Brookfield Power

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006

Attached are the consolidated financial statements of Brookfield Power Inc.
Brookfield Power Inc. is a subsidiary of Brookfield Asset Management Inc., and provides certain guarantees for the operations and debt of Brookfield Power Corporation.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

MANAGEMENT'S RESPONSIBILITY

To the Shareholder of Brookfield Power Inc.

The attached consolidated financial statements have been prepared by Brookfield Power Inc.'s ("the Company") 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 appropriate to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance and the communication of policies and code of conduct throughout the Company. These statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management.

Deloitte & Touche LLP, the independent auditors appointed by the shareholder, have examined the financial statements of the Company in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholder their opinion on the financial statements. Their report as auditors is attached.

/s/ Donald Tremblay

Donald Tremblay
Executive Vice-President and Chief Financial Officer
March 2, 2007

AUDITORS' REPORT

To the Shareholder of Brookfield Power Inc.

We have audited the consolidated balance sheets of Brookfield Power Inc. as at December 31, 2006 and 2005 and the consolidated statements of income, deficit 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, 2006 and 2005 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"

Chartered Accountants
Toronto, Canada
March 2, 2007

BROOKFIELD POWER INC.
CONSOLIDATED BALANCE SHEETS

As at December 31

$ millions	note	**2006**	2005
Assets			
Current assets			
Cash and cash equivalents	6	**$ 81**	$ 100
Accounts receivable and other	5, 7	**221**	281
Short-term investments	8	**154**	267
		456	648
Due from related party	5	**686**	689
Long-term investments	10	**159**	140
Power generating assets	4, 11	**3,623**	2,992
Other assets	4, 9	**948**	899
		$ 5,872	$ 5,368
Liabilities			
Current liabilities			
Accounts payable and other	13	**$ 190**	$ 215
Credit facilities	14	**249**	-
Current portion of property specific borrowings and long-term debt	15, 16	**37**	112
		476	327
Due to related party	5	**104**	177
Property specific borrowings	4, 15	**1,729**	1,659
Long-term debt	16	**1,531**	1,246
Future income tax liability	4, 19	**167**	116
Other long-term liabilities	17	**103**	128
Debt portion of capital securities	18	**1,104**	1,104
		5,214	4,757
Non-controlling interests	21	**249**	255
Shareholder's equity	22	**409**	356
		$ 5,872	$ 5,368

See accompanying notes to the consolidated financial statements.

Approved on behalf of Brookfield Power Inc.:

/s/ Richard Legault

Richard Legault
President and
Chief Operating Officer

/s/ Donald Tremblay

Donald Tremblay
Executive Vice-President and
Chief Financial Officer

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31 *$ millions*	note		2006		2005
Revenues	5	**$**	**874**	$	774
Net operating income					
Power generation			**577**		437
Transmission and distribution			**28**		24
			605		461
Investment income and other	5, 8, 10		**26**		48
			631		509
Expenses					
Interest and financing fees	5, 23		**244**		228
Interest on capital securities	18		**125**		120
Depreciation and amortization			**124**		102
Non-controlling interests			**24**		16
Provision for (recovery of) income taxes	19		**8**		(17)
			525		449
Net income		**$**	**106**	$	60

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF DEFICIT

Years ended December 31 *$ millions*	note		2006		2005
Deficit, beginning of year		**$**	**(215)**	$	(222)
Net income			**106**		60
Distributions to holders of common shares and capital securities	22		**(53)**		(53)
Deficit, end of year		**$**	**(162)**	$	(215)

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 *$ millions*	note	2006	2005
Operating activities			
Net income		$ **106**	$ 60
Add (deduct) non-cash items			
Depreciation and amortization		**124**	102
Non-controlling interests		**24**	16
Tax and other		**(4)**	(4)
		250	174
Net change in non-cash working capital	24	**20**	9
		270	183
Financing activities and shareholder distributions			
Borrowings		**598**	916
Issuance of capital securities		**-**	200
Debt repayments		**(112)**	(954)
Capital securities repayment		**-**	(202)
Due to related party		**(73)**	(15)
Distributions:			
- To non-controlling interest		**(30)**	(34)
- To common shareholders and holders of capital securities	22	**(53)**	(53)
		330	(142)
Investing activities			
Change in demand deposits		**115**	289
Sale of short-term investments		**11**	79
Additions to long-term investments	10	**(24)**	(75)
Additions to power generating assets		**(382)**	(224)
Acquisitions of power generating assets	4	**(269)**	(113)
Acquisition of businesses	4	**(75)**	(75)
Proceeds on sale of power generating assets		**-**	44
Other assets		**5**	(10)
		(619)	(85)
Effect of foreign exchange rate changes on cash and cash equivalents		**-**	2
Cash and cash equivalents			
Decrease		**(19)**	(42)
Balance, beginning of year		**100**	142
Balance, end of year		$ **81**	$ 100
Supplementary information			
Interest paid		$ **364**	$ 381
Taxes paid		$ **8**	$ 9

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006

1. NATURE AND DESCRIPTION OF THE COMPANY

Brookfield Power Inc. (the "Company") is incorporated under the laws of Ontario and develops and operates hydroelectric, wind and other power generating facilities in Canada and the United States and a transmission and distribution system in Northern Ontario. The Company is wholly owned by Brookfield Asset Management Inc. ("Brookfield").

Effective January 27, 2006, the Company changed its name from Brascan Power Inc. to Brookfield Power Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles ("GAAP"), applied on a consistent basis with the prior year. All figures are reported in United States dollars, unless otherwise noted.

The Company's significant accounting policies are summarized below:

Principles of consolidation
The consolidated financial statements include:

- the accounts of all subsidiaries and other controlled entities of the Company including Great Lakes Power Limited ("Great Lakes Power"), Great Lakes Hydro Income Fund (the "Fund"), Lake Superior Power LP, Valerie Falls Limited Partnership, Hydro Pontiac Inc. ("Pontiac Power"), Brookfield Energy Marketing Inc. ("BEMI"), Brookfield Energy Marketing LP, Brookfield Power US Holding America Co., Beaver Power Corporation, and Brookfield Power Wind Corporation;
- the accounts of all wholly owned holding companies;
- the accounts of incorporated and unincorporated joint ventures and partnerships to the extent of the Company's proportionate interest in their respective assets, liabilities, revenues and expenses, including the Company's investments in Pingston Creek Hydro Joint Venture ("Pingston") and Bear Swamp Power Co. LLC ("Bear Swamp"); and
- as a result of the adoption of Accounting Guideline 15, *Consolidation of variable interest entities* ("AcG 15"), 100% of Catalyst Old River Hydroelectric Limited Partnership ("CORHLP") and, as part of the Fund, 100% of Powell River Energy Inc. ("PREI") and Powell River Energy Limited Partnership ("PREP").

All significant intercompany balances and transactions have been eliminated upon consolidation.

Use of estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. During the years presented, management has made a number of estimates and valuation assumptions in the determination of accruals, levelized accounting, mark-to-market of derivatives, useful lives, asset impairment, purchase price allocations, future income tax liabilities and pension amounts. 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.

Revenue and expense recognition
The Company records revenues from the sale of energy, energy-related products and energy services, under the accrual method of accounting, in the period when energy commodities or products are delivered or services are rendered. Sales contracts that are eligible for accrual accounting include non-derivative transactions and derivative commodity contracts that will be physically delivered.

