CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY

To the Shareholders

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. These policies and procedures are designed to provide relevant, reliable and timely financial information. 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 also been reviewed by the Board of Directors and by its Audit Committee, which meets 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.

Craig J. Laurie
Vice-President and Chief Financial Officer
February 7, 2003

AUDITORS' REPORT

To the Shareholders of Great Lakes Power Inc.

We have audited the consolidated balance sheets of Great Lakes Power Inc. as at December 31, 2002 and 2001 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, 2002 and 2001 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

Deloitte & Touche LLP
Toronto, Canada
February 7, 2003

CONSOLIDATED BALANCE SHEET

December 31 *millions*	note	**2002**	2001
Assets			
Cash and cash equivalents		**$ 10**	$ 10
Accounts receivable and other	3	**186**	336
Securities	4	**590**	706
Long-term investments	5	**559**	521
Power generating assets	6	**2,155**	1,357
		$ 3,500	$ 2,930
Liabilities			
Accounts payable and other		**$ 158**	$ 92
Property specific borrowings	8	**905**	556
Corporate term debentures	9	**593**	596
Future income tax liability	10	**120**	116
Non-controlling interests	11	**350**	271
Shareholders' equity	12	**1,374**	1,299
		$ 3,500	$ 2,930

Approved by the Board:

Sidney A. Lindsay

Edward C. Kress

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31

millions, except per share amounts	note	2002	2001
Revenue			
Power revenue		**$ 340**	$ 270
Power purchases		**14**	55
Net power revenue		**326**	215
Investment and other income		**92**	105
		418	320
Expenses			
Interest		**90**	82
Operating and maintenance		**60**	37
Fuel purchases		**18**	21
Depreciation		**40**	27
Non-controlling interests		**18**	12
Income and other taxes	10	**25**	10
		251	189
Net income		**$ 167**	$ 131
Diluted net income per common share	13	**$ 1.32**	$ 1.04

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31

millions	note	2002	2001
Retained earnings			
Balance, beginning of year		**$ 448**	$ 398
Net income		**167**	131
Distributions to holders of common shares and equivalents	12	**(80)**	(81)
Adjustment for change in accounting policy	1	**(8)**	—
Fund unit issue costs		**(4)**	—
Balance, end of year		**$ 523**	$ 448

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31 *millions*	2002	2001
Cash flow from operations		
Net income	**$ 167**	$ 131
Add non-cash items		
Depreciation	**40**	27
Hydrological provisions	**(3)**	(17)
Other	**6**	(5)
Cash flow from operations	**$ 210**	$ 136
Net change in non-cash working capital	**27**	47
Cash provided by operating activities	**237**	183
Financing and shareholder distributions		
Borrowings	**405**	249
Debt repayments	**(54)**	(110)
Issuance of fund units	**103**	78
Distributions:		
– Great Lakes Hydro Income Fund unitholders	**(27)**	(14)
– Common shares and equivalents	**(80)**	(81)
	347	122
Investing		
Securities purchases	**(10)**	(107)
Securities sales	**125**	51
Long-term investments	**(36)**	14
Loans and other receivables	**171**	(94)
Power generating assets	**(834)**	(178)
	(584)	(314)
Cash and cash equivalents		
Increase (decrease)	**—**	(9)
Balance, beginning of year	**10**	19
Balance, end of year	**$ 10**	$ 10
Supplementary information		
Interest paid	**$ 85**	$ 84
Taxes paid	**$ 16**	$ 15

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

Business Operations

The company is incorporated under the laws of Ontario and develops, owns and operates hydroelectric and other power generating facilities principally in Canada and the United States. 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.

Principles of Consolidation

The consolidated financial statements include:

(i) the accounts of all subsidiaries and other controlled entities of Great Lakes Power Inc. (the "company") including Great Lakes Power Limited, Great Lakes Hydro Income Fund (the "Income Fund"), Lake Superior Power, Valerie Falls Power, Hydro Pontiac Inc. ("Pontiac Power") and Highvale Power Corporation; and

(ii) 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 investment in Powell River Energy.

