



**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The information provided in this management discussion and analysis is intended to provide you with an assessment of our performance for the second quarter and the first six months of 2005 and the comparable period of last year but also to give you a framework for understanding our competitive advantages, the long-term growth trends of our business and the ability of our assets to deliver strong and stable cash flows. It should be read in conjunction with the unaudited quarterly consolidated financial statements and consolidated financial statements contained in the most recent annual report of Brascan Power Inc. Additional information can also be found on our website at www.brascanpower.com and on the SEDAR website.

Effective January 1, 2005, our functional and reporting currency changed from Canadian ("CDN") to United States ("US") dollars. Unless expressly indicated otherwise, all amounts are reflected in US dollars.

We own or operate¹ 129 hydroelectric power generating stations located on 42 river systems and 2 cogeneration plants with an installed capacity of 3,358 MW, capable of generating in excess of 11,000 GWh of electricity annually.

Our power generating operations are located in the regionally interconnected markets of Ontario, Québec, New England and New York, as well as British Columbia, Maryland, Pennsylvania, Louisiana and Brazil. We also own a regulated transmission and distribution business in Ontario. The transmission and distribution business consists of approximately 726 km of 44kv to 230kv transmission lines and includes a low voltage distribution system consisting of approximately 1,700km of low voltage lines and 11 distribution stations that service approximately 11,500 customers. Some of our assets are owned through Great Lakes Hydro Income Fund (the "Fund"), a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN) of which we own a 50.1% interest. We are a wholly-owned subsidiary of Brascan Corporation ("Brascan"). Brascan is a global asset management company focused on property, power and infrastructure assets and is listed on the Toronto Stock Exchange (symbol: BNN.LV.A) and New York Stock Exchange (symbol: BNN).

We are focused on delivering long-term sustainable cash flows through the operation of low-cost hydroelectric power generating facilities. We strive to maximize the stability and predictability of power generating revenues through the use of fixed price contracts which serve to minimize the impact of price fluctuations, and through diversification of watersheds and water storage reservoirs to manage fluctuation in generation levels. Approximately 40% of our generation is sold under long-term fixed-price power purchase agreements ("PPAs"), with an average term of over 14 years. The remaining generation is dispatched in competitive electricity markets in Ontario, Quebec, New England and New York, where we are one of the lowest cost suppliers. Prices in those markets are a function of instantaneous supply and demand that fluctuates on a continuous basis. We manage those fluctuations by entering into short-term financial contracts, when appropriate and within the limits of its risk management policy, to limit our exposure to price fluctuations and optimize overall returns. We conduct all of our energy marketing through our wholly-owned subsidiary, Brascan Energy Marketing Inc ("BEMI").

PERFORMANCE MEASUREMENT

We focus principally on net operating income for performance measurement because it is tangible and reflects the value of our assets. Net operating income consists of revenues from our power operations, net of operating and maintenance costs, fuel purchases for its cogeneration plants, power purchases, selling, marketing and administration expenses and municipal and other generation taxes on our facilities. Net operating income is a non-GAAP basis of performance measurement. Interest and financing fees, interest on capital securities, depreciation and amortization, provision for income taxes and non-controlling interest expense are deducted from net operating income to obtain net income.

¹ The Brazil common shares are owned by Brascan Corporation. We have an investment in preferred shares in these facilities and manages the operations. Results of operations are not included in our consolidated financial statements.

SUMMARY OF OPERATING RESULTS

Net operating income for the second quarter totalled \$119 million, compared to \$94 million for the corresponding quarter of 2004, an increase of \$25 million. The acquisition of the New York assets in September 2004, as well as the Hydro Kennebec, West Delaware, Piney, Deep Creek and Bear Swamp facilities in 2005 contributed an additional \$36 million to net operating income. During the quarter, lower generation in Ontario and Louisiana negatively impacted net operating income by \$12 million compared to 2004. However, we achieved improvements over last year by opportunistically dispatching available generation and benefiting from higher energy prices. These improvements partly offset the shortfall in generation.