CORHLP sells power at predetermined fixed rates. These rates increase and decrease over the term of the power sales contract, which expires December 31, 2031. These power sales are recognized on a levelized basis over the term of the contract. The difference between levelized power sales and cash received is recorded as accrued levelized revenue on the balance sheet. CORHLP also pays royalty expenses at a rate that fluctuates during the term of the contract. These are also recognized on a levelized basis over the term of the contract.

Investment income is recorded on the accrual basis.

The Company maintains hydrological insurance which partially compensates for the effect of variations in water inflows when measured against long-term averages. Hydrology insurance income is recognized when insurance proceeds can be estimated and collection is reasonably assured. For 2006, no amount has been included in revenues for hydrological insurance claims (2005 - $2 million).

Power purchases are recorded upon delivery and are included as a component of net operating income. All other expenses are recorded on an accrual basis when incurred.

Financing costs
Expenses related to the issuance of debt are deferred and amortized over the term of the debt.

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 basis of assets and liabilities, and are 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.

Derivative financial instruments
The Company uses derivative financial instruments to manage commodity price risk, interest rate risk and foreign exchange risk associated with the Company's production, operating and risk management financing activities. Financial instruments approved and entered into to mitigate the risks described above are interest rate swaps, foreign exchange swaps, commodity options, electricity swaps and gas swaps.

Hedge accounting is applied when the derivative financial instrument is designated and documented as a hedge of a specific exposure and there is reasonable assurance that the hedging relationship has been and will continue to be highly effective as a hedge based on an expectation of offsetting cash flows or fair values. Gains or losses on hedging instruments are recognized in income over the term of the contract when the underlying hedged transactions occur. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the hedging relationship is terminated or the anticipated transaction is no longer probable. When a hedging relationship is terminated, changes in fair value that were not recognized by the application of hedge accounting are deferred and recognized in income when the original hedged transaction is recorded through income. When a hedged item ceases to exist, any associated deferred gains or losses are recognized in the current period's income.

Derivatives not designated as hedges are recorded as assets or liabilities with the changes in fair value recorded through income in the current period. The use of hedging and of non-hedging derivative contracts is governed by documented risk management policies and approved limits.

The fair value of derivative instruments is based on the spot rates or the forward rates or prices in effect at market closing at the balance sheet date. In the absence of this information for a given instrument, the Company uses the available forward rate or price for an equivalent instrument.

(a) Commodity derivative instruments
Some of the Company's generation is sold into the Ontario, New England, New York, and the Pennsylvania, Jersey, Maryland wholesale markets at the prevailing market price. To reduce price risk caused by market fluctuations, the Company, through two wholly owned subsidiaries, enters into derivative contracts to mitigate price exposure. For example, the Company enters into swaps that exchange the floating clearing price for a fixed price to manage its anticipated exposures.

(b) Interest rate hedging instruments
The Company enters into interest rate swap agreements to alter the interest characteristics of a portion of its outstanding and anticipated debt. These agreements involve the receipt of fixed-rate amounts in exchange for floating rate interest payments or vice-versa over the life of the agreement without an exchange of the underlying principal amount. The differential paid or received as a result of interest rate swap agreements designated as hedges is recognized on an accrual basis as an adjustment to interest expense related to the debt.

(c) Foreign exchange and hedges of net investments in foreign operations
The accounts of self-sustaining foreign operations are translated using the current rate method, under which all assets and liabilities are translated at the exchange rate prevailing at year end, and revenues and expenses are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the period. Gains or losses on translation of these amounts are not included in the consolidated statements of income, but deferred and shown as a separate component of shareholder's equity. Gains or losses on foreign currency liabilities and forward foreign exchange contracts that are designated as hedges of a net investment in self-sustaining foreign operations are reported in shareholder's equity in the same manner as translation adjustments. Foreign-denominated monetary assets and liabilities of integrated operations are translated at the exchange rates prevailing at the year end, and revenue and expenses at average rates of exchange during the year. Exchange gains and losses arising on the translation of these amounts are included in investment and other income.

Cash and cash equivalents
All highly liquid investments with original maturities of three months or less are classified as cash and cash equivalents. The fair value of cash and cash equivalents approximates cost due to their short-term nature.

Short-term investments
Short-term investments consist of investments that are short-term in nature and demand promissory notes issued by Brookfield. These are carried at the lower of cost and their estimated net realizable value. Short-term investments also include demand deposits held with affiliates which are recorded at cost and approximate fair value due to their short-term nature.

Long-term investments
Long-term investments are carried at the lower of cost and net realizable value.

Financial instruments
The carrying value of the Company's financial instruments approximate fair value, unless otherwise noted.

Power generating assets
Property, plant and equipment included in power generating assets are recorded at cost. The cost of the power generating assets less estimated residual value is depreciated over the service lives of the assets as follows:

	Method	Rate
Dams	Straight-line	40 to 60 years
Gas cogenerating stations	Straight-line	10 to 40 years
Hydroelectric generating stations	Straight-line	19 to 60 years
Wind turbines	Straight-line	20 to 25 years
Buildings	Straight-line	5 to 60 years
Transmission and distribution system	Straight-line	5 to 50 years
Equipment	Straight-line	5 to 60 years
Computer equipment	Straight-line	3 years
Water rights	Declining balance	2.5% per year

Power purchase agreements and licenses
Power purchase agreements ("PPA") and Federal Energy Regulatory Commission ("FERC") licenses are recorded at cost and amortized either on a straight-line basis over the remaining life of the agreements or licenses, which is between 5 and 47 years, or over the period which the power purchase agreement prices are above forecasted market energy prices. PPA cost is defined as the amount by which the value of the PPA exceeds the market terms at the time of acquisition through a business combination.

Goodwill

The Company accounts for business combinations using the purchase method of accounting which establishes specific criteria for the recognition of intangible assets separately from goodwill. The excess of the cost of the acquisition over the fair value of the net assets acquired, including both tangible and intangible assets, has been allocated to goodwill, which is included in other assets. The Company evaluates, on an annual basis, the carrying value of these amounts for impairment. Any impairment is charged against income at that time. No amounts have been charged to income for the years presented.

Impairment of long-lived assets

Assets are tested for other than temporary impairment based on an assessment of net recoverable amounts in the event of adverse developments. A write-down to estimated net realizable value is recognized if an asset's estimated undiscounted future cash flow is less than its carried value. The projections of the future cash flow take into account the operating plan and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

Pension and employee future benefits

The cost of retirement benefits for the Company's defined benefit pension plans and post-employment benefits is recognized as the benefits are earned by employees. The Company uses the projected 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. Past service costs resulting from plan amendments are being amortized on a linear basis over the average remaining service period of active members expected to receive the benefits under the plan. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. The average remaining service life under the various plans as at December 31, 2006 varies from 10.1 to 18.5 years for the pension plans and from 7 to 25 years under the other post-employment benefits plans. For the defined contribution plan, the Company expenses payments based on employee earnings.

Capital securities

Capital securities that are convertible into a fixed number of common shares at the Company's option and interest payments on the capital securities that can be paid by way of a variable number of common shares at the Company's option are classified partly as liabilities and partly as equity.

Stock based compensation

The Company accounts for stock options using the fair value method. Under the fair value method, compensation expense for stock options is determined based on the fair value at the grant date using an option pricing model and is charged to income over the vesting period. All shares issued under the Company's plan are Brookfield shares. The amount of expense recorded for stock based compensation is net of the Company's portion of the receivable from equity derivative contracts used by Brookfield to limit the exposure to the change in the market price of Brookfield shares.

