

Great Lakes Power Inc.

2003 ANNUAL REPORT

Great Lakes Power Inc. is a low cost north american power generator with a focus on hydroelectric power generation. Our power operations, which operate under the name “Brascan Power”, include 45 hydroelectric generating stations located on 15 river systems, one natural gas-fired cogeneration facility and a transmission and distribution network. Our current operations have a combined generating capacity of 1,761 megawatts, are generating, on average, 7,000 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).

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2003 HIGHLIGHTS

FINANCIAL HIGHLIGHTS <i>millions</i>	2003	2002	2001
Operating Results			
Revenue	\$ 448	\$ 340	\$ 270
Net income	97	167	131
Financial Position			
Total assets ¹	3,580	3,500	2,930
Shareholders' equity ¹	1,382	1,374	1,299

¹ At December 31

OPERATING HIGHLIGHTS	2003	2002	2001
Total installed capacity (<i>megawatts</i>)	1,761	1,636	991
Electricity generation (<i>gigawatt hours</i>)	6,279	5,584	3,959

POWER OPERATIONS <i>at December 31, 2003</i>	Generating Stations	Generating Units	Installed Capacity <i>megawatts</i>	Long-term Average <i>megawatt hours</i>
Ontario				
Great Lakes Power	12	21	349	1,610
Mississagi Power	4	8	488	750
Valerie Falls Power	1	2	10	52
Lake Superior Power	1	3	110	850
	18	34	957	3,262
Quebec				
Lièvre River Power	3	10	238	1,428
Pontiac Power	2	7	28	210
	5	17	266	1,638
Northeast United States				
Maine Power	7	32	130	747
New Hampshire Power	8	25	44	263
	15	57	174	1,010
Other Power Operations				
Powell River Energy	2	7	82	261
Pingston Creek	1	2	30	78
Louisiana HydroElectric Power	1	8	192	677
Brascan Energética	3	8	60	143
	7	25	364	1,159
Total	45	133	1,761	7,069

CORPORATE PROFILE

The Company

The Company conducts its power generating operations mainly in Ontario, Quebec and the northeast United States, with other power operations in British Columbia, Louisiana and Brazil. These operations are either owned directly or by the Great Lakes Hydro Income Fund, in which the Company owns a 50% interest. The Company operates 45 power generating stations with a combined generating capacity of 1,761 megawatts ("MW"). These stations include 44 hydroelectric generating facilities and one natural gas-fired cogeneration plant. Great Lakes also operates a power transmission network in Ontario and Quebec and a distribution network in Ontario.

Great Lakes is a wholly owned subsidiary of Brascan Corporation ("Brascan"). Brascan operates in the real estate, power generation and funds management sectors, with investments in the resource sector. Brascan's common shares are listed on the New York and Toronto stock exchanges.

Great Lakes is committed to expanding its power production base by acquiring existing hydroelectric assets and developing greenfield sites and transmission projects.

The Company's principal operating units are summarized below.

Ontario

Great Lakes Power includes an electric power generating business with 12 hydroelectric stations located on the Magpie, Michipicoten, Montreal and St. Mary's Rivers in northern Ontario, having a combined generating capacity of 349 MW. Great Lakes Power also operates a separate power transmission network which consists of approximately 726 km of 44 kv to 230 kv transmission lines and comprises part of the Independent Electricity Market Operator ("IMO") controlled grid. Great Lakes Power also operates a distribution network, which consists of 1,700 km low voltage lines and 11 distribution stations and services approximately 11,500 customers. This system has supplied electricity to the city of Sault Ste. Marie and the Algoma District for almost 90 years.

Mississagi Power includes four hydroelectric generating stations in northern Ontario located on the Mississagi River northeast of Sault Ste. Marie, with a combined generating capacity of 488 MW. These facilities were acquired by the Company in May 2002.

Valerie Falls Power is a 10 MW hydroelectric generating station located on the Seine River in northwestern Ontario.

Lake Superior Power is a 110 MW natural gas-fired cogeneration station located in Sault Ste. Marie, Ontario.

Quebec

Lièvre River Power consists of three hydroelectric generating stations located on the Lièvre River in western Quebec with a combined generating capacity of 238 MW. This operation has four transmission interconnections with the Quebec power grid and two with the Ontario power grid.

Pontiac Power includes two hydroelectric generating stations with a combined generating capacity of 28 MW located on the Black and Coulonge Rivers in western Quebec. This operation also has a transmission interconnection with the Ontario power grid.

Northeast United States

Maine Power consists of seven hydroelectric generating stations in Northern Maine having a combined generating capacity of 130 MW. Six of these stations located on the Penobscot River were acquired by the Company in February 2002 and one station located on the Moose River was acquired in November 2003.

New Hampshire Power includes eight hydroelectric generating stations with a combined capacity of 44 MW located on the Androscoggin River in New Hampshire. Six of these stations were acquired by the Company in May 2002 and two in November 2003.

Other Power Operations

Powell River Energy consists of two 50% owned hydroelectric generating stations in southwestern British Columbia with a combined generating capacity of 82 MW.

Pingston Creek is a 50/50 joint venture which owns and operates a 30 MW hydroelectric generating station near Revelstoke in central British Columbia. This plant began generating power in May 2003.

Louisiana HydroElectric Power owns and operates a 192 MW run-of-the-river hydroelectric generating station and sediment control facility on a diversion of the lower Mississippi River in Louisiana. The Company has a 75% residual interest in this facility.

Brascan Energética operates three hydroelectric generating stations in southern Brazil with a combined generating capacity of 60 MW. These stations commenced operations in the fourth quarter of 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2003 HIGHLIGHTS

Robert A. Dunford Generating Station in Ontario Completed

Commercial operation of the 45 MW Robert A. Dunford Generating Station located on the Michipicoten River near Wawa, Ontario commenced in April 2003. The Dunford Generating Station was completed on schedule and on budget for \$72 million, and replaces the older 27 MW High Falls station with a larger, more efficient facility with increased peak power generating capability. The completion of this project increased the Company's generating capacity in Ontario to 957 MW, solidifying our position as a key participant in Ontario's competitive energy markets.