Financial results for the period ended June 30, 2005 compared to 2004 are shown in the following table:

<i>US\$ millions</i>	Three months ended June 30		Six months ended June 30	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
Revenue	\$200	\$164	\$429	\$338
Net operating income				
Power generation	114	88	241	187
Transmission and distribution	5	6	12	12
	\$119	\$ 94	\$253	\$199

⁽¹⁾ All 2004 comparatives have been restated to reflect the adoption of revisions to Section 3860, Financial Instruments- Disclosure and Presentation and Accounting Guideline 15, Consolidation of Variable Interest Entities.

Overall generation from existing assets in 2004 totalled 1,824 GWh for the quarter, 13% below our long-term average. Generation was mostly affected by below average water flows in our Ontario and Louisiana power systems. Generation from our New York portfolio acquired in September 2004 was also affected by lower water inflows and generation totalled 90% of our long-term average.

GENERATION <i>Gigawatt hours</i>	Three months ended June 30			Six months ended June 30			Annual long-term average
	2005	2004 ⁽¹⁾	Long-term average ⁽²⁾	2005	2004 ⁽¹⁾	Long-term average ⁽²⁾	
Ontario	645	892	899	1,472	1,822	1,706	3,262
Québec	469	495	459	859	1,013	853	1,639
British Columbia	139	143	140	291	308	284	523
New England	297	215	270	603	511	527	1,010
Louisiana	274	321	319	620	607	605	903
Existing assets	1,824	2,066	2,087	3,845	4,261	3,975	7,337
Acquisitions - 2005	194	-	211	225	-	236	418
Acquisitions - 2004	804	71	892	1,635	78	1,720	3,027
	2,822	2,137	3,190	5,705	4,339	5,931	10,782

⁽¹⁾ 2004 comparative generation has been restated to reflect the adoption of Accounting Guideline 15, Consolidation of Variable Interest Entities.

⁽²⁾ Adjusted long-term average for date of acquisition of the facilities.

REVENUE <i>US\$ millions</i>	Three months ended June 30		Six months ended June 30	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
Ontario	\$ 39	\$ 45	\$ 87	\$ 97
Québec	23	20	45	44
British Columbia	6	5	11	10
New England	18	11	34	27
New York	46	-	95	-
Louisiana	43	50	95	94
Other businesses	25	33	62	66
	\$200	\$164	\$429	\$338

⁽¹⁾ 2004 comparative revenues have been restated to reflect the adoption of Accounting Guideline 15, Consolidation of Variable Interest Entities.

OPERATIONS REVIEW

Revenues for the quarter totalled \$200 million, an increase of \$36 million over the same quarter of last year. Revenues from our New York assets totalled \$46 million during the quarter, well ahead of our expectation when we acquired those facilities last year. Lower than average generation was more than offset by better prices in New York but also by a higher than expected level of dispatching flexibility.

Revenues in Ontario were affected by below average water inflows, which resulted in a decrease of 28% in overall generation. Revenues for the period totalled \$39 million, as compared to \$45 million for the same quarter in 2004. Higher energy prices in Ontario and a stronger Canadian dollar compared to the prior year partially offset the shortfall in generation.

Revenues from the Québec operations totalled \$23 million and increased by 15% over the second quarter of 2004. Higher energy prices obtained from the Lièvre Power system offset the impact of the slight decrease in generation from 495 GWh to 469 GWh during the period.

Revenues in New England increased by 64% or \$7 million. In addition to an overall increase in generation from existing operations, the acquisition of the Hydro Kennebec, Bear Swamp and Fife Brook facilities contributed 178 GWh and \$4 million in additional revenues.

In Louisiana, revenues for the quarter decreased by 14% to \$43 million (2004 - \$50 million).

Revenues from other power operations include revenue from the Transmission and Distribution business, which contributed \$8 million to the quarterly revenues, an increase of \$1 million over the same period last year and also include power sold to an affiliate in the amount of \$20 million, a decrease of \$10 million over the prior year due to the expiration of the contract in May 2005.

Operating and maintenance expenses totalled \$26 million, compared to \$14 million in the same quarter of the prior year. Water rental and property taxes totalled \$11 million compared with \$10 million in 2004. Selling, marketing and administration expenses for the period totalled \$7 million, compared to \$6 million in the same quarter in 2004. These increases are mainly attributable to acquisitions and assets commissioned during 2004 and 2005, including the addition of the New York facilities in September 2004.