The company owns a 75% non-controlling residual interest in Louisiana HydroElectric Power, which is equity accounted.

Investments

Partly owned businesses, where the company is able to exercise significant influence, are carried on the equity method. Interests in jointly controlled entities are proportionately consolidated. Other long-term investments are carried at the lower of cost and net realizable value.

The excess of acquisition costs over the underlying net book values of the company's investment 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 these investments on a discounted basis.

Revenue and Expense Recognition

Revenue from the sale of electricity and steam is recorded based upon output delivered at rates as specified under contract terms or prevailing market rates. Electricity sales revenue is recognized when power is provided.

Investment income is recorded on the accrual basis, less a provision for uncollectible interest, fees, commissions or other amounts.

The company maintains hydrological insurance which partially compensates for the effect of variations in streamflow when measured against long-term averages. Until May 1, 2002, the company was rate regulated and maintained provisions to adjust for the effect of similar hydrology variations.

Securities

Securities are carried at the lower of cost and their estimated net realizable value with any valuation adjustments charged to income. This policy considers the company's intent to hold an investment through periods where quoted market values may not fully reflect the underlying value of that investment. Accordingly, there are periods where the "fair value" or the "quoted market value" may be less than cost. In these circumstances, the company reviews the relevant securities to determine if it will recover its carrying value within a reasonable period of time and adjust it, if necessary. The company also considers the degree to which estimation is incorporated into valuations and any potential impairment relative to the magnitude of the related portfolio.

Loans Receivable

Loans and notes receivable are carried at the lower of cost and estimated realizable value calculated based on expected future cash flows, discounted at market rates for assets with similar terms.

Financing Costs

Expenses related to the issuance of debt are amortized over the term of the debt. Expenses related to the issuance of the company's shares are charged to retained earnings. Interest on funds used in construction and on development projects is capitalized.

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.

Foreign Exchange

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate for the year.

Pension Benefits and Employee Future Benefits

The cost of retirement benefits for the defined benefit plan and post-employment benefits is recognized as the benefits are earned by employees. The company uses the accrued 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. For the defined contribution plan, the company expenses payments based on employee earnings.

Derivative Financial Instruments

The company, principally through wholly owned Brascan Energy Marketing Inc., uses derivative financial instruments to manage commodity price risk associated with the company's production, operating and risk management activities. Gains and losses resulting from these instruments are included in income on the same basis as the asset, liability or contract being hedged. Non-hedging activity is subject to policy limits and any gains or losses recorded in investment and other income on a fair value basis.

Use of Estimates

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. Actual results could differ from those estimates.

Changes in Accounting Policies

Effective January 1, 2002, the company adopted, without restatement of the prior period comparative financial statements, the new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA") on Business Combinations and Goodwill and Other Intangible Assets.

This standard requires that all business combinations be accounted for using the purchase method and establishes specific criteria for the recognition of intangible assets separately from goodwill. Under the standards, goodwill will no longer be amortized but will be subject to impairment tests on at least an annual basis. During 2002, the company and its subsidiaries were required to perform impairment tests on goodwill recorded as of January 1, 2002. As a result, $8 million was recorded against opening retained earnings in relation to the goodwill recorded on the acquisition of Powell River Energy.

Effective January 1, 2002, the company adopted the new CICA accounting recommendations on the impairment of long-lived assets. When the carrying value of a long-lived asset is less than its net recoverable amount as determined on an undiscounted basis, an impairment loss is recognized to the extent that its fair value, measured as the discounted cash flows over the life of the asset when quoted market prices are not readily available, is below the asset's carrying value.

Future Accounting Policy Changes

In November 2001, the CICA issued Accounting Guideline 13, Hedging Relationships ("AcG-13"), which will apply to fiscal years beginning on or after July 1, 2003.

