



**2004 THIRD QUARTER  
INTERIM REPORT TO SHAREHOLDERS  
FOR THE NINE MONTHS ENDED JUNE 30, 2004**

During the nine months ended June 30, 2004, BNN Split Corp. generated income available for distribution of \$7.8 million, compared with \$7.1 million during the same period last year. On June 7, 2004, a quarterly dividend of \$0.390625 per share or \$2.0 million was paid to the company's Preferred Class A shareholders, and a dividend of \$0.06 per share or \$0.6 million was paid to Capital shareholders. In addition, an initial dividend of 0.2265 per share or \$0.7 million was paid to the companies Class AA Series 1 Senior Preferred Shareholders.

The Board of Directors declared dividends of \$0.390625, \$0.309375 and \$0.06284 per Preferred share Class A, Class AA Series I and Capital share of the company, respectively, payable on September 7, 2004 to holders of record on August 22, 2004.

The net asset value per unit, consisting of one Preferred share and one Capital share, was \$69.45 at June 30, 2004, based on a Brascan share price of \$37.42 at that date.

BNN Split Corp. owns a portfolio consisting of 17,418,000 Class A Limited Voting shares of Brascan Corporation ("Brascan shares") in order to generate quarterly fixed cumulative preferential dividends for the holders of the company's Preferred shares and to enable the holders of the company's Capital shares to participate in any capital appreciation of Brascan shares.

Brascan Corporation is an asset management company. With a focus on real estate and power generation, the company has direct investments of US\$17 billion and a further US\$7 billion of assets under management. This includes 55 premier office properties and 120 power generating plants. The company is listed on the New York and Toronto stock exchanges under the symbol BNN and BNN.a, respectively.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read "B. Robertson".

Bruce K. Robertson  
*President and Chief Executive Officer*  
August 12, 2004

## Management's Discussion and Analysis

### Operating Results

BNN Split Corp. (the "Company") generated income available for distribution for the nine months ended June 30, 2004, of \$7.8 million compared with \$7.1 million during the same period last year. Investment income increased to \$8.2 million for the first nine months of fiscal 2004 from \$7.2 million in 2003 due primarily to increased dividends received on the Company's Brascan Shares. Operating expenses in the quarter were \$46,000, slightly higher than the prior year due to costs relating to the share offering in the second quarter.

For the quarter ended June 30, 2004, the Company paid dividends of \$2.0 million and \$0.6 million to its Preferred Class A and Capital shareholders, respectively, compared to \$2.0 million and \$0.3 million for the same period in 2003. The company also paid an initial dividend to its Senior Preferred Class AA Series I shareholders of \$0.7 million.

The following table summarizes selected consolidated financial information of the company for the nine months ended June 30, 2004 and 2003 and for the 3 previous years ended September 30:

<i>(\$ thousands, except per share amounts)</i>	Nine Months Ended June 30		Years Ended September 30		
	2004	2003	2003	2002	2001
Investment income	\$ 8,171	\$ 7,223	\$ 9,729	\$ 9,622	\$ —
Net income (loss)	(542)	361	267	339	—
Total assets	355,176	245,172	245,088	244,821	244,462
Total long-term liabilities	238,700	125,000	125,000	125,000	125,000
Capital share dividends paid per share	0.19	0.09	0.19	0.06	—
Preference share dividends paid per share					
Class A	\$ 1.17	\$ 1.17	\$ 1.56	\$ 1.56	\$ 1.56
Class AA Series I	0.23	—	—	—	—
Class AA Series II	—	—	—	—	—

A summary of the eight recently completed quarters is as follows:

<i>(thousands, except per share amounts)</i>	Q1		Q2		Q3		Q4	
	2004	2003	2004	2003	<b>2004</b>	2003	2003	2002
Investment income	2,504	2,407	2,501	2,407	<b>3,166</b>	2,409	2,315	2,408
Net income (loss)	(282)	129	(104)	96	<b>(156)</b>	136	(94)	(20)

### Liquidity and Capital Resources

The Company is a single-purpose investment company and does not require a large amount of capital to fund operating expenses. However, the Company maintains a small amount of cash and an operating line of credit to fund such expenses from time to time.

At the end of the first quarter, on account of the recent financing, the Company had \$12.0 million of cash and cash equivalents of which \$11.4 million will be used to purchase Brascan shares at such times as the Board of Directors of the Company may determine.

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Preferred Shareholders have the right to surrender their shares for retraction at any time. As Preferred Shares are tendered for retraction, the Company will ordinarily try to find a purchaser under the remarketing agreement. If no purchasers can be found, the transaction will be funded from the proceeds of disposition of the investment portfolio or an additional offering of Preferred Shares.

The net asset value per unit, consisting of one Preferred Share and one Capital Share, was \$69.45 based on a Brascan Share price of \$37.42 as at June 30, 2004.

### **Corporate Outlook**

The outlook for the Company is positive. The market price of Brascan Shares on the TSX has increased by 7.0% from \$34.87 on March 31, 2004 to \$37.42 on June 30, 2004. In addition, Brascan increased its quarterly dividend by 4% in 2004. Both of these events are positive for the Company, providing further support and growth for our shareholders.

### **Review of Interim Financial Statements**

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not reviewed these financial statements.