Translation of foreign currencies

Since January 1, 2005, the assets and liabilities of the Company's self-sustaining operations having a functional currency other than the U.S. dollar have been translated into U.S. dollars using the exchange rate prevailing at the period end and revenues and expenses have been translated at the rate of exchange in effect on the dates on which such items are recognized in income during the period. Exchange gains and losses on translation of the Company's net equity investment in these operations have been deferred and shown as a separate component of shareholder's equity. Gains or losses on foreign currency liabilities and forward foreign exchange contracts that are designated as hedges of a net investment in self-sustaining foreign operations have been reported in shareholder's equity in the same manner as translation adjustments. Foreign-denominated monetary assets and liabilities of integrated operations have been translated at the exchange rates prevailing at the period end, and revenue and expenses at average rates of exchange during the period. Exchange gains and losses arising on the translation of these amounts have been included in investment and other income. Non-monetary assets and liabilities are translated at historical rates of exchange.

Comparative figures

Certain of the prior year's figures have been reclassified to conform to the 2006 presentation.

3. FUTURE ACCOUNTING POLICY CHANGES

The Company will adopt the following accounting standards for Canadian generally accepted accounting principles on January 1, 2007.

Financial instruments
On January 27, 2005, the CICA issued three new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges. In addition, on December 1, 2006, the CICA issued two new accounting standards: Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation.

Comprehensive Income
As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income (AOCI), will be added to the shareholder's equity section on the consolidated balance sheet. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. As at January 1, 2007, the Company's AOCI will mainly include unrealized gains and losses on the mark-to-market of commodity derivatives.

Financial Instruments – Recognition and Measurement
Under the new standard, all financial instruments will be classified as one of the following: Held-to-maturity, Loans and Receivables, Held-for-trading or Available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

Hedges
This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net income. The amounts recognized in AOCI will be reclassified to net income in the periods in which the net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income.

The anticipated net impact of these standards on the Company's consolidated financial statements as at January 1, 2007 is not yet determinable.

4. ACQUISITIONS

All acquisitions that represent business combinations 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.

On February 17, 2006, the Company acquired four hydroelectric generating stations in Northern Ontario, with a total generating capacity of approximately 50 MW, for cash consideration of CDN$85 million and CDN$ 1 million due to a related party. Generating facilities are located on the Groundhog River, Shekak River, Serpent River and Aux Sables River.

The assignment of fair values to the net assets acquired was as follows:

$ millions		
Power generating assets	$	**111**
Power purchase agreements		**68**
Goodwill		**33**
Future income tax liability		**(60)**
Assumed debt		**(77)**
Net assets acquired	$	**75**

On June 8, 2006, the Company completed the acquisition of two hydroelectric generating facilities in New England for $147 million in cash. These two run-of-the-river merchant facilities are located on the Androscoggin River and have a total capacity of 39 MW.

The assignment of fair values to the assets acquired was as follows:

$ millions		
Power generating assets	$	**142**
FERC licenses		**1**
Other long-term assets		**4**
Total assets acquired	$	**147**

Effective July 1, 2006, the Company sold its interest in Carmichael Limited Partnership ("CLP"), acquired as part of the February 17, 2006 transaction, to the Fund for total proceeds of CDN$56 million in cash. The sale included Carmichael Falls, a 20 megawatt hydroelectric facility located on the Groundhog River in Northern Ontario. The transaction has been recorded at exchange value.

On October 6, 2006, the Company completed the acquisition of a hydroelectric generating plant in West Virginia for $122 million. The facility is located on the New River in West Virginia and has an installed capacity of 102 MW and produces on average 529 GWh of electricity annually.

The assignment of fair values to the assets acquired was as follows:

$ millions		
Power generating assets	$	**121**
FERC licenses		**1**
Total assets acquired	$	**122**

5. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions not disclosed elsewhere in these financial statements.

(a) The Company had a power supply contract with Noranda Aluminum Inc. ("Noranda"), a wholly owned subsidiary of Falconbridge Limited (formerly Noranda Inc.), a company related by common ownership. The Company agreed to provide Noranda's aluminum smelter with its power requirement at a fixed price for a two-year period commencing June 1, 2003 in addition to a limited profit or loss sharing arrangement. The arrangement expired on May 31, 2005. At December 31, 2006, no amounts were receivable in relation to this arrangement (2005 - $nil).

(b) The Company provided gas to Falconbridge Limited at market value prices as required. This agreement expired in December 2004. There were no amounts receivable at December 31, 2006 (2005 - $nil).

(c) The Company was formerly engaged in a financial transaction agreement with Brookfield Properties Corporation ("Brookfield Properties"), a company related by common control, requiring periodic exchanges of payments without the exchange of the notional principal amount on which the payments were based. This agreement involved the payment of floating power rates in exchange for fixed power rates. The differential paid or received as a result of this swap agreement was accrued and recognized as an adjustment to power generation revenues. The agreement expired in December 2005.

(d) On December 27, 2005, the Company sold its coal properties and all related assets and liabilities including any future royalty revenue stream, to Highvale Coal GP Ltd., an affiliated company through common ownership, for consideration of CDN$10 million. The loss upon disposition of $8 million was recorded as a reduction to contributed surplus, given the related party nature of the transaction. No amounts related to this transaction were outstanding as at December 31, 2006.

(e) Pursuant to a power purchase agreement, the Company provides Katahdin Paper Company ("KPC"), a company related by common ownership, with energy at a fixed rate. At December 31, 2006, the Company had a balance receivable from KPC in the amount of $5 million (2005 - $3 million), which is included in accounts receivable and other on the balance sheet.

(f) Pursuant to a power purchase agreement expiring in December 2012, the Company provides Fraser New Hampshire ("FNH"), a company related by common ownership, with energy at a fixed rate. As a result, at December 31, 2006 FNH owed the Company $1 million (2005 - $1 million). This amount is included in accounts receivable and other.

(g) The Company had promissory notes of $26 million (2005 - $26 million) with Brookfield in Canadian dollars. In 2005, the Company also had demand deposits in the amounts of $112 million with Brookfield. See note 8 for further details.

(h) The Company holds securities and long-term investments with related parties, which produce investment income. See notes 8 and 10 for further details.

(i) On July 1, 2005, the Company exchanged all of its common and preferred shares in wholly owned First Toronto Equities Inc. ("FTEI") for preferred shares in a new amalgamated company, Trilon Bancorp Inc. ("TBI"). TBI is wholly owned by Brookfield. Subsequently, on July 1, 2005, the Company purchased, through a subsidiary, all of the preferred shares of The Catalyst Group ("TCG") from TBI for $75 million. The TCG preferred shares were owned by the Company through FTEI prior to the exchange of shares described above. As a result of these transactions, the Company recorded an increase in its contributed surplus of $198 million, representing the excess of consideration received over that given up. In addition, the TCG junior note that was previously payable to FTEI, and therefore eliminated upon consolidation, is now presented on the balance sheet as Due to related party. As at December 31, 2006, the balance payable on the junior note was $104 million (2005 - $177 million).

On August 1, 2005, the Company redeemed all of its preferred shares in TBI. The consideration is presented on the balance sheet as Due from a related party. At December 31, 2006, the balance receivable was $686 million (2005- $689 million). The amount receivable is unsecured and is non-interest bearing.

(j) In the normal course of operations, Riskcorp Inc., an insurance broker related through common control, entered into transactions with the Company to provide insurance. These transactions are measured at exchange value. The total cost incurred in 2006 for these services was $15 million (2005 - $11 million) and is included in operating expenses.