The guideline sets out the criteria that must be met in order to apply hedge accounting for derivatives and is based on many of the principles outlined in the U.S. standard relating to derivative instruments and hedging activities. Specifically, the guideline provides detailed guidance on (a) the identification, designation, documentation and effectiveness of hedging relationships, for purposes of applying hedge accounting; and (b) the discontinuance of hedge accounting.

The CICA issued a draft Accounting Guideline, *Consolidation of Special-Purpose Entities* on August 1, 2002. The proposed guideline provides guidance on determining who is a primary beneficiary of the special purpose entities and will therefore be required to consolidate the special purpose entities.

The CICA issued a draft Accounting Guideline, *Disclosure of Guarantees* which will require a guarantor to disclose significant information about guarantees it has provided to third parties, without regard to its evaluation of whether it will have to make any payments under the guarantees. This guideline is expected to have effect for interim and annual periods ending on or after March 31, 2003.

The CICA issued a new standard, *Asset Retirement Obligations*, which requires the recognition of a liability for obligations for asset retirements in the period the liability is incurred. This standard will result in increasing the carrying value of a company's liabilities and assets. The asset retirement obligation will be amortized as an expense over the life of the asset. This guidance applies to, for example, site restoration of a mine, oil or gas well or landfill, nuclear plant decommissioning and removal of plant and equipment from leased property on termination of the lease. The standard is effective for fiscal years beginning on or after January 1, 2004.

The effects of these guidelines and standards are under review and have not been determined at this time.

Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the 2002 presentation.

2. ACQUISITIONS

The company acquired interests in four power generating assets in 2002 and one in 2001. 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.

Maine Power

In February 2002, the Income Fund completed the acquisition of the hydroelectric generating system and related transmission facilities in northern Maine, USA from Great Northern Paper Inc. ("GNP") for cash consideration of $242 million and a promissory note of $7 million payable to GNP. The system consists of six hydroelectric generating stations located on the Penobscot River with a combined generating capacity of approximately 126 MW and eleven water storage dams.

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

millions	**2002**
Power generating assets	**$ 251**
Working capital	**(2)**
Net assets acquired	**$ 249**
Consideration paid	**$ 249**

New Hampshire Power

In May 2002, the Income Fund completed the acquisition of a hydroelectric generating system located in New Hampshire from American Tissue Inc. for cash consideration of $50 million. The system consists of six hydroelectric stations located on the Androscoggin River in New Hampshire, with a combined generating capacity of approximately 31 MW.

The fair value assigned to the power generating assets acquired was equal to the cash consideration paid.

Mississagi Power

In May 2002, the Income Fund completed the acquisition of a hydroelectric generating system located in northern Ontario from Ontario Power Generation Inc. and OPG-Mississagi River Inc. for cash consideration of $346 million. The system consists of four hydroelectric stations located on the Mississagi River with a combined generating capacity of approximately 488 MW and four water storage dams.

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

millions	**2002**
Power generating assets	**$ 345**
Working capital	**1**
Net assets acquired	**$ 346**
Consideration paid	**$ 346**

Lake Superior Power

In November 2002, the company acquired the 50% interest which it did not own in the Lake Superior Power cogeneration station in northern Ontario for cash consideration of $30 million.

The net assets acquired as a result of the acquisition and the consideration given are as follows:

millions	**2002**
Assets acquired	
Current assets	**$ 6**
Power generating assets	**61**
Liabilities assumed	
Long term debt	**(37)**
Net assets acquired	**$ 30**
Consideration paid	**$ 30**

Powell River Energy

In February 2001, the Income Fund acquired a 50% indirect interest in the Powell River Energy hydroelectric power generation and transmission facilities in southwestern British Columbia for cash consideration of $58 million.