Fuel purchases consist of the cost of natural gas required for the cogeneration plants. Fuel purchases increased from \$6 million in the second quarter of 2004 to \$8 million in 2005. This increase is due to a contractual increase in commodity rates of the gas supply agreement for Lake Superior Power and the additional fuel cost for the operation of the Carr Street cogeneration plant, which was part of the New York assets acquired in September 2004.

NET INCOME

Net income before interest on capital securities for the second quarter more than doubled and totalled \$55 million, compared to \$26 million for the same quarter last year.

<i>US\$ millions</i>	Three months ended June 30		Six months ended June 30	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
Net operating income	\$ 119	\$ 94	\$ 253	\$ 199
Investment income and other	22	13	51	30
	141	107	304	229
Interest and financing fees	58	42	110	86
Depreciation and amortization	26	16	52	32
Provision for income taxes	(3)	12	4	23
Non-controlling interests	5	11	15	22
Net income before interest on capital securities	\$ 55	\$ 26	\$ 123	\$ 66
Interest on capital securities	29	3	57	6
Net income	\$26	\$ 23	\$ 66	\$ 60
Diluted net income per share	\$0.22	\$0.21	\$0.55	\$0.52
Basic net income per share	\$0.26	\$0.23	\$0.65	\$0.59

⁽¹⁾ All 2004 comparatives have been restated to reflect the adoption of revisions to Section 3860, Financial Instruments- Disclosure and Presentation and Accounting Guideline 15, Consolidation of Variable Interest Entities.

Investment and other income increased to \$22 million for the second quarter of 2005 compared to \$13 million for the same quarter of the previous year. This is primarily due to gains on foreign exchange and higher overall demand deposit balances, resulting in higher interest revenues. These increases were partially offset by the sale of securities and long-term investments in the prior year, producing lower investment income.

Interest and financing fees increased by \$16 million from the same period in prior year, mostly due to an \$8 million yield maintenance payment which was made as a result of the redemption of the CDN \$100 million Great Lakes Power Trust First Mortgage Bonds on April 27, 2005. Interest and financing fees in New York relate to the \$500 million bridge financing obtained to acquire the New York assets. The higher interest expense in Ontario is mostly attributable to the CDN \$77 million senior secured bonds issued in September 2004, secured by our cogeneration facility in Northern Ontario.

INTEREST AND FINANCING FEES <i>US\$ millions</i>	Three months ended June 30		Six months ended June 30	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
Ontario	\$ 9	\$ 7	\$ 19	\$15
Québec	11	3	14	6
British Columbia	2	1	4	3
New England	2	2	4	4
New York	7	-	13	-
Louisiana	21	21	43	43
Other	6	8	13	15
Total	\$58	\$42	\$110	\$86

⁽¹⁾ 2004 comparative interest and financing fees have been restated to reflect the adoption of Accounting Guideline 15, Consolidation of Variable Interest Entities.

Depreciation and amortization in the second quarter of 2005 was \$26 million compared to \$16 million for the same period in 2004. This increase of \$10 million is attributable to depreciation of the New York assets acquired in the third quarter of 2004, as well as depreciation of power generation facilities acquired in 2005 and the impact of the stronger Canadian dollar.

DEPRECIATION AND AMORTIZATION <i>US\$ millions</i>	Three months ended June 30		Six months ended June 30	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
Ontario	\$ 5	\$ 6	\$11	\$11
Québec	2	2	4	4
British Columbia	-	-	1	1
New England	3	2	6	4
New York	7	-	13	-
Louisiana	6	5	12	9
Other	3	1	5	3
Total	\$26	\$16	\$52	\$32

⁽¹⁾ 2004 comparative interest and financing fees have been restated to reflect the adoption of Accounting Guideline 15, Consolidation of Variable Interest Entities.

The decrease of \$6 million in non-controlling interests is primarily due to a lower net income from the Fund and from the Louisiana operations. Non-controlling interests consist of the allocation of income associated with the non-controlling interests in our consolidated entities. In addition to our 49.9% non-controlling interest in the Fund, we also have a 25% non-controlling interest in Louisiana HydroElectric and a 50% minority interest in Power River Energy Inc. through the Fund, as a result of the adoption of Accounting Guideline 15, Consolidation of Variable Interest Entities.