The following table summarizes the income statement impact of related party transactions for the year:

$ millions	**2006**	2005
Revenues		
Sale of power to Noranda	**$ -**	$ 49
Physical gas sales to Falconbridge Limited	**-**	1
Sale of power and financial transactions with Brookfield Properties	**-**	2
Sale of power to KPC	**27**	25
Sale of power and tolling agreement with FNH	**7**	8
	$ 34	$ 85
Investment income and other		
Interest earned on demand deposits and promissory notes with Brookfield	**$ 5**	$ 14
Income from securities with affiliated companies	**10**	14
Income from long-term investments with affiliated companies	**-**	8
	$ 15	$ 36
Expenses		
Interest expense on note payable to TBI	**$ 10**	$ 18
Insurance services from Riskcorp Inc.	**15**	11
Profit sharing with Noranda[1]	**-**	(5)
	$ 25	$ 24

[1] *Included in power purchases*

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were composed of the following:

$ millions	**2006**	2005
Cash	**$ 61**	$ 60
Short-term deposits	**20**	40
	$ 81	$ 100

7. ACCOUNTS RECEIVABLE AND OTHER

The composition of accounts receivable and other was as follows:

$ millions	**2006**	2005
Trade receivables	**$ 138**	$ 159
Commodity derivatives	**11**	25
Deferred loss on commodity derivatives	**11**	-
Prepaids and other	**61**	97
	$ 221	$ 281

8. SHORT-TERM INVESTMENTS

The composition of short-term investments by business sector or type was as follows:

$ millions	**2006**	2005
Securities		
Real estate	**$ 52**	$ 52
Financial services and diversified	**55**	55
Other	**21**	22
Promissory notes	**26**	26
Demand deposits	**-**	112
	$ 154	$ 267

The securities portfolio is comprised primarily of preferred shares. In determining fair values of securities, 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 45% floating rate securities (2005 – 67%) and 55% fixed rate securities (2005 – 33%) with an average yield at December 31, 2006 of 7.4% (2005 – 4.8%). Income earned on securities with affiliated companies in 2006 amounted to $10 million (2005 - $14 million).

Promissory notes were issued by Brookfield. These notes are due on demand and pay interest at the Canadian prime rate. Interest earned on the notes in 2006 amounted to $2 million (2005 - $ 3 million).

The demand deposits were held with Brookfield in both Canadian and U.S. dollars.

Affiliated companies include Brookfield, its subsidiaries and equity accounted investees. All short-term investments are with affiliates.

9. OTHER ASSETS

$ millions		**2006**		2005
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Power purchase agreements	**$ 240**	**$ 23**	**$ 217**	$ 166
Deferred financing fees	**78**	**30**	**48**	47
FERC licences	**42**	**5**	**37**	38
Other depreciable assets	**8**	**2**	**6**	7
	368	**60**	**308**	258
Accrued levelized revenues	**553**	**-**	**553**	543
Cash held in escrow	**28**	**-**	**28**	56
Goodwill	**27**	**-**	**27**	-
EZTC tax credits receivable	**23**	**-**	**23**	9
Deferred loss on commodity derivatives	**6**	**-**	**6**	6
Commodity derivatives (note 25)	**-**	**-**	**-**	27
Other	**3**	**-**	**3**	-
	$ 1,008	**$ 60**	**$ 948**	$ 899

In 2006, the Company acquired an additional $68 million related to PPAs (2005 - $20 million). As a result of the sale of CLP, the value of the PPA acquired in the February 17, 2006 transaction was adjusted downward by $5 million. Amortization for the year totalled $12 million (2005 - $10 million).

In 2006, the Company incurred $9 million of financing fees (2005 – $18 million) which have been deferred and are being amortized over the term of the underlying debt. Amortization for the year totalled $8 million (2005 – $8 million). During 2006, the Company did not write off any deferred financing fees (2005 - $4 million).

The Company holds licenses for its U.S. operations issued by the FERC. During the year, new FERC licenses were added with the acquisitions in New England and West Virginia totalling $1 million (2005 - $1 million), and amortization of all licenses totalled $2 million (2005 - $3 million).

The difference between levelized revenues and cash received is recorded as accrued levelized revenues on the balance sheet. As at December 31, 2006, an amount of $553 million (2005 - $543 million) pertaining to accrued levelized revenues was included in other assets.

Cash held in escrow included $28 million (2005 - $35 million) of undistributed earnings related to CORHLP. Included in the 2005 balance was $21 million for debt and capital expenditure reserve accounts that are requirements of the New York financing obtained in 2005. In 2006, the Company replaced the cash held in escrow for debt reserves with letters of credit. The capital reserve account was also cleared once the Company met its capital expenditure threshold for the year.

The amount for goodwill relates to the acquisition of four hydroelectric facilities in Ontario. Of the $27 million of goodwill at December 31, 2006, $23 million of the goodwill was attributable to the assets owned directly by the Company and $4 million was attributable to the facility owned by the Fund. As a result of the sale of CLP, the value of goodwill acquired in the February 17, 2006 transaction was adjusted downward by $6 million.

Some of the Company's subsidiaries have been certified as Qualified Empire Zone ("QEZ") enterprises in certain areas within the State of New York. A tax credit for real property taxes paid within a QEZ is offered by the State of New York to employers creating employment and making capital investments in qualified areas. The asset is classified as long-term due to the timing of the State of New York audits.

10. LONG-TERM INVESTMENTS

Long-term investments include the Company's interests in Brookfield subsidiaries.

$ millions	**2006**	2005
Brascan Brazil Ltd.	**$ 159**	$ 135
Other investments	**-**	5
	$ 159	$ 140

In 2006, the Company had no income from investments with affiliated companies (2005 – $8 million).

During the first quarter of 2006, the Company invested $14 million in preferred shares of Brascan Brazil Ltd., a wholly owned subsidiary of Brookfield that owns, develops and operates hydroelectric generation plants in Brazil. In the third quarter of 2006, the Company invested an additional $10 million in Brascan Brazil Ltd., thereby increasing the Company's total preferred share investment in Brascan Brazil Ltd. to $159 million.

11. POWER GENERATING ASSETS

The composition of the Company's power generating assets is shown below:

As at December 31, 2006

$ millions	**Cost**	**Accumulated depreciation**	**Net book value**
Land	**$ 40**	**$ -**	**$ 40**
Dams	**828**	**53**	**775**
Gas cogenerating stations	**185**	**89**	**96**
Hydroelectric generating stations	**2,348**	**476**	**1,872**
Wind operations	**329**	**3**	**326**
Transmission and distribution system	**209**	**65**	**144**
Buildings	**81**	**4**	**77**
Equipment	**240**	**30**	**210**
Water rights	**6**	**-**	**6**
Construction work in progress	**79**	**2**	**77**
	$ 4,345	**$ 722**	**$ 3,623**

As at December 31, 2005

$ millions	Cost	Accumulated depreciation	Net book value
Land	$ 38	$ -	$ 38
Dams	720	41	679
Gas cogenerating stations	186	78	108
Hydroelectric generating stations	2,088	421	1,667
Wind operations	3	-	3
Transmission and distribution system	171	61	110
Buildings	99	4	95
Equipment	187	19	168
Water rights	6	-	6
Construction work in progress	118	-	118
	$ 3,616	$ 624	$ 2,992

During the year, the Company capitalized $2 million of interest costs (2005 - $2 million).