The net assets acquired as a result of the acquisition and the consideration given are as follows:

millions	**2001**
Assets acquired	
Power generating assets	**$ 58**
Goodwill	**17**
Liabilities assumed	
Future income tax liability	**(17)**
Net assets acquired	**$ 58**
Consideration paid	**$ 58**

3. ACCOUNTS RECEIVABLE AND OTHER

The composition of accounts receivable and other is as follows:

millions	**2002**	2001
Demand deposits	**$ (14)**	$ 190
Coal royalty receivables	**70**	70
Trade receivables	**85**	29
Prepaid interest and other	**45**	47
	$ 186	$ 336

The fair value of the company's accounts receivable and other approximates their carrying values at December 31, 2002 and 2001 based on expected future cash flows from these assets, discounted at market rates for assets with similar terms and investment risks.

4. SECURITIES

The fair value of the company's securities at December 31, 2002 was $583 million (2001 – $705 million). 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 68% floating rate securities and 32% fixed rate securities with an average yield at December 31, 2002 of 6.40%.

All financial and investment transactions with affiliated companies are at normal market terms. Affiliated companies include Brascan and its subsidiaries and equity accounted investees. At December 31, 2002, the carrying value of securities and deposits with affiliated companies amounted to $536 million and $(14) million, respectively (2001 – $660 million and $190 million). In 2002, income from securities and loans with affiliated companies amounted to $39 million (2001 – $48 million).

5. LONG-TERM INVESTMENTS

Long-term investments include the company's direct and indirect interests in Brascan Financial Corporation, Noranda Inc., Brascan Corporation and First Toronto Investments Limited.

The book values of the company's long-term investments and the underlying securities at December 31, 2002 and 2001 are shown below:

millions	**2002**	2001
Brascan Financial Corporation	**$ 195**	$ 195
Noranda Inc.	**146**	146
Brascan Corporation	**112**	112
Other investments	**106**	68
	$ 559	$ 521

6. POWER GENERATING ASSETS

The composition of the company's power generating assets at December 31, 2002 and 2001, by geographic area and asset type, is shown below:

millions	**2002**	2001
By geographic area:		
Ontario	**$ 937**	$ 471
Quebec	**429**	440
Northeast United States	**304**	—
Other	**485**	446
	$ 2,155	$ 1,357
By asset type:		
Generation	**$ 1,846**	$ 1,017
Transmission	**157**	156
Distribution	**69**	65
Other	**82**	53
	2,154	1,291
Accumulated depreciation and amortization	**(331)**	(264)
	1,823	1,027
Investment in Louisiana HydroElectric	**332**	330
	$ 2,155	$ 1,357

Power generating assets includes the cost of the company's 18 power generating stations in Ontario, 5 hydroelectric generating stations in Quebec, 12 hydroelectric stations in the Northeast United States and 50% share of two Powell River Energy hydroelectric generating stations, and the company's Highvale Power coal assets.

The company's 75% residual interest in Louisiana HydroElectric Power's hydroelectric generating station and sediment control works is shown on an equity accounted basis. The financial accounts of Louisiana HydroElectric Power for 2002 and 2001 are as follows:

millions	**2002**	2001
Assets	**$1,604**	$1,568
Property specific borrowings	**1,273**	1,261
Other liabilities	**155**	156
Operating revenues	**209**	187
Operating expenses	**55**	53
Net income	**24**	7

Depreciation is based on the service lives of the assets which are 60 years for hydroelectric generation, 20 years for cogeneration and 40 years for transmission, distribution and other.

The company's hydroelectric power facilities operate under various renewable agreements for water rights which extend through the year 2008 for Great Lakes Power, 2044 for Valerie Falls Power, 2019 and 2020 for Pontiac Power, 2019 for Lièvre River Power and 2031 for Louisiana HydroElectric Power. Substantially all of the water rights for Powell River Energy are perpetual.

