



FIRST QUARTER 2004 INTERIM REPORT

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## INTERIM REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2004

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### MANAGEMENT DISCUSSION AND ANALYSIS

The management discussion and analysis (MD&A) of Great Lakes Power Inc. for Q1/2004 complies with the new regulation 51-102 of the Ontario Securities Commission. As this is the first MD&A filed under the new regulation, we have adapted our initial MD&A to ensure it meets all requirements of the regulation without duplicating information that has already been filed. As such, all information required under the "Annual MD&A" section of the regulation is deemed to be included in the 2003 annual report. In instances where we feel additional information is required to meet the new standards, we have included such information in a section entitled "Supplementary Annual Information" at the end of this quarterly MD&A.

The following discussion and analysis should be read in conjunction with the accompanying unaudited financial statements and the related notes.

#### ➤ HIGHLIGHTS YEAR TO DATE

	<i>For the three months ended March 31</i>	
	<b>2004</b>	2003
Revenues ( <i>Cdn\$ millions</i> )	<b>\$ 180</b>	\$ 83
Net operating income ( <i>Cdn\$ millions</i> )	<b>\$ 105</b>	\$ 54
Net income ( <i>Cdn\$ millions</i> )	<b>\$ 52</b>	\$ 33
Power delivered ( <i>gigawatt hours</i> )	<b>2,157</b>	1,363

#### ➤ FINANCIAL RESULTS

For the three months ended March 31, 2004, Great Lakes reported net operating income of \$105 million, \$51 million higher than the first quarter of 2003. The increase was the result of the acquisition and commissioning of new generating facilities in 2003, marketing and enhancement initiatives and above average water conditions. In addition, our hedging strategy and long term contracts mitigated the impact of lower average prices in Ontario due to milder weather conditions in the first quarter of 2004. Net income for the three months ended March 31, 2004 was \$52 million up from \$33 million in the first three months of 2003.

#### ➤ BUSINESS INITIATIVES

##### **Northern Ontario Transmission Line Upgrade**

In April 2004, Great Lakes received approval from the Ontario Energy Board to proceed with an \$80 million upgrade of its transmission lines in northern Ontario. The project includes the replacement of 164 kilometers of transmission line and related transformer station modifications. The new line will also be

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equipped with fiber optic communications cable to complete the company's link between Sault Ste. Marie and Wawa for improved data transmission and communications among its facilities in the region. This initiative will increase the overall reliability and power flow capacity of this portion of northern Ontario's transmission system.

#### **Berlin/Gorham Cogeneration Station, New Hampshire**

Construction is essentially completed on a 25 megawatt ("MW") natural gas-fired cogeneration station in New Hampshire. This US\$34 million project is to commence commercial operations in Q2/2004 and will provide electricity and steam to Fraser Paper's pulp and paper facilities in Berlin/Gorham, New Hampshire under a ten year tolling agreement.

#### **Acquisition of Hydroelectric Power Stations in Brazil**

In January 2004, the company acquired through its Brazilian affiliate, Brascan Energética, two recently built hydroelectric stations in the State of Minas Gerais in south central Brazil from Companhia Força e Luz Cataguazes Leopoldina ("CFLCL") for *Reais* \$80 million (C\$36 million). The two stations, Ponte (24 MW) and Granada (16 MW) started operations in the first half of 2003 and have 30-year power sale contracts with CFLCL, which operates as the local electricity distribution company.

#### **Cedar Dam Generating Station**

Final approval was obtained for the construction of a new 9 MW hydroelectric station on the Lièvre River in Quebec to increase annual generation by 62 GWh of energy. Completion of this \$24 million project is expected in the summer of 2005. The station, to be built onto the existing dam structure, will optimize use of existing water resources. All power produced by this facility will be sold to Hydro Québec under a long-term power purchase agreement.

#### **Asset Enhancement Initiatives**

Additional revenue of more than \$13 million was generated as a result of asset enhancement initiatives during the first quarter of 2004. These initiatives include selling power at better prices compared to 2003, when power was sold under below market contract and operating our cogeneration facility in Sault Ste-Marie during peak hours and selling the gas required to produce off-peak power. We were also able to capture additional revenue during high priced periods in January and February 2004 by either curtailing delivery to customers or supplying power from other sources.

### **➤ OPERATING RESULTS**

#### **Q1/2004 Analysis**

The company reported net operating income of \$105 million in the three months ended March 31, 2004, up from \$54 million during the same period last year. Net power revenue for the first three months was \$180 million, \$97 million higher than the first quarter of 2003. Revenue in the first quarter of 2004 includes power sale to an affiliate for an amount of \$39 million. Asset enhancement initiatives described above also contributed to the strong performance by adding more than \$13 million to our revenues. Electricity generation in the first three months of 2004 increased to 2,157 GWh from 1,363 GWh in the same period last year, mainly due to higher generation throughout the company's power operations and the contribution of generating stations acquired and commissioned in 2003.

