BROOKFIELD POWER INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007

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, 2007

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
February 20, 2008

AUDITORS' REPORT

To the Shareholder of Brookfield Power Inc.

We have audited the consolidated balance sheets of Brookfield Power Inc. (the "Company") as at December 31, 2007 and 2006 and the consolidated statements of (loss) income, deficit, comprehensive income, accumulated other comprehensive loss 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 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, 2007 and 2006 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
Licensed Public Accountants

Toronto, Canada
February 20, 2008

BROOKFIELD POWER INC.
CONSOLIDATED BALANCE SHEETS

As at December 31

$US millions	notes	**2007**	2006
Assets			
Current assets			
Cash and cash equivalents	7	**$ 61**	$ 81
Accounts receivable and other	6, 8	**259**	202
Derivative assets	26	**31**	19
Due from related party	6	**108**	-
Short-term investments	6, 9	**176**	154
		635	456
Due from related party	6	**751**	686
Long-term investments	10	**350**	159
Power generating assets	5, 11	**4,053**	3,623
Other assets	12	**1,102**	948
		$ 6,891	$ 5,872
Liabilities			
Current liabilities			
Accounts payable and other	14	**$ 192**	$ 171
Derivative liabilities	26	**52**	19
Credit facilities	15	**12**	249
Current portion of property specific borrowings and other long-term debt	16, 17	**55**	37
		311	476
Due to related party	6	**101**	104
Property specific borrowings	5, 16	**2,691**	1,729
Other long-term debt	17	**1,630**	1,531
Future income tax liability	18	**134**	167
Debt portion of capital securities	19	**1,103**	1,104
Other long-term liabilities	20	**355**	103
		6,325	5,214
Non-controlling interests	22	**217**	249
Shareholder's equity	23	**349**	409
		$ 6,891	$ 5,872

See accompanying notes to the consolidated financial statements.

Approved on behalf of Brookfield Power Inc.:

/s/ Richard Legault

Richard Legault
President and
Co-Chief Executive Officer

/s/ Donald Tremblay

Donald Tremblay
Executive Vice-President and
Chief Financial Officer

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF (LOSS) INCOME

Years ended December 31 *$US millions*	notes		2007		2006
Revenues	6	**$**	**904**	$	864
Operating expenses (excluding depreciation and amortization)					
Operations, maintenance and administration			**187**		159
Fuel and power purchases			**83**		53
Property, capital and other generation taxes			**60**		57
			574		595
Investment and other income	6, 9		**25**		26
Unrealized derivative (loss) gain	26		**(79)**		10
			520		631
Expenses					
Interest and financing fees	6, 24		**286**		244
Interest on capital securities	19		**125**		125
Depreciation and amortization			**152**		124
Non-controlling interests			**(3)**		24
(Recovery of) provision for income taxes	18		**(21)**		8
			539		525
Net (loss) income		**$**	**(19)**	$	106

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF DEFICIT

Years ended December 31 *$US millions*	notes		2007		2006
Deficit, beginning of year, as previously reported		**$**	**(162)**	$	(215)
Transitional adjustment for financial instruments	3		**(27)**		-
Net (loss) income			**(19)**		106
Distributions to holders of common shares and capital securities	23		**(53)**		(53)
Deficit, end of year		**$**	**(261)**	$	(162)

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31 *$US millions*		**2007**		2006
Net (loss) income	**$**	**(19)**	$	106
Available-for-sale financial assets				
Unrealized losses on available-for-sale financial assets, net of income taxes of $nil for the year ended December 31, 2007		**(1)**		-
		(1)		-
Foreign currency translation				
Unrealized foreign currency translation gains (losses) of self-sustaining foreign operations		**104**		(3)
Net unrealized (losses) gains on hedges of investments in self-sustaining foreign operations		**(71)**		1
		33		(2)
Derivatives designated as cash flow hedges				
Unrealized net gains on derivatives designated as cash flow hedges, net of income taxes of ($7), for the year ended December 31, 2007		**26**		-
Recognition in income of gains on derivatives designated as cash flow hedges, net of income taxes of $6, for the year ended December 31, 2007		**(24)**		-
		2		-
Other comprehensive income (loss)		**34**		(2)
Comprehensive income	**$**	**15**	$	104

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Years ended December 31 *$US millions*	notes		**2007**		2006
Accumulated other comprehensive loss, beginning of year		**$**	**(55)**	$	(53)
Transitional adjustment for financial instruments	3		**(1)**		-
Other comprehensive income (loss)			**34**		(2)
Accumulated other comprehensive loss, end of year		**$**	**(22)**	$	(55)