7. 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 in 2001 and 2002 and Lake Superior Power in 2001 only.)

millions	**2002**	2001
Assets	**$ 59**	$ 125
Liabilities	**56**	84
Operating revenues	**9**	46
Operating expenses	**8**	31
Net income	**1**	10
Cash flows from operating activities	**2**	16
Cash flows from investing activities	**(1)**	(60)
Cash flows from financing activities	**(1)**	37

8. PROPERTY SPECIFIC BORROWINGS

millions	2002	2001
Great Lakes Power Limited		
First Mortgage Bonds		
Series 4 (US $105)	**$ 166**	$ 167
Series 5	**150**	150
	316	317
Great Lakes Power Trust		
Credit Agreements	**7**	15
First Mortgage Bonds		
Series 1	**50**	50
Series 2	**25**	25
Series 3	**25**	25
	107	115
Other Power Operations		
Property specific borrowings		
Pontiac Power	**62**	63
Valerie Falls Power	**33**	—
Powell River Energy	**38**	47
Lake Superior Power	**19**	14
Mississagi Power	**151**	—
Great Lakes Hydro America (US $113)	**179**	—
	$ 905	$ 556

The US$105 million First Mortgage Bonds Series 4 bear interest at the rate of 6.57%, are due on June 16, 2003 and are secured by a charge on the company's wholly owned power generating assets in northern Ontario.

The $150 million First Mortgage Bonds Series 5 bear interest at the rate of 4.58%, are due on June 16, 2003 and are secured by a charge on the company's wholly owned power generating assets in northern Ontario. Through the use of an interest rate swap, the company pays interest at a rate which varies with the Banker's Acceptance ("B.A.") rate. These bonds replaced the $95 million First Mortgage Bonds Series 3 bearing interest at a rate of 6.69%, which matured December 31, 2001.

The Income Fund 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, which is wholly owned by the Income Fund.

The $62 million Pontiac Power mortgage loans bear interest at a blended rate of 10.52%, amortized monthly to a maturity of December 1, 2020 and are secured by charges on the respective Pontiac Power generating assets.

The $33 million Valerie Falls First Mortgage Bond 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 bond bears interest at 6.92%, is due June 2009 and is secured by a charge on the respective Powell River Energy operating assets.

The $19 million Lake Superior Power mortgage loan bears interest at 9.41%, amortizes annually to December 29, 2006 and is secured by a charge on the company's Lake Superior Power cogeneration assets.

The $151 million Mississagi Power mortgage loan bears interest at the 30-day Bankers Acceptance rate plus 60 basis points until March 3, 2003 and 80 basis points thereafter. The facility matures on September 4, 2003.

The US$113 million Great Lakes Hydro America mortgage loan bears interest at US prime plus 150 basis points and matures on January 30, 2005.

The company has established a US$100 million loan facility with Brascan, its principal shareholder, which 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.

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

millions	Annual Repayments
2003	$ 483
2004	8
2005	235
2006	4
2007	2
Thereafter	173
	$ 905

9. TERM DEBENTURES

millions	2002	2001
Corporate debentures		
Series 1 (US$175)	**$ 277**	$ 278
Series 3 (US$200)	**316**	318
	$ 593	$ 596

The Series 1 debentures bear interest at the rate of 9.0% and are due in August 2004.

The Series 3 debentures bear interest at 8.3% and are due March 2005. Through the use of an interest rate swap, the company pays interest at a rate which varies with the LIBOR rate.

The fair value of the company's property specific borrowings and term debentures is $1,520 million (2001 – $1,167 million) based on current market prices for debt with similar terms and risks.