Pingston Creek Generating Station in British Columbia Completed

Commercial operation of the 30 MW Pingston Creek Generating Station in south-central British Columbia near Revelstoke commenced in May 2003. This \$65 million project was developed in a 50/50 joint venture with Canadian Hydro Developers Inc. All of the station's power output is being sold to BC Hydro under a 20-year power sale contract. The completion of this station adds to the Company's generating capacity in British Columbia and further enhances the geographic diversification of its power operations.

Maine Power Interconnection Completed

The expansion of the power interconnection between the Company's Maine Power system, acquired in 2002, and the New England power grid through the construction of a new 115 kilovolt, 24 mile long transmission line was completed in May 2003. This US\$17 million project increased the capacity of the interconnection from 20 MW to 130 MW and greatly enhances our ability to transmit Maine Power's generation output into the New England power markets.

New Hampshire Cogeneration Facility Started

Construction commenced on a US\$32 million 25 MW natural gas-fired cogeneration station in New Hampshire, expected to commence operation in the first six months of 2004. This station will provide all the electricity and steam it produces to the pulp and paper facilities located in Berlin/Gorham, New Hampshire, which are owned by Nexfor Inc., an affiliate of the Company's principal shareholder, under a 10 year tolling agreement.

\$499 Million of Senior and Subordinate Secured Bonds Issued

In June 2003, Great Lakes completed a \$384 million 6.6% senior secured bond issue due June 16, 2023. The bonds are rated A (low) by Dominion Bond Rating Service ("DBRS") and are secured by the assets of its power

generation and transmission business in Great Lakes Power. Backed primarily by merchant power sales rather than the more traditional long-term power sales contracts, the financing reflects the high quality of the Company's hydroelectric generating and transmission assets and the strength of its operations in northern Ontario. In July, the Company continued the financing of these high quality assets by issuing \$115 million 7.8% subordinate bonds. These bonds carry the same terms as the senior bonds and were rated BBB by DBRS. The proceeds of the issues have been used to retire approximately \$300 million of maturing debt and to finance capital improvements.

Cedar Dam Generating Station in Quebec Approved

During 2003, the Company advanced the construction of a new 9 MW hydroelectric generating station on the Lièvre River to increase annual generation by 62 GWh of energy. Final approval for this \$24 million project was received in December 2003 for expected completion 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.

\$175 million of First Mortgage Bonds Issued

In November 2003, Great Lakes completed a \$175 million, 6.9% private placement bond issue. The bonds are rated A(low) by DBRS and are secured by the Mississagi Power assets in Northern Ontario.

Three Hydroelectric Generating Stations in Brazil Completed

Construction of three new hydroelectric generating stations in southern Brazil was completed in the fourth quarter of 2003: the 30 MW Passo do Meio project in the State of Rio Grande do Sul, and the 15 MW Pedrinho and 15 MW Salto Natal projects stations in the State of Paraná.

Three New Hydroelectric Facilities in New England Acquired

In November 2003, the Company purchased three hydroelectric power plants located in northeastern United States for approximately US\$28 million. The assets include the Pontook and Errol plants located on the Androscoggin River in New Hampshire, and the Brassua plant located on the Moose River in Maine. These three power generating facilities are interconnected with the New England power grid and have a total generating capacity of 16.5 MW, producing approximately 95 gigawatt hours ("GWh") annually.

This purchase was made through the Great Lakes Hydro Income Fund, and was funded initially through a US\$30

million increase in the US\$136 million Great Lakes Hydro America bridge financing facility. All power produced by the Errol and Brassua facilities is sold under long-term power purchase agreements to Public Service of New Hampshire and Central Maine Power, respectively. All power produced by the Pontook station is sold into the New England power pool. The acquisition of these facilities brings Great Lakes' total number of generating stations to 45 and total installed capacity to 1,761 MW.

OPERATING RESULTS

Summary Financial Results

For the year ended December 31, 2003, Great Lakes reported net operating income of \$241 million, down from \$247 million in 2002. The decrease in net operating income was the result of lower than average generation levels in the first half of the year and moderate summer temperatures impacting the average price realized on uncommitted power and the demand for ancillary services. Generation returned to average levels at most of our hydro facilities with improved water conditions in Ontario, Quebec and the northeast United States during the last half of 2003. In particular, during the fourth quarter, our facilities in Ontario, Quebec and New England all produced above long-term average. Electricity generation for 2003 increased to 6,279 GWh compared to 5,584 GWh last year, as the additional capacity available as a result of the acquisitions made last year offset weaker hydrology.

Power delivered and net operating income by geographic area for 2003 compared to 2002 are shown below:

	2003	2002
Power Generated (<i>gigawatt hours</i>)		
Ontario	3,069	2,531
Quebec	1,461	1,585
Northeast United States	710	558
Other Power Operations	1,039	910
Total	6,279	5,584
Net Operating Income (<i>\$ millions</i>)		
Ontario	\$ 143	\$ 131
Quebec	46	70
Northeast United States	22	23
Other Power Operations	30	23
	\$ 241	\$ 247

Ontario

Power generated by the Company's operations in Ontario increased by 21% to 3,069 GWh in 2003 from 2,531 GWh in 2002. This reflected the acquisition of Mississagi Power in May 2002, the acquisition of the remaining interest in Lake Superior Power in November 2002 and the completion of the Robert A. Dunford Station in May 2003.

Power generated by the Company's operations in Ontario in 2003 compared to 2002 is shown below:

<i>gigawatt hours</i>	2003	2002
Great Lakes Power - Generation	1,542	1,639
Mississagi Power	636	340
Valerie Falls Power	30	45
Lake Superior Power ¹	861	507
	3,069	2,531

1. Includes electricity equivalents of contracted gas sales.

Quebec

Power generated by the Company's operations in Quebec decreased by 8% to 1,461 GWh from 1,585 GWh in 2002. The decrease is related to below average inflows during the first part of the year. Power generated by the Company's operations in Quebec in 2003 compared to 2002 is shown below:

<i>gigawatt hours</i>	2003	2002
Lièvre River Power	1,284	1,399
Pontiac Power	177	186
	1,461	1,585

Northeast United States

Power generated by the Company's operations in northeast United States increased by 27% from 558 GWh in 2002 to 710 GWh in 2003, reflecting a full year of generation for the assets acquired in February and May 2002 and the acquisition of the new assets in November 2003. Despite improving water conditions, inflows remained below long-term average at the beginning of the year and as a result, generation at the New England facilities remained below their long-term average.