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 *$US millions*	notes	2007	2006
Operating activities			
Net (loss) income		**$ (19)**	$ 106
Add (deduct) non-cash items			
Depreciation and amortization		**152**	124
Unrealized derivative loss (gain)	26	**79**	(10)
Non-controlling interests		**(3)**	24
Future income taxes	18	**(23)**	4
Other		**21**	6
		207	254
Net change in non-cash working capital	25	**(57)**	9
		150	263
Financing activities and shareholder distributions			
Borrowings		**870**	598
Debt repayments		**(342)**	(112)
Due to/from related party		**(14)**	(73)
Financing fees		**(11)**	(6)
Distributions:			
- To non-controlling interests		**(101)**	(30)
- To common shareholders and holders of capital securities	23	**(53)**	(53)
		349	324
Investing activities			
Additions to long-term investments	10	**(189)**	(24)
Additions to power generating assets		**(140)**	(382)
Acquisitions of power generating assets	5	**-**	(269)
Acquisition of businesses	5	**(69)**	(75)
Sale of short-term investments		**-**	11
Due to/from related party		**(108)**	115
Other assets		**(18)**	18
		(524)	(606)
Effect of foreign exchange rate changes on cash and cash equivalents		**5**	-
Cash and cash equivalents			
Decrease		**(20)**	(19)
Balance, beginning of year		**81**	100
Balance, end of year		**$ 61**	$ 81
Supplementary information			
Interest paid		**$ 395**	$ 364
Taxes paid		**$ 14**	$ 8

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007

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 ("Brookfield"). The Company intends to amalgamate with Brookfield Power Corporation ("BPC"), a wholly-owned subsidiary, by the end of the first quarter of 2008.

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 basis consistent with the prior year, with the exception of the changes in accounting policies described in note 3. 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:

i. 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, Valemount Hydro GP Inc. ("Valemount") and Brookfield Power Wind Corporation;
ii. the accounts of all holding companies;
iii. 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, up to and including March 22, 2007, Bear Swamp Power Co. LLC ("Bear Swamp"); and
iv. 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"), effective March 23, 2007, Bear Swamp and, as part of the Fund, 100% of Powell River Energy Inc. ("PREI"), 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, valuation 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 on 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.

Power purchases are recorded upon delivery. All other expenses are recorded on an accrual basis when incurred.

Financing costs

Financing costs associated with the Company's credit facilities and finance debt obligation are recorded in other long-term assets on the balance sheet at cost and are being amortized on a straight-line basis over the term of their respective debt. Financing costs directly attributable to the issuance of property specific borrowings and other long-term debt are capitalized, netted against their respective debt, and amortized using the effective interest method.

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.

All derivatives are recorded on the balance sheet at fair value. Fair value adjustments on these instruments are included in net (loss) income, unless the instruments are designated as part of a cash flow hedge relationship, in which case they are reported in other comprehensive income ("OCI"). When a hedging relationship is terminated, amounts previously recognized in accumulated other comprehensive loss ("AOCL") are reclassified to net (loss) income in the period in which the net (loss) income is affected by the variability in the cash flows of the hedged item. The use of hedging and of non-hedging derivative contracts related to commodity derivatives is governed by documented risk management policies and approved limits. Gains and losses related to hedge ineffectiveness are included in net (loss) income.

Deferred gains and losses on derivatives relate to the fair value of the long-term derivative contracts on their effective date, less amortization recorded. These balances are amortized on a straight line basis over the term of the contracts.

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 in order to estimate an appropriate forward rate.

(a) Commodity derivative instruments

Some of the Company's generation is sold into the Ontario, New England, New York, and the Pennsylvania, New Jersey, Maryland wholesale markets at the prevailing market price. To reduce price risk caused by market fluctuations, the Company, through 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 the cash flow variability related to 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 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 the balance sheet date, 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 recorded in OCI. The effective portion of foreign exchange 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 is recognized in OCI.

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. When the active quoted market information is readily determinable, the investment is recorded at fair value; where market information is not readily determinable, the investment is presented at cost.

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 years
Buildings	Straight-line	5 to 60 years
Transmission and distribution systems	Straight-line	5 to 50 years
Equipment	Straight-line	3 to 60 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 2 and 47 years, or over the period for 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 or is exceeded by 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.

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, 2007 varies from 10 to 16 years for the pension plans and from 10 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 bifurcated between liabilities and 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.