10. FUTURE INCOME TAX LIABILITY

The difference between the statutory rate and the effective rate of tax is attributable to the company's dividend income and equity earnings being taxed prior to receipt by the company. The company's future income tax liability of $120 million (2001 – $116 million) is comprised principally of temporary differences relating to property, plant and equipment. This amount is net of a future tax asset of $12 million (2001 – $21 million) relating to unused non-capital losses.

millions	**2002**	2001
Net income	**$ 167**	$ 131
Combined income tax rates	**38%**	41%
Statutory income tax rates applied to accounting income	**63**	54
Non-deductible expenses	**2**	1
Non-taxable dividends	**(45)**	(54)
Recognition of the benefit of tax losses	**(16)**	(7)
Provision for income taxes	**$ 4**	$ (6)

11. 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:

millions	**2002**	2001
Preferred shares issued by consolidated subsidiaries	**$ 90**	$ 90
Limited partnership interests of consolidated subsidiaries	**4**	4
Trust units issued by consolidated subsidiaries	**256**	177
	$ 350	$ 271

12. SHAREHOLDERS' EQUITY

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

millions	**2002**	2001
101,383,135 (2001 – 101,383,135) Common shares	**$ 603**	$ 603
Retained earnings	**523**	448
	1,126	1,051
Subordinated convertible debentures	**248**	248
	$ 1,374	$1,299

The 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. Principal and interest are payable at the company's option with common shares.

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

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

millions	**2002**	2001
Common share dividends	**$ 65**	$ 65
Convertible debt interest	**15**	16
	$ 80	$ 81

13. OTHER INFORMATION

millions, except per share amounts	**2002**	2001
Average diluted common shares outstanding	**126.2**	126.2
Basic earnings per share	**$ 1.50**	$ 1.13

The company's two largest customers accounted for 8% and 7%, respectively, of total revenues in 2002 (2001 – 12% and 10%, respectively).

During 2002, no hydrological provisions (2001 – $7 million) were applied against power purchase costs and a $3 million (2001 – $10 million) recovery of hydrological provisions was included in revenue from power operations. At December 31, 2002, hydrological provisions totalled nil (2001 – $3 million).

14. COMMITMENTS AND CONTINGENCIES

The company has entered into a power agency and guarantee agreement with the Great Lakes Power Trust (the "Trust"), in which the company has a 50% indirect interest, for a term of 20 years. This agreement requires the company to fund any deficiency amount between a guaranteed price for energy and the actual energy revenues earned by the Trust. The company is entitled to receive any revenues in excess of the guaranteed amount. The cumulative net surplus amount in 2002 was nil (2001 – $0.2 million).

In addition, the company agreed to provide to the Income Fund hydrology credit facilities in the amount of $25 million for a period of 15 years, of which not more than $8 million is permitted to be advanced during any given year. Of this amount, Lièvre River Power has $15 million available until 2014 and Mississagi Power has $10 million available until 2019. These facilities bear interest at market rates.

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are utilized by the company in the management of interest rate and commodity exposures primarily related to the generation of electricity. It is the company's policy to restrict the use of derivative financial instruments for trading or speculative purposes to within predetermined limits.

The company formally documents relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking forward electricity sale derivatives to specific periods in which the company anticipates generating electricity for sale. The company also 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 the fair values or cash flows of the hedged items.

The company defers unrealized gains and losses on electricity commodity contracts designated as hedges and records them as an adjustment to power revenues when the underlying hedged transaction is recorded. Commodity contracts not designated as hedges are recorded in accounts receivable or accounts payable at fair value with changes in fair value recorded in power revenue.

	Range of Maturity	Notional Amount Bought	Average Rate	Notional Amount Sold	Average Rate
Electricity	1 month to 3 years	2,284 GWh	$56.58 per MWh	6,270 GWh	$54.89 per MWh

As at December 31, 2002, contracts designated as hedges had a net fair value determined based on quoted market rates of negative $33 million, consisting of contracts with a positive mark-to-market of$38 million and contracts with a negative mark-to-market of $71 million. The company manages credit risks by entering into contracts with highly rated counterparties.

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 hedge 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 2002 was $466 million (2001 – $468 million). These contracts have maturities varying from one to three years, and have a favourable replacement value of $8 million (2001 – $26 million).