12. JOINT VENTURES

The following amounts represent the Company's proportionate interest in unincorporated joint ventures reflected in the Company's accounts. These amounts include Pingston and Bear Swamp.

$ millions	Ownership interest	Net income		Net assets	
		2006	2005	**2006**	2005
Pingston	50%	**$ 1**	$ 1	**$ 2**	$ 3
Bear Swamp	50%	**3**	4	**50**	49
		$ 4	$ 5	**$ 52**	$ 52

$ millions	**2006**	2005
Current assets	**$ 8**	$ 5
Long-term assets	**81**	82
Current liabilities	**7**	5
Long-term liabilities	**30**	30
Operating revenues	**30**	26
Operating expenses	**26**	21
Net income	**4**	5
Cash flows from operating activities	**2**	8
Cash flows (used in) from financing activities	**(3)**	45
Cash flows used in investing activities	**$ (1)**	$ (51)

13. ACCOUNTS PAYABLE AND OTHER

The composition of accounts payable and other was as follows:

$ millions	**2006**	2005
Trade payables	**$ 141**	$ 155
Interest payable	**29**	26
Commodity derivatives	**19**	34
Demand notes payable	**1**	-
	$ 190	$ 215

14. CREDIT FACILITIES

$ millions	Available		Drawn		Letters of credit	
	2006	2005	**2006**	2005	**2006**	2005
Credit facilities						
Brookfield Power Wind Corporation	**$ 256**	$ -	**$ 248**	$ -	**$ -**	$ -
Lièvre Power LP	**21**	22	**-**	-	**3**	3
Powell River Energy Inc.	**4**	4	**1**	-	**1**	-
Brookfield Power Corporation	**350**	200	**-**	-	**117**	130
	$ 631	$ 226	**$ 249**	$ -	**$ 121**	$ 133

On July 21, 2006, Brookfield Power Wind Corporation signed an agreement with a syndicate of Canadian banks for a CDN$300 million credit facility to finance the construction of the Prince wind farm project in Ontario. The facility can be drawn in Canadian funds, bearing interest at either Canadian prime rate or CDOR rate plus applicable margin, or in U.S. funds, bearing interest at either the U.S. base rate or LIBOR plus applicable margin, is secured by Prince's assets, and will mature no later than August 1, 2007. Standby fees are charged on the undrawn balance. At December 31, 2006, CDN$291 million had been drawn on this facility.

Lièvre Power LP ("LPLP") is a 100% wholly owned subsidiary of the Fund. The CDN$25 million credit facility is secured by the power generating assets of LPLP, has a one year term and may be extended for additional individual periods of one year at the request of the borrower. The credit facility bears interest based on prime plus applicable margin. Standby fees are charged on the undrawn balance. If not renewed, the credit facility is due in October 2007.

PREI has a credit facility in the amount of CDN$5 million available by way of advances in Canadian dollars of (i) prime rate loans (ii) BA loans and (iii) letters of credit. Standby fees are charged on the undrawn PREI credit facility. If not renewed, the credit facility is due in December 2007.

During the year the Company, through Brookfield Power Corporation, increased its revolving unsecured credit facility from $200 million to $350 million. In addition, the due date of the facility has been extended from April 2008 to April 2009. All other terms of the facility remain unchanged. As a result of the extension of the due date, the deferred financing fees related to this credit facility are now being amortized over a longer period to match the new term. Standby fees are charged on the undrawn balance.

The Company and its subsidiaries issue letters of credit under the various credit facilities to be used for general corporate purposes, which include, but are not limited to, guarantees for the debt service reserve account and collateral for energy trading purposes.

The Company has a commercial paper program with an authorized amount of $100 million (2005 – CDN$100 million). The Company's commercial paper is currently rated R-1 (low) by Dominion Bond Rating Service and A-2 stable by Standard and Poor's. At December 31, 2006 and 2005, the Company had not drawn on the commercial paper program.

15. PROPERTY SPECIFIC BORROWINGS

$ millions	Maturity	Interest rates	**2006**	2005
Great Lakes Power				
First mortgage bonds				
Series 1 (CDN$384)	2023	6.60%	**$ 329**	$ 331
Subordinated debt (CDN$115)	2023	7.80%	**98**	99
			427	430
Pontiac Power				
Mortgage loans				
Coulonge (CDN$34)	2018	10.26%	**29**	31
Waltham (CDN$21)	2020	10.99%	**18**	18
			47	49
Brookfield Power New York				
Senior secured notes				
Series A	2017	5.45%	**175**	175
Series B	2025	5.91%	**250**	250
Series C	2030	5.96%	**125**	125
			550	550
Beaver Power (note 4)				
OEFC loans				
Serpent River (CDN$10)	2038	7.47%	**9**	-
Cameron Falls (CDN$12)	2039	7.47%	**10**	-
Algonquin Power (CDN$27)	2028	7.47%	**23**	-
Mortgage loans				
Serpent River (CDN$5)	2009	11.00%	**4**	-
Cameron Falls (CDN$3)	2011	11.60%	**3**	-
Algonquin Power (CDN$32)	2016	10.28%	**28**	-
			77	-
Powell River First mortgage bonds (CDN$75)	2009	6.39%	**64**	65
Lake Superior Power senior secured note (CDN$39)	2009	4.39%	**33**	49
Lièvre Power senior secured bonds (CDN$225)	2025	5.56%	**192**	194
Valerie Falls first mortgage bonds (CDN$32)	2042	6.84%	**27**	28
Mississagi Power first mortgage bonds (CDN$175)	2020	6.92%	**150**	151
Pingston Power series 1 senior secured bonds (CDN$35)	2015	5.28%	**30**	30
Great Lakes Hydro America Senior secured notes	2014	5.60%	**125**	125
Hydro Kennebec senior secured term notes	2008	5.98%	**6**	9
Carmichael Falls non-revolving term loan (CDN$32)	2011	4.75%	**27**	-
			$ 1,755	$ 1,680
Less: Current portion of property specific borrowings			**(26)**	(21)
			$ 1,729	**$ 1,659**

On November 3, 2006, the Company, through the Fund, completed a non-revolving term loan facility in the amount of CDN$32 million. The facility, which is secured by the Carmichael Falls assets, matures in November 2011 and bears interest at 4.75%, interest and principal payable quarterly commencing in February 2007.

The February 17, 2006 transaction described in note 4 includes the assumption of three mortgage loans and debt with the Ontario Electricity Financial Corporation ("OEFC"). The mortgage loans include premiums totalling $5 million at December 31, 2006 that are being amortized over the term of the respective loans. Amortization for the year was $1 million.

Under agreements between the Company and OEFC, the OEFC is required to provide monthly levelization payments to Beaver Power Corporation during the period from December 31, 1989 to 2019 for Serpent River, March 31, 1991 to 2020 for Cameron Falls and February 1996 to 2010 for Algonquin Power. Where these monthly payments are less than the value of the power generated, the shortfall is allocated against the loan balance. The loans payable accrue interest at the OEFC's annual corporate financial discount rate of 7.47% compounded annually. The rate is reset every year by the OEFC.