Power generated by the Company's operations in northeast United States in 2003 and 2002 is shown below:

<i>gigawatt hours</i>	2003	2002
Maine Power	541	477
New Hampshire Power	169	81
	710	558

Other Power Operations

Power generated by the Company's other power operations in North America increased by 14% to 1,039 GWh from 910 GWh in 2002. The increase reflected improved water flows on the lower Mississippi River which increased power generation at Louisiana HydroElectric Power by 5%. Pingston Creek, our new facility in British Columbia generated 61 GWh since its completion in May 2003 and Brascan Energética, our new facilities in Brazil, generated 42 GWh since their completion in the fourth quarter of 2003.

Power delivered by the Company's other power operations in 2003 compared to 2002 is shown below:

<i>gigawatt hours</i>	2003	2002
Louisiana HydroElectric Power	669	639
Pingston Creek	61	—
Powell River Energy	267	271
Brascan Énergética	42	—
	1,039	910

INCOME ANALYSIS

Great Lakes' net income for 2003 decreased to \$97 million from \$167 million in 2002.

Financial results for the year ended December 31, 2003 compared to 2002 are shown in the following table:

<i>millions</i>	2003	2002
Revenue	\$ 448	\$ 340
Net operating income		
Power generation	215	222
Transmission and distribution	26	25
	241	247
Investment income and other	80	92
Expenses	224	172
Net income	\$ 97	\$ 167

Revenue

Total revenue for 2003 was \$448 million compared with \$340 million in 2002, an increase of 32% due to increased generation from additional capacity available during the year, and power sales to manage the loads of our affiliates.

Great Lakes strives to maximize the stability and predictability of power generating revenues through the use of fixed price contracts to minimize the impact of price fluctuations, and through diversification of watersheds and water storage reservoirs to manage fluctuation in generation levels.

Approximately 82% of the Company's projected 2004 revenues are subject to fixed price contracts or regulated revenue requirements. The remaining revenue is generated through the sale of power on a wholesale basis. Due to the low cost of hydroelectric power and the ability to increase generation during peak pricing periods, the Company is able to generate attractive margins on its uncommitted capacity. Great Lakes' long-term sales contracts have an average duration of 13 years, and its counterparties are almost exclusively customers with long-standing credit history or investment grade ratings.

Net Operating Income

Net operating income consists of revenues from

Company's power operations, net of operating and maintenance costs, fuel purchases for our cogeneration plant in northern Ontario, power purchases and municipal and other generation taxes on hydroelectric facilities.

During 2003, operating and maintenance costs increased to \$62 million in 2003 compared with \$45 million in 2002. Operating and maintenance costs consist of labour, materials and administrative support. The increase in operating and maintenance costs is primarily attributable to the addition of new facilities in 2002 and 2003.

Fuel purchases consist of the costs for natural gas required for the Lake Superior Power cogeneration plant. Fuel purchases were \$34 million in 2003 compared to \$18 million in 2002. The increase in fuel purchases is due to the purchase of the remaining 50% interest in Lake Superior in December 2002.

Power purchases during the year amounted to \$95 million compared to \$14 million in the prior year. The difference is the result of power procured on behalf of an affiliate of the Company.

Cash taxes related to the Company's generation totalled \$16 million in the year, consistent with the prior year.

Investment and Other Income

Investment and other income for 2003 was \$80 million compared with \$92 million in 2002. Investment and other income consists of dividend income from long-term investments and the Company's securities portfolio, and interest on loans receivable. The decrease in investment and other income is attributed to lower average interest rates in Canada and the United States, and the sale of securities and long-term investments.

Expenses

Interest in 2003 was \$93 million compared to \$90 million in 2002. Interest expense consists of the costs related to servicing property specific borrowings and corporate term debt. The increase in interest expense is attributable to additional debt incurred from refinancing initiatives during the year. These costs were partially offset by decreasing interest rates during the year.

Depreciation in 2003 was \$55 million compared to \$40 million in 2002. The increase is attributable to the acquisitions in 2003 and 2002.

Non-controlling interests increased to \$22 million in 2003 compared with \$18 million in 2002. Non-controlling interest consists of the allocation of income associated with the non-controlling interests in the Company's consolidated entities. The increase is related to the higher earnings recorded by the Great Lakes Hydro Income Fund (the "Income Fund"), which is 50% owned by other investors.

Non-cash taxes and other increased to \$31 million in 2003 compared with \$9 million in 2002. The increase in non-cash taxes and others is primarily related to non-cash provisions for federal and provincial income taxes, which increased as a result of a change in tax rates in Ontario. These are accounted for under the asset and liability method of accounting.

BALANCE SHEET ANALYSIS

The Company's total assets increased during 2003 from \$3,500 million to \$3,580 million. Assets and liabilities at December 31, 2003 and 2002 are summarized in the following table:

<i>millions</i>	2003	2002
Assets		
Cash & cash equivalents	\$ 31	\$ 10
Accounts receivable & other	422	186
Securities	544	590
Long-term investments	444	559
Power generating assets	2,139	2,155
	\$ 3,580	\$ 3,500
Liabilities		
Accounts payable & other	\$ 114	\$ 158
Property specific borrowings	1,116	905
Corporate term debentures	487	593
Future income taxes	152	120
Non-controlling interests	329	350
Shareholders' equity	1,382	1,374
	\$ 3,580	\$ 3,500

Power Generating Assets

The depreciated cost of the Company's power generating assets decreased during 2003 from \$2,155 million to \$2,139 million.

Power generating assets in Ontario and Québec decreased by 1% from \$1,366 million in 2002 to \$1,346 million in 2003.

We increased our presence in the northeast United States during the year with the construction of a US\$17 million transmission line and the acquisition of three generating stations in Maine and New Hampshire. This was offset by the weakening of the U.S. dollar. Power generating assets in the northeast United States region decreased by 2% from \$304 million at the end of 2002 to \$296 million at the end of 2003.