Following the retroactive adoption of CICA Handbook Section 3860, a large portion of the interest on the subordinated convertible debentures is recorded through the consolidated statement of income. Interest on the subordinated convertible debentures totalled \$29 million for of the three month period ended June 30, 2005, compared to \$3 million for the same period in 2004. This increase is the result of the interest on the CDN \$1,100 million subordinated convertible debentures, which were issued to Brascan during the third quarter of 2004, and subsequently converted to USD currency on April 1, 2005 for a total amount of \$909 million.

BALANCE SHEET

POWER GENERATING AND OTHER ASSETS

Power generating and other assets as of June 30, 2005 totalled \$3,568 million, compared to \$3,516 million at December 31, 2004, an increase of \$52 million. This increase is attributable to the acquisitions of West Delaware, Hydro Kennebec, Bear Swamp, and Piney and Deep Creek totalling \$122 million. We also continued to invest in several capital projects during the quarter to preserve and enhance the reliability of our operations. Significant capital projects during the first half of the year included the transmission reinforcement project (\$16 million), the Northern Ontario wind power projects (\$10 million), the Shikwamka dam rebuild (\$15 million), the Weldon conversion project in Maine (\$4 million) and the Cedar Dam project on the Lièvre River in Québec (\$4 million). These capital additions were offset by the sale of the White Mountain energy cogenerator for an amount of \$34 million, the strengthening of the Canadian currency and depreciation for the first six months of the year.

CAPITAL STRUCTURE AND FINANCING

We continue to maintain investment grade issuer ratings from DBRS (BBB High) and Standard and Poor's (BBB) resulting from a prudent level of low-cost asset financing and modest levels of corporate debt. The long-life nature of our assets allows us to finance our assets with non-recourse debt with minimal near-term maturities.

COMPOSITION OF CAPITAL STRUCTURE	As at June 30, 2005	As at December 31, 2004 ⁽¹⁾
Credit facilities, property specific borrowings, and corporate term debentures	58%	61%
Deferred credits	4%	4%
Non-controlling interests	7%	6%
Shareholders' equity and debt portion of capital securities	31%	29%
Total	100%	100%

⁽¹⁾ All 2004 comparatives have been restated to reflect the adoption of revisions to Section 3860, Financial Instruments-Disclosure and Presentation and Accounting Guideline 15, Consolidation of Variable Interest Entities.

Overall, our capital structure as at June 30, 2005 is fairly consistent with that as of December 31, 2004. At June 30, 2005, our weighted average interest rate and term to maturity for long-term debt was 7.0% and 9.3 years respectively.

On January 27, 2005, we issued an additional CDN \$50 million in Series 1 Canadian unsecured term debentures. These debentures bear interest at 4.65% and mature on December 16, 2009. The \$200 million Series 3 corporate debentures were repaid upon maturity in March 2005.

On February 11, 2005, we issued CDN \$35 million of Senior Secured Series 1 First Mortgage bonds. These bonds are secured by a first ranking lien on the Pingston Power Joint Venture assets, bear interest at a rate of 5.28% payable semi-annually, and mature on February 11, 2015.

In April 2005, we obtained a \$200 million revolving unsecured credit facility for general corporate purposes, which can be drawn upon in Canadian or US dollars to replace the CDN \$118 million unsecured credit facility previously held for general corporate purposes. The credit facility bears a floating interest rate. The credit facility expires on April 29, 2008 and ranks pari passu with all senior unsecured indebtedness. At June 30, 2005, we had drawn \$nil on the credit facility.

On April 27, 2005, Great Lakes Power Trust ("GLPT") redeemed the CDN \$100 million of First Mortgage Bonds using a CDN \$125 million bridge facility, at a floating rate of bankers' acceptance plus 60 basis points. In addition to the repayment of the GLPT First Mortgage Bonds, the proceeds of the bridge facility were used to pay the yield maintenance payment due to the early redemption and to repay the \$11 million Great Lakes Hydro America bridge loan facility. It is our intention to refinance the GLPT bridge facility with a long-term instrument.

On June 30, 2005, we repaid the CDN \$248 million subordinated convertible debentures and issued subordinated convertible debentures totaling \$200 million to Brascan. These debentures bear an annual interest rate of 11.3% payable quarterly and mature on June 30, 2054. These debentures are convertible in full, at the option of Brascan, any time prior to the maturity date, at \$23.98 per common share, into 8.3 million common shares. Principal and interest are payable at our option with common shares.

