORMATION FORM**

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

## **FORWARD-LOOKING STATEMENTS**

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

## **REVIEW OF INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not reviewed these financial statements.

Donald Tremblay  
*Senior Vice President and Chief Financial Officer*  
May 27, 2005