Other power operations increased 2% from \$485 million in 2002 to \$497 million in 2003. The increase reflects the completion of the Pingston Creek Station in British Columbia and the Brascan Energética stations in Brazil.

Financial Assets

The Company's accounts receivable and other assets increased to \$422 million in 2003 from \$186 million in 2002. The increase is due to increased funds on deposit, resulting from the sales of securities and long-term investments.

The Company's securities portfolio, which is comprised primarily of preferred shares of affiliated Canadian companies, decreased from \$590 million to \$544 million in 2003. The composition of the Company's securities portfolio by business sector at December 31, 2003 and 2002 is summarized below:

<i>millions</i>	2003	2002
Property	\$ 151	\$ 160
Natural resources	126	161
Financial services & diversified	242	199
Other	25	70
	\$ 544	\$ 590

The book values of the Company's long-term investments and the underlying securities at December 31, 2003 and 2002 are shown below:

<i>millions</i>	2003	2002
Brascan Financial Corporation	\$ 195	\$ 195
Noranda Inc.	146	146
Other investments	103	218
	\$ 444	\$ 559

LIABILITIES

Accounts payable and other decreased to \$114 million in 2003, compared to \$158 million in 2002. Great Lakes' borrowings includes property specific borrowings, corporate debentures, bank credit facilities and bridge loan facilities provided by Brascan.

At December 31, 2003, the Company's total debt was \$1,603 million, as detailed in the following table:

<i>millions</i>	2003	2002	Interest Rates
Great Lakes Power Ltd.			
First Mortgage Bonds			
Series 1	\$ 384	\$ —	6.60%
Series 4	—	166	6.57%
Series 5	—	150	4.58%
Subordinated debt	115	—	7.80%
Great Lakes Power Trust			
Secured credit facility	21	7	Prime+ Margin
First Mortgage Bonds			
Series 1	50	50	7.33%
Series 2	25	25	7.55%
Series 3	25	25	7.78%
Powell River	38	38	6.40%
Lake Superior Power	13	19	9.41%
Pontiac Power	61	62	10.52%
Valerie Falls	32	33	6.84%
Mississagi Power	175	151	6.92%
GLHA bridge facility	177	179	US Prime+150bps
	1,116	905	
Corporate term debentures	487	593	7.50%
	\$1,603	\$1,498	

The maturity schedule of the Company's property specific borrowings is as follows:

<i>millions</i>	Annual Repayments
2004	\$ 235
2005	494
2006	4
2007	2
2008	2
Thereafter	866
	\$ 1,603

CAPITAL BASE AND FINANCIAL POSITION

The Company's capital base at December 31, 2003 of \$1,382 million was comprised of common equity with a book value of \$1,134 million or \$11.19 per share and a further \$248 million of subordinated convertible debentures. The convertible debentures mature September 2013 and interest and principal may be paid by the Company in the form of its common shares. The debentures are therefore included as part of the Company's capital base.

The composition of the Company's capital base at December 31, 2003 and 2002 is summarized in the following table:

<i>millions</i>	2003	2002
Subordinated convertible debentures	\$ 248	\$ 248
Common shares	1,134	1,126
	\$1,382	\$1,374

Regular dividends paid on the Company's common shares in both 2003 and 2002 amounted to \$64.9 million, representing an earnings payout ratio of 67% in 2003 and 39% in 2002.

The Company's policy is to distribute surplus operating cash flows not required for investment in power generating facilities to its common shareholders in the form of regular quarterly and special dividend payments.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital requirements are affected primarily by the results of operations, capital expenditures, debt service requirements and working capital needs. The net cash provided by or used in operating, financing and investing activities for 2003 and 2002 was as follows:

<i>millions</i>	2003	2002
Cash provided by (used in):		
Operating activities	\$ 126	\$ 237
Financing activities	102	347
Investing activities	(207)	(584)

Cash provided by operating activities decreased during 2003 to \$126 million compared with \$237 million in 2002 for the reasons discussed under "Income Analysis".

Cash provided by financing activities decreased during 2003 to \$102 million compared with \$347 million in 2002. In 2002, new financing was obtained to fund the

acquisition of Great Lakes Hydro America and Mississagi Power systems. Financing activities in 2003 included refinancing of the Great Lakes Power and Mississagi Power systems in Ontario.

Cash utilized in investing activities decreased in 2003 to \$207 million from \$584 million in 2002 due to the purchase of Great Lakes Hydro America and Mississagi Power systems in 2002.

BUSINESS ENVIRONMENT AND RISKS

Operating income from hydroelectric power generation fluctuates in relation to the availability of water and the ability to generate and deliver power to markets with the highest power rates. While changes in the level of precipitation impact the amount of power generated by individual operations, the diversified locations of the Company's hydroelectric power stations across several different watershed areas in Canada and the United States help to balance the financial impact of these fluctuations.

Deregulated electricity markets in northeast Canada and the United States have resulted in fluctuations in the price of power based on supply and demand dynamics. This volatility in prices is managed through long-term fixed price contracts on approximately 82% of the Company's power production.

Counterparty credit risk is inherent in the Company's long-term fixed price contracts. The Company manages this risk by entering into contracts with counterparties that are either (i) investment grade or (ii) have an established credit history.

Regulatory changes may result in uncertain power markets in the short term, which could impact the operating income from the Company's power businesses.

Investment income from a substantial portion of the Company's preferred shareholdings varies generally with the amount invested, as the rate of return is generally fixed. Income from other investments is sensitive to interest rate changes; however, a similar offsetting sensitivity exists with a portion of the Company's debt.

OPERATING STRATEGY AND OUTLOOK

Since the beginning of 2002, Great Lakes has increased generating capacity through the acquisition of 19 existing hydroelectric generating facilities in Ontario, Maine and New Hampshire and the completion of two new hydroelectric generating stations in Ontario and British Columbia. Together these initiatives increase our power generation base to over 1,700 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. Our preference is for long-life hydroelectric generating facilities with water storage reservoirs. We will also consider developing wind power projects or acquiring thermal generating stations, with a knowledgeable partner where appropriate. Our guidelines of investment are as follow: (i) invest in areas where we

possess a competitive advantage and never bet the Company on any one acquisition; (ii) acquire assets on a value basis; (iii) build sustainable cash flows to provide certainty, reduce risk and lower the cost of capital; (iv) recognize that superior return involves hard work and often requires contrarian thinking.