We provided covenants to certain of our lenders as do most borrowers. As of June 30, 2005, we are in compliance with all our covenants.

SHAREHOLDERS' EQUITY

On March 31, 2005, we issued an additional 129,024 common shares to Brascan Corporation as non-cash consideration for the acquisition of the common shares of Harmony Wind. As at June 30, 2005, we had 101,512,159 common shares issued and outstanding.

Dividends paid totalled \$13 million in the second quarter of 2005.

Our policy is to distribute surplus operating cash flows not required for investment in power generating facilities to our shareholders.

LIQUIDITY AND CAPITAL RESOURCES

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. In addition to the risk of variable hydrology conditions, our risk with respect to liquidity arises from the financing required for acquisitions and significant capital projects.

We have access to the following sources from which to fund our capital program:

- Existing cash reserves;
- Strong cash flow from operations; and
- Additional available credit facilities.

We continue to have a strong balance sheet and healthy financial ratios. As at June 30, 2005, we maintained a current cash and cash equivalents balance of \$315 million. These factors, combined with the additional available resources noted above, make liquidity for us a negligible risk factor.

Given our historical profitability and our ability to manage expenses, we believe that our current resources are adequate to meet our requirements for working capital and capital expenditures through the foreseeable future.

CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual obligations as of June 30, 2005:

<i>US\$ millions</i>	Total	<i>In years 2005-2009</i>	<i>In years 2010-2014</i>	<i>In years 2015-2019</i>	<i>Beyond 2020</i>
Credit and bridge facilities	\$ 134	\$ 134	\$ -	\$ -	\$ -
Long-term debt	2,654	1,113	141	50	1,350
Acquisitions in process	36	36	-	-	-
Total	\$ 2,824	\$ 1,283	\$ 141	\$ 50	\$ 1,350

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of operations, we 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. We have also agreed to indemnify our directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents us from making a reasonable estimate of the maximum potential amount that we 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, we have made no significant payments under such indemnification agreements.

We provide guarantees as described in Note 23 of the 2004 annual consolidated financial statements. There have been no material changes for the period ended June 30, 2005 to the disclosures related to the guarantees.

DERIVATIVE INSTRUMENTS

We use derivative financial instruments including commodity swaps and foreign exchange forward contracts to manage risk. Derivative financial instruments involve credit and market risk. Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where we would incur a loss in replacing the defaulted transaction. We minimize credit risk through the selection, monitoring and diversification of counterparties, use of the International Swaps and Derivatives Association (ISDA) documentation, collateral and other credit risk mitigation techniques. These risks are reviewed on a regular basis and we believe the exposures are manageable and not material in relation to its overall business operations.

a) Commodity derivative instruments

As at June 30, 2005, the energy and gas derivative contracts were comprised of contracts with deferred unrealized losses in excess of that recorded in the our accounts of \$112 million (2004 - \$29 million) as well as contracts with deferred unrealized gains in excess of that recorded in the our accounts of \$4 million (2004 - \$13 million). These derivative contracts have been designated as cash flow hedges and will therefore be accounted for under the hedge accounting rules. Gains or losses on these contracts will be recorded in earnings in the same period as the revenues from delivery of power.

b) Interest rate derivative instruments

The total notional amount of principal underlying benchmark yield rate lock as at June 30, 2005 is \$142 million. For the period ended June 30, 2005, we had unrealized deferred losses in excess of that recorded in our accounts of \$1 million and unrealized deferred gains in excess of that recorded in our accounts of \$nil.

c) Foreign exchange derivative instruments

As at June 30, 2005, we no longer hold any foreign exchange contracts (2004 - \$nil). Canadian denominated liabilities in the amount of \$561 million were designated as a hedge of the net investments in Canadian operations for the second quarter.

Our derivative financial instruments are discussed more fully in the 2004 annual consolidated financial statements.

RELATED PARTY TRANSACTIONS

All related party transactions are consistent with the type of transactions disclosed in the notes to the December 31, 2004 consolidated financial statements. The following table summarizes all significant year-to-date related party transactions:

<i>US\$ millions</i>	Six months ended June 30	
	2005	2004
Sale of power to Noranda Aluminum Inc.	\$ 49	\$ 59
Sale of power to Katahdin Paper Company	13	11
Investment income and other from Brascan or affiliates	22	28
Profit sharing with Noranda Aluminum Inc. ¹	3	9

¹Included in power purchases

As at June 30, 2005, we also have demand deposits held with Brascan totalling \$209 million (December 31, 2004 - \$374 million).