The property specific borrowings are generally secured by the assets of the related property. Payments are made on interest only with the exception of the following borrowings, which have blended interest and principal payments: the Lake Superior Power senior secured note; the Pontiac Power mortgage loans; the Valerie Falls first mortgage bonds (except for the period from December 19, 2013 until December 18, 2023 during which time no principal repayments are required); the Hydro Kennebec senior secured term notes, the Carmichael Falls term loan, the Beaver Power mortgage loans, and the Beaver Power OEFC loans (these loans have fifty-year terms with repayments of the loan, including interest, to be made from 2020 to 2038, 2021 to 2039, and 2010 to 2028 for Serpent River, Cameron Falls and Algonquin Power respectively). Beginning in 2013, payments of principal will be required on the Series 1 Great Lakes Power first mortgage bonds.

The fair value of the Company's property specific borrowings is $1,856 million (2005 – $1,734 million) based on current market prices for debt with similar terms and risks.

Anticipated principal repayments and premium amortization on the Company's outstanding property specific borrowings due over the next five years and thereafter are as follows:

$ millions	Annual repayments
2007	**$ 26**
2008	**25**
2009	**81**
2010	**11**
2011	**22**
Thereafter	**1,590**
	$ 1,755

16. LONG-TERM DEBT

$ millions	Maturity	Interest rates	**2006**	2005
CDN Corporate debentures				
Series 1 (CDN$450)	2009	4.65%	**$ 385**	$ 388
Series 2 (CDN$100)	2006	CDOR + 68 bps	**-**	86
CDN Medium-term notes				
Series 3 (CDN$200)	2018	5.25%	**171**	-
Series 4 (CDN$150)	2036	5.84%	**128**	-
Powell River Energy Inc.				
Shareholder notes (CDN$22)	2020	0% - 18.00%	**18**	19
CORHLP				
Finance debt obligation	2031	10.30%	**808**	813
Note payable	2014	5.90%	**32**	31
			$ 1,542	$ 1,337
Less: Current portion of long-term debt			**(11)**	(91)
			$ 1,531	$ 1,246

The CDN $100 million Series 2 Canadian corporate debentures matured and were repaid on December 18, 2006.

The CDN$22 million PREI shareholder notes consists of a subordinated promissory note due to a minority shareholder of PREI of CDN$2 million bearing no interest, and of a CDN$20 million subordinated promissory note bearing interest, payable quarterly, based on PREI's previous year income before interest, taxes, depreciation and amortization subject to a maximum of 18% and a minimum of 10%. The interest rate charged in 2006 was 16% (2005 – 18%).

On August 25, 1990, CORHLP entered into a sale and leaseback agreement with regards to its power generating assets, for a term of 30 years, plus two renewal options: a fixed rate renewal option and periodic fair market renewal option. The finance debt obligation represents the proceeds from the sale and leaseback transaction plus accrued interest, has an implicit annual interest rate of 10.30% and lease payments are due on a semi-annual basis until November 1, 2031. All revenues generated by CORHLP are contractually required to be deposited into a series of trust accounts administered by an independent collateral agent pursuant to a disbursement agreement which provides for the disbursement of funds for operating costs, lease and royalty payments. Under the terms of the disbursement agreement, in May of each year, the funds held in trust for the partners are distributed providing that all the terms of the agreement are satisfied. There are currently no restrictions on any partner distributions. At December 31, 2006, the net book value of the associated power generating assets and accrued levelized revenues is $339 million and $553 million respectively (2005 - $352 million and $543 million respectively).

The CORHLP note payable is secured by 25% of the Company's partnership interest in CORHLP, bears a simple annual interest rate of 5.90% and is repayable on July 1, 2014.

On November 1, 2006, the Company, through one of its subsidiaries, issued two series of medium-term notes totalling CDN$350 million. Both notes are unsecured, rank pari passu with all other existing debt, and have semi-annual interest payments. Proceeds from these notes were used in part to repay the CDN$100 million Series 2 Canadian corporate debentures, which matured in December 2006.

The fair value of the Company's long-term debt is $1,545 million (2005 – $1,340 million) based on current market prices for debt with similar terms and risks.

Anticipated principal repayments on the Company's outstanding long-term debt due over the next five years and thereafter are as follows:

$ millions	Annual repayments
2007	**$ 11**
2008	**19**
2009	**414**
2010	**38**
2011	**42**
Thereafter	**1,018**
	$ 1,542

17. OTHER LONG-TERM LIABILITIES

Other long-term liabilities were comprised of:

$ millions	**2006**	2005
Accrued levelized expenses	**$ 77**	$ 74
Pension and employee future benefits (note 20)	**18**	18
EZTC service liability	**4**	2
Commodity derivatives (note 25)	**3**	34
Deferred gain on commodity derivatives	**1**	-
	$ 103	$ 128

The difference between levelized royalty expenses and cash paid is recorded as accrued levelized royalty expense on the balance sheet.

18. CAPITAL SECURITIES

Capital securities were comprised of the following:

$ millions		2006			2005	
	Debt portion	**Equity portion**	**Total**	Debt portion	Equity portion	Total
Capital securities, US $909 million	**$ 905**	**$ 4**	**$ 909**	$ 905	$ 4	$ 909
Capital securities, US $200 million	**199**	**1**	**200**	199	1	200
Total	**$ 1,104**	**$ 5**	**$ 1,109**	$ 1,104	$ 5	$ 1,109

The $909 million capital securities owned by Brookfield bear an annual interest rate of 11.3%, payable quarterly, mature on June 30, 2054, and are convertible in full at the option of Brookfield any time prior to the maturity date at $25.51 per common share into 35.6 million common shares. Principal and interest are payable at the Company's option with common shares.

The $200 million capital securities were issued to Brookfield. These securities bear an annual interest rate of 11.3%, payable quarterly, and mature on June 30, 2054. They are convertible in full, at the option of Brookfield, 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 the Company's option in common shares.

For the year ended December 31, 2006, $125 million was recorded as interest on capital securities on the consolidated statement of income (2005 - $120 million).

19. INCOME TAXES

The Company's future income tax liability of $167 million (2005 – $116 million) is comprised principally of temporary differences relating to power generating assets and other reserves, net of unused non-capital losses, which total $50 million (2005 - $51 million). The difference between taxes calculated at the statutory rate and those recorded is reconciled as follows:

$ millions	**2006**	2005
Net income before tax	**$ 114**	$ 43
Statutory income tax rate	**36%**	34%
Statutory income tax rates applied to accounting income	**41**	15
Non-taxable dividends	**(15)**	(16)
Impact of rate reduction	**(15)**	-
Change in tax rates	**(8)**	(6)
Exchange translation items and other	**5**	(10)
Provision for (recovery of) income taxes	**$ 8**	$ (17)

For the year ended December 31, 2006, the Company's current tax expense was $4 million (2005 – tax recovery of $6 million) and future income tax expense was $4 million (2005 – tax recovery of $11 million).

The Company's non-capital losses expire as follows:

$ millions	
2014	**$ 1**
2015	**1**
2016	**-**
2017	**3**
2018	**2**
Thereafter	**43**
	$ 50

20. PENSION AND EMPLOYEE FUTURE BENEFITS

(a) Description of benefit plans

The Company offers a number of pension plans to its employees, as well as certain health care, dental care, life insurance and other benefits to certain retired employees pursuant to Company policy. The benefit liabilities represent the amount of pension and other employee future benefits that the Company's employees and retirees have earned at year-end. The Company's obligation under these plans is determined through periodic actuarial reports which were based on the assumptions indicated in the following table.