We are measuring our success over the long-term by total return on capital and are seeking profitability rather than growth because size doesn't necessarily add value. We are prepared to sacrifice short-term profit to achieve long-term growth and encourage taking calculated risk.

The Company has the following strategic priorities: (i) increase and strengthen cash flow from the generation business and position the Company to market power in open access, competitive markets; (ii) expand its production base through the acquisition of existing generating assets (iii) develop greenfield sites and expand existing transmission network in Ontario.

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.

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.



Donald Tremblay
Senior Vice-President and Chief Financial Officer
February 19, 2004

AUDITORS' REPORT

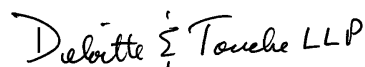
To the Shareholders of Great Lakes Power Inc.

We have audited the consolidated balance sheets of Great Lakes Power Inc. as at December 31, 2003 and 2002 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, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



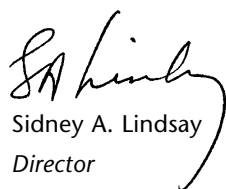
Deloitte & Touche LLP
Toronto, Canada
February 19, 2004

CONSOLIDATED BALANCE SHEET

December 31

<i>millions</i>	note	2003	2002
Assets			
Cash and cash equivalents		\$ 31	\$ 10
Accounts receivable and other	3	422	186
Securities	4	544	590
Long-term investments	5	444	559
Power generating assets	6	2,139	2,155
		\$ 3,580	\$ 3,500
Liabilities			
Accounts payable and other		\$ 114	\$ 158
Property specific borrowings	8	1,116	905
Corporate term debentures	9	487	593
Future income tax liability	10	152	120
Non-controlling interests	11	329	350
Shareholders' equity	12	1,382	1,374
		\$ 3,580	\$ 3,500

Approved by the Board:


 Sidney A. Lindsay
 Director


 Edward C. Kress
 Director

CONSOLIDATED STATEMENT OF INCOME

Years ended December 31

<i>millions, except per share amounts</i>	note	2003	2002
Total revenues		\$ 448	\$ 340
Net operating income			
Power generation		215	222
Transmission and distribution		26	25
		241	247
Investment and other		80	92
		321	339
Expenses			
Interest expense		93	90
Depreciation		55	40
Non-controlling interests	11	22	18
Administrative costs		23	15
Non-cash taxes and other		31	9
		224	172
Net income		\$ 97	\$ 167
Diluted net income per common share	13	\$ 0.77	\$ 1.32

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31

<i>millions</i>	note	2003	2002
Retained earnings			
Balance, beginning of year		\$ 523	\$ 448
Net income		97	167
Distributions to holders of common shares and equivalents	12	(80)	(80)
Adjustment for change in accounting policy	1	—	(8)
Share of Fund unit issue costs		—	(4)
Balance, end of year		\$ 540	\$ 523

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31

<i>millions</i>	2003	2002
Cash flow from operating activities		
Net income	\$ 97	\$ 167
Add non-cash items		
Depreciation	55	40
Tax and other	34	3
	\$ 186	\$ 210
Net change in non-cash working capital	(60)	27
	126	237
Financing activities and shareholder distributions		
Borrowings	846	405
Debt repayments	(635)	(54)
Issuance of fund units	—	103
Distributions:		
– Great Lakes Hydro Income Fund unitholders	(29)	(27)
– Common shares and equivalents	(80)	(80)
	102	347
Investing activities		
Securities purchases	(108)	(10)
Securities sales	154	125
Long-term investments	115	(36)
Loans and other receivables	(205)	171
Power generating assets	(163)	(834)
	(207)	(584)
Cash and cash equivalents		
Increase	21	—
Balance, beginning of year	10	10
Balance, end of year	\$ 31	\$ 10
Supplementary information		
Interest paid	\$ 95	\$ 85
Taxes paid	\$ 16	\$ 16

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 in Canada, the United States and Brazil and a transmission and distribution system in northern Ontario. 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 and Pingston Power.

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, gas and steam is recorded based upon output delivered at rates as specified under contract terms or prevailing market rates.

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.

Power purchases are recorded upon delivery, are recorded as a reduction of total revenue and are included as a component of net operating income.

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 adjusts 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. Actuarial gains and losses are deferred and amortized over the expected average remaining service life of the employees covered under the plan. 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 and interest rate risk associated with the Company's production, operating and risk management activities. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is reasonable assurance that it will continue to be effective as a hedge based on an expectation of offsetting cash flows. The periodic exchanges of payments on interest rate swaps designated as hedges of debt are recorded on an accrual basis as an adjustment to interest expense. The periodic exchanges of payments on power generation commodity swaps designated as hedges are recorded on a settlement basis as an adjustment to power generation income. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. The fair value of the derivative that was deferred by the application of hedge accounting is recognized in income over the term of the original hedging relationship. Derivative financial instruments that are not designated as hedges are carried at estimated fair values and gains and losses arising from changes in fair values are recognized in income in the period the changes occur. The use of non-hedging derivative contracts is governed by documented risk management policies and approved limits. Derivative financial instruments of a financing nature are recorded at fair value determined on a credit adjusted 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, 2003 the Company adopted the requirements of the CICA Accounting Guideline 14, "Disclosure of Guarantees" (AcG 14), which requires additional disclosure about a guarantor's obligations

under certain guarantees in the financial statements. AcG 14 defines a guarantee as a contract that contingently requires the guarantor to make payments to a guaranteed party based on (a) changes in the underlying economic characteristic that is related to an asset, liability or an equity security of the guaranteed party; (b) failure of another party to perform under an obligating agreement; or (c) failure of a third party to pay its indebtedness when due.

Future Accounting Policy Changes

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. In July 2003, the CICA issued handbook section 1100, "Generally Accepted Accounting Principles". The section establishes standards for financial reporting in accordance with GAAP, and provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. The Company will implement the new section prospectively beginning on January 1, 2004. Due to prospective nature of this change, there is no impact on the Company's consolidated financial statements as of the implementation date.