On April 25, 2005, we sold our 25 megawatt cogeneration power plant located in Berlin, New Hampshire to Fraser Papers Inc., a related party through common ownership, for total consideration of \$34 million. The gain on the sale totalled \$1 million.

CRITICAL ACCOUNTING POLICIES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in Note 1 (Summary of Accounting Policies) of the 2004 consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates include determination of accruals, purchase price allocations, useful lives, asset impairment testing and those relevant to the defined benefit pension and non-pension benefit plans. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

CHANGES IN ACCOUNTING POLICIES

TRANSLATION OF FOREIGN CURRENCIES

Effective January 1, 2005, our functional currency changed from the CDN dollar to the US dollar as a result of the increase in US dollar denominated activity in the operations as compared to prior years. For additional information on the impact of the change in functional currency, please refer to Note 2 of the June 30, 2005 consolidated financial statements.

SUBORDINATED CONVERTIBLE DEBENTURES

On January 1, 2005, we adopted the revisions to CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation* on the classification of financial instruments as debt or equity, with retroactive restatement of prior periods. The new rules require that subordinated convertible debentures that are convertible into a variable number of common shares at our option and interest payments on the subordinated convertible debentures that can be paid by way of a variable number of common shares at our option be classified as liabilities. We reclassified the CDN \$248 million subordinated convertible debentures to debt portion of capital securities due to the fact that the principal and interest is convertible into a variable number of common shares. These debentures were repaid on June 30, 2005. We also reclassified CDN \$1,096 million of the CDN \$1,100 million subordinated convertible debentures maturing in June 2054 to debt portion of capital securities due to the fact that the interest may be paid in a variable number of common shares. These debentures were converted to a US dollar equivalent on April 1, 2005. For the year ended December 31, 2004, a total of \$43 million of the interest expense on the subordinated convertible debentures has been reclassified to interest expense on the Consolidated Statement of Income (six month and three month periods ended June 30, 2004 – \$6 million and \$3 million, respectively), with the remainder recorded through retained earnings. This change did not impact earnings per share or net income available to common shareholders since subordinated convertible debenture interest expense was deducted from net income in determining those measures in the prior year.

VARIABLE INTEREST ENTITIES

On January 1, 2005, we adopted the Accounting Guideline 15, *Consolidation of Variable Interest Entities* ("AcG 15"), issued by the Canadian Institute of Chartered Accountants ("CICA"). A Variable Interest Entity ("VIE") is any type of legal structure not controlled by voting equity, but rather by contractual or other financial arrangements. A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that absorbs the majority of the expected losses, received the majority of the expected residual returns, or both. As a result of the adoption of this new standard, Great Lakes Hydro Income Fund, of which we own a 50.1% interest, is now fully consolidating its proportionate joint venture interests in Powell River Energy Inc. ("PREI") and Powell River Energy Partnership ("PREP"), versus the 50% proportionate consolidation method previously used. We are also fully consolidating our 75% residual interest in Louisiana HydroElectric Power ("LAH"), versus the equity accounting method previous used. The consolidation of these entities did not have an impact on our net income. All 2004 financial comparatives included within these consolidated financial statements have been restated to reflect the full consolidation of PREI, PREP and LAH. For more information on the impact of the consolidation of the Variable Interest entities please refer to Note 2 of the June 30, 2005 consolidated financial statements.

BUSINESS RISKS

The following represents a summary of the most relevant risk factors relating to our business. This summary contains only certain risk factors and is not all-inclusive.

HYDROLOGY

The revenues generated by the power systems are proportional to the amount of electricity generated. The amount of electricity generated by the hydroelectric power systems is dependent upon available water flows. Accordingly, revenues and cash flows may be affected by low and high water flows in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that no material hydrologic event will impact the hydrology conditions that exist within the watershed. Annual deviations from the long-term average can be significant. We strive to mitigate the risk of variable hydrology conditions by acquiring and operating a portfolio of geographically diverse facilities. The diversified locations of our power generating assets assist in balancing the impact of generation fluctuations in any one geographic region. We also have access to hydrology insurance.