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.

16. EMPLOYEE BENEFIT PLAN

The company offers a number of pension plans to its employees. The company's obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations. As of December 31, 2002, the assets of the plans totalled $40 million (2001 – $37 million) and accrued benefit obligation amounted to $43 million (2001 – $35 million) for a net accrued benefit liability of $3 million (2001 – $2 million). The benefit plan expense for 2002 was $0.3 million (2001 – $0.2 million). The investment rate of return was 7% (2001 - 7%). The discount rate used was 6.75% with a rate of compensation increase of 3.8%.

17. GEOGRAPHIC SEGMENTED INFORMATION

The company operates in Canada and the United States. Revenues by country are as follows:

millions	**2002**	2001
Canada	**$ 288**	$ 258
United States	**52**	12
	$ 340	$ 270

Income by country is as follows:

millions	**2002**	2001
Canada	**$ 181**	$ 120
United States	**35**	12
Other unallocated income (expenses)	**(49)**	(1)
	$ 167	$ 131

Power generating assets by country are as follows:

millions	**2002**	2001
Canada	**$ 1,519**	$ 1,027
United States	**636**	330
	$ 2,155	$ 1,357

Depreciation expense from power generating assets by country is as follows:

millions	**2002**	2001
Canada	**$ 34**	$ 27
United States	**6**	—
	$ 40	$ 27

FOURTH QUARTER 2002 FINANCIAL RESULTS

The company's unaudited financial statements for the fourth quarter of 2002 and 2001 are set out in the following tables:

Consolidated Statement of Income

(unaudited)

Three months ended December 31

millions, except per share amounts	**2002**	2001
Revenue		
Power revenue	**$ 78**	$ 57
Power purchases	**—**	11
Net power revenue	**78**	46
Investment and other income	**22**	25
	100	71
Expenses		
Interest	**26**	20
Operating and maintenance	**17**	10
Fuel purchases	**6**	3
Depreciation	**10**	7
Non-controlling interests	**—**	3
Income and other taxes	**12**	3
	71	46
Net income	**$ 29**	$ 25
Diluted net income per common share	**$ 0.23**	$ 0.20

Consolidated Statement of Retained Earnings

(unaudited)

Three months ended December 31

millions	**2002**	2001
Retained earnings		
Balance, beginning of period	**$ 526**	$ 443
Net income	**29**	25
Distributions to unitholders of common shares & equivalents	**(20)**	(20)
Adjustment for change in accounting policy	**(8)**	—
Fund unit issue costs	**(4)**	—
Balance, end of period	**$ 523**	$ 448

Consolidated Statement of Cash Flows

(unaudited)

Three months ended December 31

millions	**2002**	2001
Cash flow from operations		
Net income	**$ 29**	$ 25
Add non-cash items		
Depreciation	**10**	7
Hydrological provisions	**(3)**	(7)
Other	**8**	7
Cash flow from operations	**$ 44**	$ 32
Net change in non-cash working capital	**41**	42
Cash provided by operating activities	**85**	74
Financing and shareholder distributions		
Borrowings	**32**	177
Debt repayments	**2**	(104)
Issuance of funds units	**—**	78
Distributions:		
– Great Lakes Hydro Income Fund unitholders	**(7)**	(5)
– Common shares and equivalents	**(20)**	(20)
	7	126
Investing		
Securities purchases	**(10)**	(57)
Securities sales	**67**	40
Long-term investments	**(36)**	14
Loans and other receivables	**(91)**	(152)
Power generating assets	**(51)**	(54)
	(121)	(209)
Cash and cash equivalents		
Increase (decrease)	**(29)**	(9)
Balance, beginning of period	**39**	19
Balance, end of period	**$ 10**	$ 10
Supplementary information		
Interest paid	**$ 21**	$ 22
Taxes paid	**$ 3**	$ 4