In June 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (AcG 15). AcG 15 provides guidance for applying the principles in 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 any of voting control, an obligation to absorb expected losses, or the right to share expected residual returns. AcG15 requires consolidation of VIE'S 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 Company is in the process of assessing the impact of the amended standard on the consolidated financial statements

In November 2003, the Accounting Standards Board (AcSB) approved a revision to CICA Section 3860, "Financial Instruments: Disclosure and Presentation", to require 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.

Effective January 1, 2004, the Company will adopt Accounting Guideline 13, "Hedging Relationships" (AcG13), the new accounting guideline issued by the CICA which increases the documentation, designation and effectiveness criteria to achieve hedge accounting. The guideline requires the discontinuance of hedge accounting for hedging relationships previously established that do not meet the criteria at the date it is first applied. AcG 13 does not change the method of accounting for derivatives in hedging relationships, but EIC 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", effective when AcG 13 is adopted, requires fair value accounting

for derivatives that do not qualify for hedge accounting. In March 2003, the CICA issued Section 3110, "Asset Retirement Obligations", effective for financial statements issued for fiscal years beginning on or after January 1, 2004. Section 3110 addresses the recognition and re-measurement of obligations associated with the retirement of a tangible long-lived asset. This standard provides that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. These obligations are capitalized to the book value of the related long-lived assets and are depreciated over the useful life of the related asset. Section 3110 is not expected to have a material impact on the consolidated financial statements of the Company.

Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the 2003 presentation.

2. ACQUISITIONS

The Company acquired interests in one power generating asset in 2003 and four power generating assets in 2002. 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.

In November 2003, the Company completed the acquisition of leasehold interests in three hydroelectric generating stations in New England for cash consideration of US\$ 28 million. This acquisition includes two generating stations on the Androscoggin River in New Hampshire and one on the Moose River in Maine, having a combined generating capacity of 16.5 MW.

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

<i>US millions</i>	2003
Power generating assets	\$ 30
Working Capital	(2)
Net assets acquired	\$ 28
Consideration paid — \$US	\$ 28
Consideration paid — \$CAN	\$ 37

In February 2002, the Company completed the acquisition of the hydroelectric generating system and related transmission facilities in northern Maine, USA for cash consideration of US\$152 million and a promissory note of US\$5 million payable to the seller. 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:

<i>US millions</i>	2002
Power generating assets	\$ 158
Working capital	(1)
Net assets acquired	\$ 157
Consideration paid — \$US	\$ 157
Consideration paid — \$CAN	\$ 250

In May 2002, the Company completed the acquisition of a hydroelectric generating system located in New Hampshire for cash consideration of US\$33 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.

In May 2002, the Company completed the acquisition of a hydroelectric generating system located in northern Ontario 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:

<i>millions</i>	2002
Power generating assets	\$ 345
Working capital	1
Net assets acquired	\$ 346
Consideration paid	\$ 346

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:

<i>millions</i>	2002
Assets acquired	
Current assets	\$ 6
Power generating assets	61
Liabilities assumed	
Long term debt	(37)
Net assets acquired	\$ 30
Consideration paid	\$ 30

3. ACCOUNTS RECEIVABLE AND OTHER

The composition of accounts receivable and other is as follows:

<i>millions</i>	2003	2002
Demand deposits with affiliates	\$ 161	\$ (14)
Coal royalty receivables	70	70
Trade receivables	132	85
Prepaid interest and other	59	45
	\$ 422	\$ 186

The fair values of the Company's accounts receivable and other approximate their carrying values at December 31, 2003 and 2002 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, 2003 was \$552 million (2002 – \$583 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 46% floating rate securities and 54% fixed rate securities with an average yield at December 31, 2003 of 4.5%.

Financial and investment transactions with affiliated companies are at conditions similar to non-arms length transactions. Affiliated companies include Brascan and its subsidiaries and equity accounted investees. At December 31, 2003, the carrying value of securities with affiliated companies amounted to \$536 million (2002 – \$536 million). In 2003, income from securities and loans with affiliated companies amounted to \$36 million (2002 – \$39 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, 2003 and 2002 are shown below:

<i>millions</i>	2003	2002
Brascan Financial Corporation	\$ 195	\$ 195
Noranda Inc.	146	146
Other investments	103	218
	\$ 444	\$ 559

During 2003, the Company sold \$134 million of investments and acquired \$19 million of investments from Brascan Corporation for proceeds equal to carried value.

6. POWER GENERATING ASSETS

The composition of the Company's power generating assets at December 31, 2003 and 2002, by geographic area and asset type, is shown below:

<i>millions</i>	2003	2002
By geographic area:		
Ontario	\$ 920	\$ 937
Quebec	426	429
Northeast United States	296	304
Other Operations	497	485
	\$ 2,139	\$ 2,155
By asset type:		
Generation	\$ 1,964	\$ 1,846
Transmission	167	157
Distribution	77	69
Other	23	82
	2,231	2,154
Accumulated depreciation and amortization	(388)	(331)
	1,843	1,823
Investment in Louisiana HydroElectric	296	332
	\$ 2,139	\$ 2,155

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

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 Company's share of equity accounted earnings was \$18 million in 2003.

The financial accounts of Louisiana HydroElectric Power for 2003 and 2002 are as follows:

<i>millions</i>	2003	2002
Assets	\$1,357	\$1,604
Property specific borrowings	1,056	1,273
Other liabilities	129	155
Operating revenues	193	209
Operating expenses	50	55
Net income	26	24

In the course of its operations, the Company has entered into agreements for the use of water, land and/or dams. Payment under those agreements depends on the amount of power generated. The various renewable agreements 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, 2046 to 2066 for Mississagi Power, 2012 for Brassua Power, 2023 for Errol Power, 2032 for Pontook 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 and Pingston Power (2002- Powell River Energy only)

<i>millions</i>	2003	2002
Assets	\$ 93	\$ 59
Liabilities	54	56
Operating revenues	5	9
Operating expenses	1	8
Net income	3	1
Cash flows from operating activities	4	2
Cash flows from investing activities	(1)	(1)
Cash flows from financing activities	—	(1)

8. PROPERTY SPECIFIC BORROWINGS

<i>millions</i>	2003	2002
Great Lakes Power Limited		
First Mortgage Bonds		
Series 1	\$ 384	—
Subordinated	115	—
Series 4 (US \$105)	—	\$ 166
Series 5	—	150
	499	316
Great Lakes Power Trust		
Secured credit facility	21	8
First Mortgage Bonds		
Series 1	50	50
Series 2	25	25
Series 3	25	25
	121	108
Other Power Operations		
Property specific borrowings		
Pontiac Power	61	62
Valerie Falls Power	32	32
Powell River Energy	38	38
Lake Superior Power	13	19
Mississagi Power	175	151
Great Lakes Hydro America (US \$136)	177	179
	\$ 496	\$ 481
	\$ 1,116	\$ 905

The fair value of the Company's property specific borrowings is \$1,111 (2002-\$1,167) based on current market prices for debt with similar terms and risks.