$ millions	**2006**		2005	
	Defined benefit pension plans	**Non-pension benefits plans**	Defined benefit pension plans	Non-pension benefits plans
Benefit obligation				
Discount rate	**5.00%-5.50%**	**5.00%-5.50%**	5.00%-5.50%	5.00%-5.50%
Rate of compensation increase	**3.50%-4.50%**	**3.50%-4.50%**	3.50%-4.50%	3.50%-4.50%
Initial health care trend rate	**-**	**6.69%-10.50%**	-	6.69%-10.50%
Ultimate trend rate	**-**	**4.24%-5.00%**	-	4.24%-5.00%
Year ultimate rate reached	**-**	**2016**	-	2016
Benefit expense				
Discount rate	**5.25%-5.85%**	**5.25%-5.85%**	5.75%-6.00%	5.75%-6.00%
Long-term rate of return on plan assets	**7.00%-7.50%**	**-**	7.00%-7.50%	-
Rate of compensation increase	**3.50%-4.50%**	**3.50%-4.50%**	3.50%-4.50%	3.50%-4.50%
Initial health care trend rate	**-**	**6.47%-10.00%**	-	6.89%-9.75%
Ultimate trend rate	**-**	**4.24%-5.00%**	-	3.90%-5.50%
Year ultimate rate reached	**-**	**2016**	-	2008
Accrued pension obligations				
Balance, beginning of year	**$ 83**	**$ 19**	$ 68	$ 15
Current service cost	**2**	**1**	2	1
Interest cost	**4**	**1**	4	1
Employee contributions	**1**	**-**	-	-
Plan amendments	**-**	**-**	1	-
Benefits paid	**(6)**	**(1)**	(4)	-
Actuarial loss (gain)	**(6)**	**(4)**	10	2
Foreign exchange rate changes	**(1)**	**-**	2	-
Balance, end of year	**$ 77**	**$ 16**	$ 83	$ 19
Fair value plan assets				
Balance, beginning of year	**$ 62**	**-**	$ 54	-
Employer contributions	**4**	**-**	4	-
Employee contributions	**1**	**-**	-	-
Benefits paid	**(6)**	**-**	(4)	-
Actual return on plan assets	**7**	**-**	6	-
Foreign exchange rate changes	**(1)**	**-**	2	-
Balance, end of year	**$ 67**	**-**	$ 62	-
Reconciliation of accrued benefit asset (liability)				
Plan deficit	**$ (10)**	**$ (16)**	$ (21)	$ (19)
Unamortized transitional obligation	**1**	**4**	2	4
Unamortized past service cost	**1**	**-**	1	-
Unamortized net actuarial loss (gain)	**3**	**(1)**	12	3
Accrued benefit liability	**$ (5)**	**$ (13)**	$ (6)	$ (12)

	2006		2005	
	Defined benefit pension plans	**Non-pension benefits plans**	Defined benefit pension plans	Non-pension benefits plans
Expense				
Current service costs	**$ 3**	**$ 1**	$ 2	$ 1
Interest on accrued benefits	**4**	**1**	4	1
Actual return on plan assets	**(7)**	**-**	(6)	-
Plan amendment	**-**	**-**	1	-
Actuarial loss (gain)	**(6)**	**(4)**	10	2
Costs arising in the period	**$ (6)**	**$ (2)**	$ 11	$ 4
Differences between costs arising in the period and costs recognized in the period in respect of:				
Actuarial loss (gain)	**7**	**4**	(10)	(2)
Return on plan assets	**2**	**-**	2	-
Plan amendment	**-**	**-**	(1)	-
Net expense	**$ 3**	**$ 2**	$ 2	$ 2

(b) Plan assets categories

The Company's defined benefit pension plan asset allocations at December 31, by asset category was as follows:

	% of total plan assets	
Asset category	**2006**	2005
Equity securities	**60%**	58%
Debt securities	**40%**	34%
Cash equivalents	**0%**	8%
Total	**100%**	100%

(c) Sensitivity analysis

The Company's sensitivity in the non-pension benefit plan to a 1% change in the health care cost trend rate, for the year ended December 31, 2006, is summarized as follows:

	Benefit obligation	Benefit expense
Impact of a 1% increase in health care cost trend rate	$ 2	-
Impact of a 1% decrease in health care cost trend rate	$ (2)	-

(d) Actuarial valuations

Actuarial valuations for the Company's pension plans are required every three years. The most recent actuarial valuations for the Company's pension and non-pension benefit plans ranged from January 1, 2005 to June 1, 2006. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The Company may choose to perform valuations for these plans prior to the earliest required dates.

21. NON-CONTROLLING INTERESTS

Non-controlling interests include preferred shares, limited partnership interests and trust units owned by minority shareholders in the Company's consolidated subsidiaries, as follows:

$ millions	**2006**	2005
Preferred shares issued by consolidated subsidiaries	**$ 33**	$ 33
Limited partnership units issued by consolidated subsidiary	**37**	37
Trust units issued by consolidated subsidiaries	**179**	185
	$ 249	$ 255

22. SHAREHOLDER'S EQUITY

The Company is authorized to issue an unlimited number of common shares, of which the following were issued and outstanding as at December 31:

$ millions (except for share amounts)	**2006**	2005
101,512,218 (2005 - 101,512,218)		
Common shares	**$ 422**	$ 422
Deficit	**(162)**	(215)
Contributed surplus (note 5)	**199**	197
Cumulative translation adjustment	**(55)**	(53)
	404	351
Capital securities (note 18)	**5**	5
	$ 409	$ 356

The Company is authorized to issue an unlimited number of preferred shares, none of which were outstanding as at December 31, 2006.

The Company's distributions to holders of common shares and capital securities consisted of $52 million in the form of common share dividends and $1 million of interest on the equity portion of capital securities (2005 - $52 million and $1 million).

All shares issued under the Company's stock based compensation plan are Brookfield shares and are recorded as contributed surplus, which represented $2 million in 2006 (2005 - $6 million).

The significant elements that gave rise to the change in the cumulative translation adjustment during 2006 are as follows:

$ millions	**2006**	2005
Balance, beginning of year	**$ (53)**	$ 105
Foreign exchange effect on net investment in self-sustaining operations	**(3)**	(23)
Impact of hedging activities	**1**	23
Impact of sale of foreign net investments	**-**	(158)
Balance, end of year	**$ (55)**	$ (53)

23. INTEREST AND FINANCING FEES

Interest and financing fees are comprised of:

$ millions	**2006**	2005
Interest and financing fees on property specific borrowings	**$ 115**	$ 105
Interest on long-term debt	**126**	121
Other interest and financing fees	**3**	2
	$ 244	$ 228

24. CHANGE IN NON-CASH WORKING CAPITAL

The change in non-cash working capital is comprised of the following:

$ millions	**2006**	2005
Accounts receivable and other	**$ 61**	$ (12)
Accounts payable and other	**(27)**	45
Effect of foreign exchange	**(14)**	(24)
	$ 20	$ 9

25. FINANCIAL RISK MANAGEMENT

The Company uses derivative financial instruments including commodity and interest rate swaps, commodity options and forward commodity and forward foreign exchange contracts to manage risk. Derivative financial instruments involve credit and market risk.

(a) Commodity price

The Company enters into energy derivative contracts primarily to manage the price risk associated with the sale of generated power at spot prices. The Company also enters into gas derivative contracts for the sale of gas purchased under long-term contracts that is not required in its operations. Non-hedging commodity swap settlements and unrealized gains and losses are recorded in power generation revenue. A net mark-to-market gain of $10 million has been recorded in 2006 (2005 - $11 million loss). The current and long-term portion of the recorded fair value of the non-hedging commodity swap asset was $11 million and $nil, respectively (2005 - $25 million and $27 million, respectively) and the current and long-term portion of the recorded fair value of the non-hedging commodity swap liability was $19 million and $3 million, respectively (2005 - $34 million and $34 million, respectively).

