

Financial Statements

**BRASCAN POWER CORPORATION**

September 30, 2005

# BRASCAN POWER CORPORATION

## BALANCE SHEET

<i>thousands of CDN dollars</i>	<b>September 30 2005</b>	December 31 2004
	<i>(unaudited)</i>	
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 139	\$ -
Accounts receivable	20	-
Interest receivable (note 3)	6,284	982
	<b>6,443</b>	982
<b>Promissory notes (note 3)</b>	<b>547,110</b>	497,110
<b>Deferred financing fees</b>	<b>4,469</b>	4,095
<b>Future income tax asset</b>	<b>369</b>	14
	<b>\$ 558,391</b>	<b>\$ 502,201</b>
<b>Liabilities and Shareholder's Equity</b>		
<b>Current liabilities</b>		
Interest payable (note 4)	\$ 6,222	\$ 959
Taxes payable	9	23
Due to related parties	2,567	1,252
	<b>8,798</b>	2,234
<b>Term debentures (note 4)</b>	<b>550,247</b>	500,000
	<b>559,045</b>	502,234
<b>Shareholder's deficit</b>	<b>(654)</b>	<b>(33)</b>
	<b>\$ 558,391</b>	<b>\$ 502,201</b>

*See accompanying notes to the financial statements.*

## BRASCAN POWER CORPORATION STATEMENT OF DEFICIT

<i>thousands of CDN dollars</i> <i>(unaudited)</i>	<b>Nine months ended September 30 2005</b>	
Deficit, beginning of period	\$	(33)
Net loss for the period		(621)
<b>Deficit, end of period</b>	<b>\$</b>	<b>(654)</b>

*See accompanying notes to the financial statements.*

## BRASCAN POWER CORPORATION

### STATEMENT OF LOSS

<i>thousands of CDN dollars</i> <i>(unaudited)</i>	<b>Three months ended September 30, 2005</b>	<b>Nine months ended September 30, 2005</b>
<b>Revenues</b>		
Interest revenue (note 3)	\$ 6,154	\$ 18,051
<b>Expenses</b>		
Interest (note 4)	6,081	17,916
Amortization	438	1,041
Other	(34)	64
	<b>6,485</b>	<b>19,021</b>
	<b>(331)</b>	<b>(970)</b>
<b>Income tax expense (recovery)</b>		
Current	2	6
Future	(124)	(355)
	<b>(122)</b>	<b>(349)</b>
<b>Net loss</b>	\$ <b>(209)</b>	\$ <b>(621)</b>

*See accompanying notes to the financial statements.*

## BRASCAN POWER CORPORATION

### STATEMENT OF CASH FLOWS

<i>thousands of CDN dollars</i> <i>(unaudited)</i>	<b>Three months ended</b> <b>September 30, 2005</b>	<b>Nine months ended</b> <b>September 30, 2005</b>
<b>Operating activities</b>		
Net loss	\$ (209)	\$ (621)
Items not affecting cash		
Amortization of deferred financing fees	438	1,041
Amortization of bond premium	(14)	(46)
Future income taxes	(124)	(355)
	<b>91</b>	<b>19</b>
Net change in non-cash working capital		
Accounts receivable	(20)	(20)
Interest receivable (note 3)	(5,321)	(5,302)
Interest payable (note 4)	4,981	5,263
Taxes payable	5	(14)
Due to related parties	348	1,315
	<b>(7)</b>	<b>1,242</b>
	<b>84</b>	<b>1,261</b>
<b>Investing activities</b>		
Issuance of promissory notes (note 3)	-	(50,000)
	-	(50,000)
<b>Financing activities</b>		
Issuance of term debentures (note 4)	-	50,293
Financing fees paid	(468)	(1,415)
	<b>(468)</b>	<b>48,878</b>
Increase (decrease) in cash and cash equivalents	<b>(384)</b>	<b>139</b>
Cash and cash equivalents, beginning of period	523	-
<b>Cash and cash equivalents, end of period</b>	<b>\$ 139</b>	<b>\$ 139</b>
<b>Supplementary information</b>		
Interest paid during the period	\$ 1,113	\$ 12,960

*See accompanying notes to the financial statements.*

# Brascan Power Corporation

## NOTES TO INTERIM FINANCIAL STATEMENTS

September 30, 2005

*(all unaudited figures, in thousands of CDN dollars, unless otherwise noted)*

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### 1. NATURE AND DESCRIPTION OF THE COMPANY

Brascan Power Corporation (the "Corporation") was incorporated under the laws of Ontario on June 20, 2002. The Corporation is authorized to issue an unlimited number of common shares.

The Corporation was established as a wholly-owned subsidiary of Brascan Power Inc. ("BPI") for the purpose of issuing public debt. The net proceeds of the debt issues have been advanced to BPI through promissory notes and BPI guarantees the public debt obligations of the Corporation. Following the receipt of the necessary approvals, the Corporation and BPI expect to complete a corporate reorganization whereby the Corporation will acquire from BPI all of its power generating operations, including the following:

- (i) Great Lakes Power Limited, which is wholly-owned by BPI, the 50.1% equity ownership position in Great Lakes Hydro Income Fund, and the 100% equity ownership positions in Lake Superior Power, Valerie Falls Power, Hydro Pontiac Inc., Brascan Energy Marketing Inc., Great Lakes Holding America Co.; and
- (ii) BPI's incorporated and unincorporated joint venture and partnership interests in Pingston Power, and a 75% non-controlling residual interest in Louisiana HydroElectric Power.

The activities of the Corporation commenced on December 16, 2004.

### 2. BASIS OF PRESENTATION

The Corporation's unaudited interim financial statements are prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial statements. All figures are reported in thousands of Canadian dollars, except as otherwise noted. These unaudited interim financial statements should be read in conjunction with the 2004 annual audited financial statements.

These unaudited financial statements have been prepared on a basis consistent with the disclosed audited financial statements for the fiscal year ended December 31, 2004.

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

## **Brascan Power Corporation**

### **NOTES TO INTERIM FINANCIAL STATEMENTS**

September 30, 2005

*(all unaudited figures, in thousands of CDN dollars, unless otherwise noted)*

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#### **3. PROMISSORY NOTES**

On January 26, 2005, the Corporation purchased an additional \$50,000 subordinated promissory note from BPI. The additional promissory note bears interest at 4.70% per annum payable semi-annually and matures on December 16, 2009.

All promissory notes owned by the Corporation have been issued by BPI, the sole shareholder of the Corporation.

Interest charged to BPI during the period on all promissory notes was \$18,051, of which \$6,284 is included in interest receivable as at September 30, 2005.

#### **4. FINANCING ACTIVITIES**

On January 26, 2005, the Corporation issued \$50,000 of Series 1 Canadian debentures, which bear interest at 4.65% payable semi-annually and are due on December 16, 2009. This offering was issued at a premium of \$293, which is being amortized over the life of the debentures. The total premium amortized to interest expense during the period was \$46.

The payment of the principal, premium, if any, and interest on the Series 1 and Series 2 Canadian debentures are unconditionally guaranteed by BPI pursuant to a guarantee agreement made as of December 16, 2004 between BPI and the Corporation.

#### **5. CREDIT FACILITY**

In April 2005, the Corporation 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 a floating interest rate. The credit facility is due on April 29, 2008 and ranks pari passu with all senior unsecured indebtedness of the Corporation and BPI. The credit facility is unconditionally guaranteed by BPI. The guarantee will remain in place until such time as certain conditions with respect to its release are met. At September 30, 2005, the Corporation had drawn \$nil on the credit facility.