The \$384 million First Mortgage Bonds Series 1 and the \$115 subordinated First Mortgage Bonds bear interest at the rate of 6.60% and 7.80% respectively, are due on June 16, 2023 and are secured by a charge on all present and future real property of the electricity power generating assets of Great Lakes Power. These bonds replaced the \$316 million First Mortgage Bonds

Series 4 and 5 bearing interest at respective rates of 6.57% and 4.58%, which matured June 16, 2003.

The Great Lakes Power Trust 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, including the Lièvre River Power system. Great Lakes Power Trust is a wholly owned subsidiary of the Great Lakes Hydro Income Fund.

The \$61 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 \$32 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 6.4%, is due July 24, 2009 and is secured by a charge on the respective Powell River Energy Inc operating assets. Great Lakes Power Trust owns 50% of Powell River Energy Inc.

The \$13 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 \$175 million Mississagi Power First Mortgage Bonds bear interest at 6.92% and mature on November 27, 2020. The Bonds are secured by a charge on all present and future real and personal property of Mississagi Power Trust, a subsidiary of Great Lakes Power Trust.

The US\$136 million Great Lakes Hydro America ("GLHA") mortgage loan bears interest at US prime plus 150 basis points and matures on January 29, 2005. The loan is secured by a charge on all present and future real and personal property of GLHA and its subsidiaries. GLHA is a wholly owned subsidiary of Great Lakes Power Trust.

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:

<i>millions</i>	Annual Repayments
2004	\$ 8
2005	234
2006	4
2007	2
2008	2
Thereafter	866
	\$ 1,116

9. TERM DEBENTURES

<i>millions</i>	2003	2002
Corporate debentures		
Series 1 (US\$175)	\$ 227	\$ 277
Series 3 (US\$200)	260	316
	\$ 487	\$ 593

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. The fair value of the Company's term debentures is \$487 million (2002 – \$593 million) based on current market prices for debt with similar terms and risks.

10. FUTURE INCOME TAX LIABILITY

The Company's future income tax liability of \$152 million (2002 – \$120 million) is comprised principally of temporary differences relating to property, plant and equipment. This amount is net of a future tax asset of \$8 million (2002 – \$12 million) relating to unused non-capital losses. The difference between taxes calculated at the statutory rate and those recorded and reconciled is as follows:

<i>millions</i>	2003	2002
Net income	\$ 97	\$ 167
Combined income tax rates	36%	38%
Statutory income tax rates applied to accounting income	35	63
Non-deductible expenses	12	2
Non-taxable dividends	(29)	(45)
Recognition of the benefit of tax losses	—	(16)
Change in tax rates	13	—
Provision for income taxes	\$ 31	\$ 4

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:

<i>millions</i>	2003	2002
Preferred shares issued by consolidated subsidiaries	\$ 90	\$ 90
Limited partnership interests of consolidated subsidiaries	—	4
Trust units issued by consolidated subsidiaries	239	256
	\$ 329	\$ 350

12. SHAREHOLDERS' EQUITY

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

<i>millions</i>	2003	2002
101,383,135 (2002 – 101,383,135)		
Common shares	\$ 603	\$ 603
Retained earnings	540	523
Cumulative translation adjustment	(9)	—
	1,134	1,126
Subordinated convertible debentures	248	248
	\$ 1,382	\$ 1,374

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:

<i>millions</i>	2003	2002
Common share dividends	\$ 65	\$ 65
Convertible debt interest	15	15
	\$ 80	\$ 80

13. OTHER INFORMATION

<i>millions, except per share amounts</i>	2003	2002
Average diluted common shares outstanding	126.2	126.2
Basic earnings per share	\$ 0.81	\$ 1.50

The Company's two largest customers accounted for 21% and 9%, respectively, of total revenues in 2003 (2002 – 8% and 7%, respectively).

During 2003, no hydrological provisions (2002 –nil) were applied against power purchase costs and no (2002 – \$3 million) recovery of hydrological provisions was included in revenue from power operations.

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.

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.

The Company has entered into a 24 month agreement which commenced in May 2003 with an affiliate to supply the power requirement of one of its facilities in the US and to share, to a limited extent, in the profit and loss on the arrangement. During 2003, the Company sold power for \$95 million under this arrangement and no amounts were due under the profit and loss sharing component.

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. It is the Company's policy to formally assess, 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 energy 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.

As at December 31, 2003, contracts designated as hedges had a net replacement cost determined based on quoted market rates of \$7 million (2002-\$33 million), consisting of contracts with a positive mark-to-market of \$30 million (2002- \$38 million) and contracts with a negative mark-to-market of \$37 million (2002- \$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 2003 was \$772 million (2002 – \$466 million). These contracts have maturities varying from one to twenty years, and have a replacement value in excess of that recorded in the company's accounts of \$6 million (2002 – \$8 million) and replacement cost of \$16 million (2002-nil) in excess of that recorded in the company's accounts.

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, 2003, the assets of the plans totalled \$45 million (2002 – \$40 million), accrued benefit obligation amounted to \$60 million (2002 – \$43 million) and the net accrued benefit liability was \$1.8 million (2002 – \$3 million). The benefit plan expense for 2003 was \$2.4 million (2002 –

\$0.3 million). The investment rate of return was 7% (2002 - 7%). The discount rate used was 6% (2002-6.75%) with a rate of compensation increase of 3.5% (2002 - 3.8%).