$ millions	**2006**		2005	
Gain/(loss)	**Recorded fair value of non-hedging swaps**	**Fair value of all swaps**	Recorded fair value of non-hedging swaps	Fair value of all swaps
Energy and gas derivatives				
Forward contracts and swaps				
Commodity derivative asset	**$ 11**	**$ 47**	$ 52	$ 15
Commodity derivative liability	**(22)**	**(51)**	(68)	(204)
	$ (11)	**$ (4)**	$ (16)	$ (189)

The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items. For the years ended December 31, 2006 and December 31, 2005, there was no ineffectiveness recorded in income for hedging contracts.

(b) Interest rate

On March 22, 2006, the Company entered into forward-starting interest rate swaps with a notional amount totalling $300 million to hedge the interest rate risk associated with the anticipated issuance of fixed rate debt. Where the contracts are designated as an eligible hedge relationship they are accounted for on an accrual basis. As of December 31, 2006, the unrecorded loss on the interest rate swaps was $4 million (2005 - $nil).

(c) Foreign exchange

On February 7, 2006, the Company entered into forward foreign exchange contracts to hedge the cash flow variability associated with anticipated foreign currency denominated capital expenditure purchases. The contracts were designated as an eligible hedging relationship and, as such, any associated gains or losses were recorded as an adjustment to the hedged capital expenditures when they were recorded. All forward foreign exchange contracts had settled at December 31, 2006.

Derivatives that are not designated as an eligible hedge relationship are carried at fair value with changes in fair value recorded in earnings in the period in which they occur. As at December 31, 2006, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $4 million (2005 - $nil).

These risks are reviewed on a regular basis and the Company believes the exposures are manageable and not material in relation to its overall business operations.

Refer to note 22 for the significant elements that gave rise to the change in the cumulative translation adjustment during the year.

(d) Credit risk

Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Company would incur a loss in replacing the defaulted transaction. The Company's financial instruments that are potentially exposed to credit risks are cash equivalents, accounts receivable, investments, demand deposits, derivative assets and accrued levelized revenues. The Company actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures. The Company's contracted power sales are with customers with long-standing credit history or investment grade ratings.

The Company minimizes credit risk with counterparties to derivative financial transactions through the selection, monitoring and diversification of counterparties, use of the International Swaps and Derivatives Association documentation, collateral and other credit risk mitigation techniques.

These risks are reviewed on a regular basis and the Company believes the exposures are manageable and not material in relation to its overall business operations.

26. GEOGRAPHIC SEGMENTED INFORMATION

The Company owns and operates high quality hydroelectric, cogeneration and wind assets located in Canada and the United States with operations in six distinct geographic regions across North America: Ontario, Quebec, British Columbia, New England, New York, Louisiana. The "Other" reporting segment consists of the activities of the Company's wind operations, cogenerating stations, pumped storage facility, transmission and distribution business, the Company's wholly owned holding companies and the transactions with Noranda. These seven regions represent the Company's reportable segments, which are used to manage the business, and are based on the location of the underlying generating and infrastructure facilities. The accounting policies of these reportable segments are the same as those described in note 2.

The Company analyzes the performance of its operating segments based on net operating income which consists of revenues from the Company's power operations, net of operating and maintenance costs, fuel purchases for its cogeneration plants, power purchases, marketing and administration expenses and municipal and other generation taxes on its facilities. Net operating income is not a measure of performance under Canadian generally accepted accounting principles; however, management uses this measure to assess the operating performance of its reportable segments.

Information by segment

$ millions	**Ontario**	**Quebec**	**British Columbia**	**New England**	**New York**	**Louisiana**	**Other**	**2006**
Revenue	**$ 151**	**$ 119**	**$ 22**	**$ 82**	**$ 229**	**$ 123**	**$ 148**	**$ 874**
Net operating income	**110**	**95**	**15**	**55**	**160**	**103**	**67**	**605**
Interest and financing fees	**40**	**17**	**9**	**8**	**33**	**96**	**41**	**244**
Depreciation and amortization	**23**	**9**	**3**	**14**	**26**	**20**	**29**	**124**
Power generating assets	**762**	**371**	**133**	**383**	**975**	**339**	**660**	**3,623**
Total assets	**1,104**	**382**	**137**	**417**	**1,106**	**1,069**	**1,657**	**5,872**
Property specific borrowings	**608**	**240**	**94**	**131**	**550**	**-**	**132**	**1,755**

$ millions	Ontario	Quebec	British Columbia	New England	New York	Louisiana	Other	2005
Revenue	$ 117	$ 75	$ 20	$ 63	$ 195	$ 133	$ 171	$ 774
Net operating income	80	54	14	38	124	112	39	461
Interest and financing fees	36	21	8	8	33	95	27	228
Depreciation and amortization	14	8	3	12	24	19	22	102
Power generating assets	662	374	131	238	847	353	387	2,992
Total assets	1,034	412	138	255	1,073	1,170	1,286	5,368
Property specific borrowings	510	243	95	134	550	-	148	1,680

27. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company and its subsidiaries may, from time to time, be involved in legal proceedings, claims and litigations that arise in the ordinary course of business which the Company believes would not reasonably be expected to have a material adverse effect on the financial condition of the Company.

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 2022 for Great Lakes Power, 2044 for Valerie Falls Power, 2011 to 2031 for Pontiac Power, 2025 for Lièvre River Power, 2012 for Brassua Power, 2023 for Errol Power, 2031 for Pontook Power, 2009 for Hydro Kennebec LP, 2031 for CORHLP, 2023 for Rumford Falls, 2017 for Hawks Nest and 2012 to 2045 for Erie Boulevard. The Company also entered into two gas supply agreements for the purchase of natural gas to run the cogeneration turbine engines at Lake Superior Power. The agreements extend to 2008 and 2009.

In the normal course of operations, the Company and its subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions such as energy trading and marketing, business dispositions, capital project purchases, business acquisitions, and sales and purchases of assets and services.

In the normal course of operations, the Company has committed as at December 31, 2006 to spend approximately $26 million (2005 - $253 million) on capital projects in future years.

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 always 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 subsidiaries have made significant payments under such indemnification agreements.

The Company limits the amount of guarantees for its energy trading activities to CDN$350 million (2005 – CDN$350 million), with a total of CDN$269 million issued as of December 31, 2006 (2005 – CDN$347 million). The terms of such obligations vary. Historically, the Company has not been obligated to make significant payments for these obligations. No amount was included in the Company's consolidated balance sheet for December 31, 2006 and 2005 relating to these guarantees.

The Company has asset retirement obligations associated with its generating stations. The retirement date for these generating stations cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be estimated at this time. As a result, no liability has been accrued in these financial statements.

28. SUBSEQUENT EVENTS

(a) On February 14, 2007, the Company purchased the assets of two run-of-the-river hydroelectric generating facilities located on the Raquette River in Potsdam, New York for an undisclosed purchase price. The two hydroelectric facilities have a combined capacity of 6 MW and are capable of generating approximately 35 GWhs of hydroelectricity per year. All generation will be sold under a long-term power purchase agreement.

Brookfield Power

BCE Place, Suite 300
181 Bay Street, P.O. Box 762
Toronto, Ontario M5J 2T3

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