Operating and maintenance costs for the first three months of 2004 were \$16 million consistent with the prior year. Fuel and power purchases were \$53 compared to \$9 million in the same quarter of 2003 as a result of power procured on behalf of an affiliate of the company. Property taxes and water rental increased from \$4 million to \$6 million, as a result of increased generation.

Revenue from investments and other income, which consists of dividends from the company's investments and securities portfolios, interest on loans receivable and other fee income, was \$19 million for the first three months of 2004, down from \$21 million in 2003 due to lower average interest rates and balances.

Power delivered and net operating income by operating segment for 2004 to date compared to the same period in 2003 are shown below:

	<i>For the three months ended March 31</i>	
	<b>2004</b>	2003
<b>Power Delivered</b> ( <i>gigawatt hours</i> )		
Ontario	<b>931</b>	785
Quebec	<b>518</b>	227
Northeast United States	<b>302</b>	103
Other Power Operations	<b>406</b>	248
<b>Total</b>	<b>2,157</b>	1,363
<b>Net Operating Income</b> ( <i>\$ millions</i> )		
Ontario	<b>\$ 47</b>	\$ 36
Quebec	<b>24</b>	7
Northeast United States	<b>16</b>	2
Other Power Operations	<b>18</b>	9
	<b>\$ 105</b>	\$ 54

### **Ontario**

In Ontario, power generation contributed \$47 million of net operating income during the year compared to \$36 million in the first quarter of 2003. Variance in net operating income is due to higher volumes as generation in Ontario increased to 931 GWh compared to 785 GWh for the same period last year. The increase is also the result of asset enhancement initiatives which positively impacted our average price.

### **Québec**

In Québec, both the Lièvre System and Pontiac Power contributed significantly to the increase in generation and net operating income. Generation for both power systems was 518 GWh compared to 227 GWh for the same period last year representing an increase of over 128%. As in Ontario, asset enhancement initiatives also had a positive impact on prices we received from our generation and as a result, net operating income increased by \$17 million or 243% to reach \$24 million at the end of the first quarter of 2004.

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### **Northeast United States**

In the Northeast United States, power generation contributed \$16 million of net operating income compared to \$2 million for the same period last year. Similarly, the generation increased from 103 GWh to 302 GWh for an overall increase of 193%. The variance in net operating income and generation can be explained by higher generation resulting from water inflows and by the acquisitions of Brassua, Errol and Pontook's generating stations in November 2003.

### **Other power operations**

Other power operations include the results of Louisiana Hydroelectric Power, Powell River Energy, Pingston Power and Brazil. These facilities added an additional \$18 million to the net operating income for an increase of \$9 million compared to the prior year. Generation also increase from 248 GWh to 406 GWh for an overall increase of 159 GWh or 64% as a result of the addition of the Pingston and Brazil facilities.

### ➤ **OUTLOOK**

Since the beginning of 2002, Great Lakes has increased generating capacity through the acquisition of 21 existing hydroelectric generating facilities in Ontario, Maine, New Hampshire and Brazil, the completion of five new hydroelectric generating stations in Ontario, British Columbia and Brazil as well as the construction of a cogeneration facility in New Hampshire. Together these initiatives increase our power generation base to over 1,800 MW. This expansion positions the company to diversify and strengthen operations in 2004 and beyond. The company continues to explore further acquisition opportunities in the North American power generation industry. The preference is for long-life hydroelectric generating facilities with water storage reservoirs. The company will also consider developing windpower projects or acquiring thermal generating stations, with a knowledgeable partner where appropriate.

Edward C. Kress  
*Chairman*

May 7, 2004

## Consolidated Balance Sheet

<i>Cdn\$ millions</i>	<b>March 31, 2004</b>	December 31, 2003
	<i>(unaudited)</i>	
<b>Assets</b>		
Cash and cash equivalents	<b>\$ 68</b>	\$ 31
Accounts receivable and other	<b>419</b>	422
Securities	<b>524</b>	544
Long-term investments	<b>444</b>	444
Power generating assets	<b>2,198</b>	2,139
	<b>\$ 3,653</b>	\$ 3,580
<b>Liabilities</b>		
Accounts payable and other	<b>\$ 135</b>	\$ 114
Property specific borrowings	<b>1,115</b>	1,116
Corporate term debentures	<b>491</b>	487
<b>Future income tax liability</b>	<b>167</b>	152
<b>Minority interests</b>	<b>332</b>	329
<b>Shareholders' equity</b>	<b>1,413</b>	1,382
	<b>\$ 3,653</b>	\$ 3,580