EQUIPMENT FAILURE

There is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could adversely affect revenues and net operating income. Although the power systems have operated in accordance with expectations, there can be no assurance that they will continue to do so. Nevertheless, this risk is substantially mitigated by the proven nature of hydroelectric technology, the design of the plants, the power systems' capital programs, adherence to prudent maintenance programs, comprehensive insurance and significant operational flexibility as a result of having generating units which can operate independently.

FOREIGN EXCHANGE

The price paid for energy produced by our CDN operations is denominated in CDN dollars and, therefore, results may be affected by the fluctuations of the Canadian dollar exchange rate over time. A material decrease in the value of the Canadian dollar may negatively impact our net operating income. The CDN operations' operating expenses and financing costs incurred are also denominated in CDN dollars, thus providing a natural hedge. In addition, we may manage the risk associated with foreign exchange rate fluctuations by entering, from time to time, into forward foreign exchange contracts and engaging in other hedging strategies. To the extent that we engage in risk management activities related to foreign exchange rates, it will then be subject to credit risks associated with the counterparties with which it contracts.

ENERGY PRICE FLUCTUATIONS

A significant portion of our revenue is tied, either directly or indirectly, to the spot market price for electricity. Electricity price volatility could have a material adverse effect on our business, operating results, financial condition or prospects.

Through our wholly-owned subsidiary BEMI, we actively manage our energy production and sales, partly through physical and financial contracts, minimizing the impact of price volatility. Our objective is to derive our revenues primarily from PPAs and regulated rate base arrangements and to reduce the amount of non-contracted power by entering short-term financial contracts. For the next two years, more than 80% of our generation is contracted under PPA and short term financial contracts. The remaining power is sold on a wholesale basis. Due to the low variable cost of hydroelectric power and the ability to concentrate generation during peak pricing periods, we are able to generate attractive margins on uncommitted capacity. Our PPAs have an average term of 14 years and counterparties are almost exclusively customers with long-standing credit history or investment grade ratings. Our policy is to use financial contracts which typically have a term of less than two years to lock in the future price of uncommitted power we are reasonably certain to generate. This approach provides an appropriate level of revenue stability, without exposure to undue risk of contractual shortfalls, and provides the flexibility to enhance profitability through the production of power during peak price periods. These activities are closely monitored through risk management policies. However, there is a transaction risk associated with these activities that could result in losses in extraordinary circumstances. From time-to-time, BEMI may take advantage of very short-term arbitrage opportunities when hourly prices diverge between interconnected markets in its area of operation.

CONSOLIDATED QUARTERLY RESULTS

Variations in quarterly results are correlated with the amount of electricity generated in any given quarter, which is in turn dependent on available water inflows. Other marketing and asset enhancement initiatives also impact the quarterly results.

<i>US \$ millions</i> <i>(except otherwise noted)</i>	2005		2004 ⁽¹⁾				2003 ⁽¹⁾	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Power generated (GWh)	2,822	2,883	2,268	1,758	2,137	2,202	1,793	1,492
Power revenues	200	229	181	149	164	174	107	90
Net operating income	119	134	87	79	94	105	52	33
Net income before interest on capital securities	55	68	20	33	26	40	N/A	N/A
Net income	26	40	(7)	23	23	37	15	17
Basic net income per share	0.26	0.40	(0.07)	0.23	0.23	0.36	0.12	0.14
Diluted net income per share	0.22	0.33	(0.07)	0.18	0.20	0.31	0.12	0.13

¹ All 2004 comparatives have been restated following the retroactive adoption of revisions to Section 3860, Financial Instruments- Disclosure and Presentation and Accounting Guideline 15, Consolidation of Variable Interest Entities. The 2003 comparatives have not been restated.

ANNUAL INFORMATION FORM

Our Annual Information Form can be accessed on SEDAR at www.sedar.com.

CERTIFICATION OF INTERIM FILINGS

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

FORWARD-LOOKING STATEMENTS

Our 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 our actual results, performance or achievements 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. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

A handwritten signature in black ink, appearing to be 'D. Tremblay', written over a horizontal line.

Donald Tremblay
Senior Vice President and Chief Financial Officer
August 5, 2005