On behalf of the Board of Directors,



Bruce K. Robertson  
*President and Chief Executive Officer*

Toronto, Ontario  
August 12, 2004

#### **Forward-Looking Statements**

*This report contains "forward-looking statements". 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, interest rates, availability of equity and debt financing and other risks detailed from time-to-time in the Company's continuous disclosure documents. 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.*

## Balance Sheets

<i>\$ thousands</i>	(Unaudited) June 30 2004	September 30 2003
<b>Assets</b>		
Cash and cash equivalents	\$ 11,347	\$ 659
Securities <sup>(2)</sup>	343,829	244,429
	<b>355,176</b>	245,088
<b>Liabilities</b>		
Accounts payable	29	20
Preferred shares <sup>(3)</sup>	238,700	125,000
	<b>238,729</b>	125,020
<b>Shareholders' Equity</b>		
Share capital <sup>(3)</sup>	123,950	123,950
Deficit	(7,503)	(3,882)
	<b>116,447</b>	120,068
	<b>\$ 355,176</b>	\$ 245,088

## Consolidated Statements of Income and Deficit

<i>(unaudited)</i> \$ thousands	Three months ended June 30		Nine months ended June 30	
	<b>2004</b>	2003	<b>2004</b>	2003
<b>Revenue</b>				
Investment	<b>\$ 3,166</b>	\$ 2,409	<b>\$ 8,171</b>	\$ 7,223
<b>Expenses</b>				
Operating	<b>46</b>	20	<b>330</b>	102
Income available for distribution	<b>3,120</b>	2,389	<b>7,841</b>	7,121
Dividends paid on Preferred shares	<b>(2,676)</b>	(1,953)	<b>(6,583)</b>	(5,860)
Income available for distribution on on Capital and Class A shares	<b>444</b>	436	<b>1,258</b>	1,261
Dividends paid on Capital Shares	<b>(600)</b>	(300)	<b>(1,800)</b>	(900)
	<b>(156)</b>	136	<b>(542)</b>	361
Deficit, beginning of period	<b>(6,868)</b>	(3,924)	<b>(3,882)</b>	(4,149)
Share issue costs	<b>(479)</b>	—	<b>(3,079)</b>	—
<b>Deficit, end of period</b>	<b>\$ (7,503)</b>	\$ (3,788)	<b>\$ (7,503)</b>	\$ (3,788)

## Consolidated Statements of Cash Flows

<i>(unaudited)</i>	Three months ended		Nine months ended	
<i>\$ thousands</i>	June 30		June 30	
	<b>2004</b>	2003	<b>2004</b>	2003
<b>Cash flow from operating activities</b>				
<b>available for distribution</b>	<b>\$ 3,120</b>	\$ 2,389	<b>\$ 7,841</b>	\$ 7,121
Deduct non-cash items:				
Working capital	<b>5</b>	5	<b>9</b>	(10)
	<b>3,125</b>	2,394	<b>7,850</b>	7,111
<b>Cash flow used in investing activities</b>				
Securities investment	—	—	<b>(99,400)</b>	—
	—	—	<b>(99,400)</b>	—
<b>Cash flow from (used in) financing activities</b>				
Dividends paid on:				
Preferred shares, Class A	<b>(2,676)</b>	(1,953)	<b>(6,583)</b>	(5,860)
Capital shares	<b>(600)</b>	(300)	<b>(1,800)</b>	(900)
Preferred share issue	—	—	<b>113,700</b>	—
Share issue costs	<b>(479)</b>	—	<b>(3,079)</b>	—
	<b>(3,755)</b>	(2,253)	<b>102,238</b>	(6,760)
Increase (decrease) in cash and cash equivalents	<b>(630)</b>	141	<b>10,688</b>	351
Cash and cash equivalents balance, beginning of period	<b>11,977</b>	602	<b>659</b>	392
<b>Cash and cash equivalents balance, end of period</b>	<b>\$11,347</b>	\$ 743	<b>\$11,347</b>	\$ 743

## Notes To The Consolidated Financial Statements

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(1) **Basis of Presentation**

The company is an investment company holding a portfolio of securities consisting of Class A Limited Voting shares of Brascan Corporation ("Brascan"). Incorporation of the company under the laws of the Province of Ontario was on July 12, 2001.

(2) **Securities**

The company accounts for its investment in Brascan on a cost basis and accordingly will recognize dividends in the year of receipt. The portfolio consists of 17,418,000 Class A Voting shares.

(3) **Share Capital**

The authorized share capital of the company consists of an unlimited number of preferred shares, capital shares and common shares.

As at June 30, 2004, the following preferred shares were issued and outstanding and have been included in liabilities:

		June 30, 2004	
5,000,000	6.25% Class A	\$	125,000,000
3,200,000	4.95% Class AA Series I		80,000,000
1,348,000	Class AA Series II		33,700,000
		\$	238,700,000

The issued and outstanding share capital consists of:

		June 30, 2004	
9,548,000	Capital shares	\$	123,950,000
100	Class A Voting shares		100
		\$	123,950,100

The capital shares of the company are required to maintain a one-to-one ratio with the total preferred shares outstanding. As a result, the capital shares were split to reflect the preferred share issue during the year.

## Enquiries

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Enquiries relating to the operations of the company should be directed to the company's Head Office:

**BNN Split Corp.**

Suite 300, P.O. Box 770  
BCE Place, 181 Bay Street  
Toronto, Ontario M5J 2T3  
*Telephone:* (416) 363-9491  
*Facsimile:* (416) 363-2856  
*Website:* [www.bnnsplit.ca](http://www.bnnsplit.ca)

Enquiries relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent:

**CIBC Mellon Trust Company**

P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario M5C 2W9  
*Telephone:* (416) 643-5500 or  
(800) 387-0825 (toll free  
throughout North America)  
*Facsimile:* (416) 643-5501  
*Web site:* [www.cibcmellon.com](http://www.cibcmellon.com)  
*E-mail:* [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