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Consolidated Statement of Income

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<i>(unaudited)</i> <i>Cdn\$ millions, except per share amounts</i>	<i>Three months ended March 31</i>	
	2004	2003
<b>Net power revenue</b>	<b>\$ 180</b>	<b>\$ 83</b>
<b>Net operating income</b>		
Power Generating Income	98	46
Transmission & Distribution	7	8
	<b>105</b>	54
<b>Investment and other income</b>	<b>19</b>	<b>21</b>
	<b>124</b>	75
<b>Expenses</b>		
Interest	25	25
Depreciation	15	14
Minority interests	10	1
Administrative costs	7	2
Non-cash taxes and other	15	-
	<b>72</b>	42
<b>Net income</b>	<b>\$ 52</b>	<b>\$ 33</b>
<b>Diluted net income per common share</b>	<b>\$ 0.41</b>	<b>\$ 0.26</b>

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Consolidated Statement of Retained Earnings

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<i>(unaudited)</i> <i>Cdn\$ millions</i>	<i>Three months ended March 31</i>	
	2004	2003
<b>Retained earnings</b>		
Balance, beginning of period	\$ 540	\$ 523
Net income	52	33
Distributions to holders of common shares and equivalents	(20)	(20)
	<b>\$ 572</b>	<b>\$ 536</b>

## Consolidated Statement of Cash Flows

<i>(unaudited)</i>	<i>Three months ended</i>	
<i>Cdn\$ millions</i>	<i>March 31</i>	
	<b>2004</b>	2003
<b>Cash flow from operations</b>		
Net income	\$ 52	\$ 33
Add non-cash items		
Depreciation	15	14
Other	13	(6)
<b>Cash flow from operations</b>	<b>80</b>	41
Net change in non-cash working capital and other	40	(52)
	<b>120</b>	(11)
<b>Financing and shareholder distributions</b>		
Borrowings	-	26
Debt repayments	(2)	(2)
Distributions:		
- Great Lakes Hydro Income Fund unitholders	(7)	(7)
- Common shares and equivalents	(20)	(20)
	<b>(29)</b>	(3)
<b>Investing</b>		
Securities sales	20	79
Loans and other receivables	(18)	(21)
Power generating assets	(56)	(36)
	<b>(54)</b>	22
<b>Cash and cash equivalents</b>		
Increase during the year	37	8
Balance, beginning of year	31	10
Balance, end of period	<b>\$ 68</b>	\$ 18



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. SUMMARY OF ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements include the accounts of the company consolidated with the accounts of all its subsidiaries. Reference is made to the company's most recently issued Annual Report, which included information necessary or useful to understanding the company's businesses and financial statement presentations. In particular, the company's significant accounting policies and practices were presented as Note 1 to the Consolidated Financial Statements included in that report. The company's accounting policies and methods of their application are consistent with those of the most recent annual financial statements, except as may be described elsewhere in these financial statements.

The quarterly financial statements are unaudited. Financial information in this Interim Report reflects any adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to a fair statement of results for the interim periods in accordance with generally accepted accounting principles.

The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

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

### 2. SHAREHOLDERS' EQUITY

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

<i>Cdn\$ millions</i>	<b>March 31 2004</b>	<i>December 31 2003</i>
101,383,135 (2001 – 101,383,135) Common shares	<b>\$ 603</b>	\$ 603
Retained earnings	<b>572</b>	540
Currency translation adjustment	<b>(10)</b>	(9)
	<b>1,165</b>	1,134
Subordinated convertible debentures	<b>248</b>	248
	<b>\$ 1,413</b>	\$ 1,382

The subordinated convertible debentures mature December 30, 2013 and bear interest at the prime rate subject to a minimum of 6% and a maximum of 8%.

### 3. COMPARATIVE FIGURES

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

## SELECTED ANNUAL INFORMATION

This section entitled "Supplementary Annual Information" complements Great Lakes Power Inc.'s 2003 Annual Report with additional information as requested by regulation 51-102. This section includes information required by the new regulation but not previously disclosed in the 2003 Annual Report.

### Business Environment and Risk

Great Lakes strives to mitigate the risk of variable hydrology conditions by acquiring and operating a portfolio of geographically diverse facilities. The diversified locations of our power generating assets assist in balancing the impact of generation fluctuations in any one geographic region. The Company also has access to hydrology insurance.

Some of the company's assets are located in the United States and revenues generated by those assets are denominated in US dollars. Operating expenses and financing costs in connection with those assets are all denominated in US dollars, thus partially providing a natural hedge.