17. GEOGRAPHIC SEGMENTED INFORMATION

The Company operates in Canada, the United States and Brazil. Power revenues by country are as follows:

<i>millions</i>	2003	2002
Canada	\$ 293	\$ 288
United States	153	52
Brazil	2	—
	\$ 448	\$ 340

Net income by country is as follows:

<i>millions</i>	2003	2002
Canada	\$ 160	\$ 181
United States	42	35
Other unallocated income (expenses)	(105)	(49)
	\$ 97	\$ 167

Power generating assets by country are as follows:

<i>millions</i>	2003	2002
Canada	\$ 1,511	\$ 1,481
United States	593	636
Brazil	35	38
	\$2,139	\$ 2,155

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

<i>millions</i>	2003	2002
Canada	\$ 48	\$ 34
United States	7	6
	\$ 55	\$ 40

18. GUARANTEES

In the normal course of operations, the Company and its consolidated subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions such as business dispositions, business acquisitions, sales of assets and sales of services. The Company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the Company from making a reasonable estimate of the maximum potential amount that the Company could be required to pay third parties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, neither the Company nor its consolidated subsidiaries have made significant payments under such indemnification agreements.

FOURTH QUARTER 2003 FINANCIAL STATEMENTS

The Company's unaudited financial statements for the fourth quarter of 2003 and 2002 are set out in the following tables:

Consolidated Statement of Income

(unaudited)

Three months ended December 31

<i>millions, except per share amounts</i>	2003	2002
Total revenues	\$ 147	\$ 78
Net operating income		
Power generation	6	6
Transmission and distribution	70	53
	76	59
Investment and other income	20	22
	96	81
Other expenses		
Interest expenses	23	26
Depreciation	15	10
Non-controlling interests	10	—
Administrative costs	7	7
Tax and other	27	9
	82	52
Net income	\$ 14	\$ 29
Net income per common share	\$0.11	\$0.23

Consolidated Statement of Retained Earnings

(unaudited)

Three months ended December 31

<i>millions</i>	2003	2002
Retained earnings		
Balance, beginning of period	\$ 546	\$ 526
Net income	14	29
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	\$ 540	\$ 523

Consolidated Statement of Cash Flows

(unaudited)

Three months ended December 31

<i>millions</i>	2003	2002
Cash flow from operating activities		
Net income	\$ 14	\$ 29
Add non-cash items		
Depreciation	15	10
Hydrological provisions	—	(3)
Other	42	8
	\$71	\$ 44
Net change in non-cash working capital	(45)	41
	26	85
Financing activities and shareholder distributions		
Borrowings	223	32
Debt repayments	(108)	2
Distributions:		
– Great Lakes Hydro Income		
Fund unitholders	(7)	(7)
– Common shares and equivalents	(20)	(20)
	88	7
Investing activities		
Securities purchases	(122)	(10)
Securities sales	—	67
Long-term investments	115	(36)
Loans and other receivables	8	(91)
Power generating assets	(95)	(51)
	(94)	(121)
Cash and cash equivalents		
Increase (decrease)	20	(29)
Balance, beginning of period	11	39
Balance, end of period	\$ 31	\$ 10
Supplementary information		
Interest paid	\$ 31	\$ 21
Taxes paid	\$ 5	\$ 3

TEN YEAR REVIEW

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
FINANCIAL RESULTS*										
<i>millions, except per share amounts</i>										
Gross revenues	\$ 528	\$ 418	\$ 374	\$ 361	\$ 286	\$ 292	\$ 292	\$ 268	\$ 257	\$ 261
Power revenues	448	340	270	246	188	191	187	168	150	143
Net income	97	167	131	116	113	105	122	112	108	105
Common share dividends	65	65	65	65	65	65	65	61	60	56
Assets	3,580	3,500	2,930	2,642	2,405	2,256	2,236	2,347	2,110	2,001
Capital base	1,382	1,374	1,299	1,249	1,216	1,184	1,161	1,112	1,056	1,017
Per Common Share¹										
Book value – Basic	11.19	\$11.11	\$10.37	\$ 9.87	\$ 9.55	\$ 9.23	\$ 9.00	\$ 8.52	\$ 8.08	\$ 7.69
Net income – Diluted	0.77	1.32	1.04	0.92	0.90	0.83	0.97	0.89	0.86	0.84
Dividends	0.64	0.64	0.64	0.64	0.64	0.64	0.64	0.61	0.60	0.57
OPERATING RESULTS										
Installed capacity (MW)	1,761	1,636	991	905	899	653	642	640	610	601
Electricity generation (GWh)	6,279	5,584	3,959	4,003	4,222	2,361	2,649	2,947	2,311	2,261

* Certain financial results for 2002 have been restated to conform with the 2003 presentation.

¹ All share and per share amounts prior to 1998 reflect the two-for-one stock split in March 1998.

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Alex G. Balogh¹

Chairman
Falconbridge Limited

Jack L. Cockwell

Group Chairman
Brascan Corporation

Ronald J. Daniels

Dean, Faculty of Law
University of Toronto

Robert Drouin, O.C., Q.C.²

Chairman, Abitibi Consolidated
Chairman, Stelco Inc.

¹ Member of Audit Committee

² Appoint, February 19, 2004

Robert A. Dunford

Corporate Director

Harry A. Goldgut

Co-Chairman and
Chief Executive Officer
of the Corporation

J. Bruce Flatt

President and
Chief Executive Officer
Brascan Corporation

Edward C. Kress

Chairman
of the Corporation

O. Allan Kupcis²

Chairman
Canadian Nuclear Association

Sidney A. Lindsay¹

President
Lindsay Consultants

John E. Bahen¹

Director - Emeritus
Corporate Director

CORPORATE OFFICERS

Edward C. Kress

Chairman

Harry A. Goldgut

Co-Chairman and
Chief Executive Officer

Richard Legault

President and
Chief Operating Officer

Colin L. Clark

Executive Vice President,
Development & Chief Technical Officer

Laurent Cusson

Senior Vice President,
Western Operations

Alan V. Dean

Senior Vice President and
Secretary

Donald Tremblay

Senior Vice President and
Chief Financial Officer

Gilles Larocque

Vice President, Corporate Finance

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