### Selected annual information

<i>CDN \$ millions (except for generation)</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Power generated (GWh)	6,279	5,584	3,959
Gross Revenues	528	432	374
Power Revenues	448	340	270
Net Operating Income	241	247	157
Net income	97	167	131
Diluted net income per share	0.77	1.32	1.04
Power generating assets	2,139	2,155	1,268
Long-term financial liabilities	1,603	1,498	1,152

For additional information concerning variations in operating results, refer to the 2002 and 2003 annual reports.

### Summary of Quarterly Results

Variations in quarterly results are directly related to the amount of electricity generated in any given quarter, which is in turn dependent on available water inflows. Although Great Lakes strives to mitigate the risk of variable hydrology conditions by acquiring and operating a portfolio of geographically diverse facilities and by having access to hydrology insurance, the risk of variable water inflows remains and invariably impacts the financial results. Other marketing and asset enhancement initiatives also impact the quarterly results.

<i>CDN \$ millions (excluding generation and per share amount)</i>	<i>2003</i>				<i>2002</i>			
	<i>Q4</i>	<i>Q3</i>	<i>Q2</i>	<i>Q1</i>	<i>Q4</i>	<i>Q3</i>	<i>Q2</i>	<i>Q1</i>
Power generated (GWh)	1,835	1,492	1,589	1,363	1,135	1,363	1,710	1,376
Gross Revenues	166	142	116	104	100	108	117	107
Power Revenues	147	119	99	83	78	87	92	83
Net Operating Income	76	50	62	54	55	68	70	54
Net income	14	24	26	33	29	43	53	42
Diluted net income per share	0.11	0.21	0.21	0.26	0.23	0.34	0.41	0.34

**Liquidity Analysis**

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. In addition to the risk of variable hydrology conditions, our risk with respect to liquidity arises from the financing required for acquisitions and significant capital projects. We have been successful in securing long-term, asset-backed financing on most of our acquired facilities. These arrangements bring stability to our capital structure.

During the first quarter of 2004, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business.

**Critical Accounting Estimates**

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, which requires the use of estimates and judgement in reporting assets, liabilities, revenues, expenses and contingencies. Key significant estimates for the company include accruals, depreciation and those relevant to the defined pension benefit plans.

The notes to the financial statements included in the 2003 annual report contain a summary of the critical accounting policies used in preparation of the consolidated financial statements. There have been no changes to these policies in Q1/2004.

**Annual Information Form**

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

**Certification of Interim Filings**

Form 52-109FT2 - Certification of Interim Filings During Transition Period is attached to this document.

**Forward-Looking Statements**

The company's financial analysis and review contains "forward-looking statements" within the meaning of Section 27A of the Securities Exchange Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "expect," "anticipate," "intend," and other expressions which are predictions of or indicative of 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 business 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, foreign exchange 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.

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## PROFILE

Great Lakes Power Inc. is a low cost north American power generator with a focus on hydroelectric generation. Our power operations, which operate under the name Brascan Power, include 48 hydroelectric generating stations located on 15 river systems, two cogeneration facilities and a transmission and distribution network. Our current operations have a combined generating capacity of 1,827 megawatts, are generating, on average, 7,500 gigawatt hours of electricity annually and have water storage capacity of 1,767 gigawatt hours.

Our goal is to build long-term sustainable cash flow by investing in high quality assets at attractive values, by actively working to increase returns on capital invested in these assets and by continually pursuing opportunities for future growth.

Great Lakes is a wholly owned subsidiary of Brascan Corporation (TSX: BNN.A, NYSE: BNN)

### Power Operations

	Generating Stations	Generating Units	Installed Capacity	Long Term Average
			(megawatts)	
<b>Ontario</b>				
Great Lakes Power	12	21	349	1,610
Lake Superior Power <sup>(1)</sup>	1	3	110	850
Mississagi Power	4	8	488	750
Valerie Falls Power	1	2	10	52
	18	34	957	3,262
<b>Quebec</b>				
Lièvre River Power	3	10	238	1,428
Pontiac Power	2	7	28	210
	5	17	266	1,638
<b>Northeast United States</b>				
Maine Power	7	32	130	747
New Hampshire Power	8	25	44	263
White Mountain Energy <sup>(1)</sup>	1	1	25	184
	16	58	199	1,194
<b>Other</b>				
Louisiana HydroElectric Power	1	8	192	677
Pingston Power (British Columbia)	1	2	30	78
Powell River Energy (British Columbia)	2	7	82	261
Brazil	5	12	101	411
	9	29	405	1,427
<b>TOTAL</b>	<b>48</b>	<b>138</b>	<b>1,827</b>	<b>7,521</b>

(1) Cogeneration stations.