Translation of foreign currencies (other than hedges of investments in foreign operations)

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. The total loss related to the translation of foreign currency included in investment and other income for 2007 was $1 million (2006 - $nil).

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the following accounting policies in accordance with Canadian generally accepted accounting principles:

Handbook Section 1530, *Comprehensive Income*

This section establishes standards for reporting and presenting comprehensive income, which is defined as the change in shareholder's equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in OCI until it is considered appropriate to recognize into net (loss) income. Major components for this category 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.

Accordingly, the Company now presents consolidated statements of comprehensive income and AOCL. AOCL is included as a component of shareholder's equity. The comparative statements have been restated to reflect the application of this section for the presentation of the changes in the balances for foreign currency translation of self-sustaining foreign operations, formerly presented as cumulative translation adjustment.

Handbook Section 3251, *Equity*

The Company adopted Section 3251, Equity replacing Section 3250, Surplus. This section describes the presentation of equity and changes in equity for the reporting period as a result of the application of Section 1530, Comprehensive Income.

Handbook Section 3855, *Financial Instruments – Recognition and Measurement*

Under this standard, all financial instruments are classified in one of the following categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are 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, are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in OCI. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition or adoption of this standard. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition and recognized through income using the effective interest method.

The Company has implemented the following classifications:

Cash and cash equivalents are designated as financial assets held for trading and are measured at fair value through net income at each period end.

Short-term investments and long-term investments are classified as available-for-sale and are recorded at fair value with changes in fair value recorded through OCI at each period end when the active quoted market information is readily determinable. Where market information is not readily determinable, the investment is presented at cost.

Accounts receivable and other and due from related party are classified as loans and receivables and accounts payable and other are classified as other financial liabilities, and each are measured at fair value at inception and are subsequently measured at amortized cost.

Credit facilities, due to related party, property specific borrowings, other long-term debt, other long-term liabilities and debt portion of capital securities are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

All derivatives are recorded on the balance sheet at fair value. Fair value adjustments on these instruments are included in net (loss) income, unless the instruments are designated as part of a cash flow hedge relationship, in which case they are reported in OCI. Gains and losses related to hedge ineffectiveness are included either in unrealized derivative (loss) gain or investment and other income on the statement of net (loss) income, depending on the nature of the underlying transaction.

The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative at its fair value with subsequent changes in fair value recorded in net (loss) income. There was no impact on the consolidated financial statements with respect to this item.

As required by the implementation of this new standard, the prior year's consolidated financial statements have not been restated except for the effects of foreign currency translation of self-sustaining foreign operations. As at January 1, 2007, the effect on the consolidated financial statements of measuring the financial assets and liabilities using the effective interest method, reclassifying the deferred financing fees directly attributable to the issuance of the property specific borrowings and other long-term debt, and the valuing of all derivative contracts, assets available-for-sale, and certain power purchase agreements is summarized in the table below:

$US millions	December 31 2006	January 1 2007	Net Impact
Derivative assets - current	$ 19	$ 34	$ 15
Short-term investments	154	156	2
Derivative and other assets – deferred financing fees	48	18	(30)
Derivative and other assets	900	906	6
Long-term investments	159	161	2

$US millions	December 31 2006	January 1 2007	Net Impact
Derivative liabilities - current	(19)	(37)	(18)
Property specific debt	(1,755)	(1,727)	28
Other long-term debt	(1,542)	(1,538)	4
Derivative and other long-term liabilities	(103)	(147)	(44)
Future income tax liability	(167)	(160)	7
Accumulated other comprehensive loss	-	56	56
Deficit	162	189	27
Cumulative translation adjustment	55	-	(55)

Handbook Section 3865, *Hedges*

This 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 (loss) 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 is recognized in OCI. The ineffective portion is recognized in net (loss) income. The amounts recognized in AOCL are reclassified to net (loss) income in the periods in which the net (loss) 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, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in OCI.

4. FUTURE ACCOUNTING POLICY CHANGES

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards will be effective for the Company on January 1, 2008.

Capital Disclosures

Section 1535 establishes standards for disclosing information about the Company's capital and how it is managed. The standard requires disclosures of the Company's objectives, policies and processes for managing capital, the quantitative data about what the Company regards as capital, whether the Company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance.

Financial Instruments – Disclosure and Presentation

The new sections 3862 and 3863 will replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation by revising and enhancing disclosure requirements but carrying forward presentation requirements unchanged. They place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

The Company is currently evaluating the impact of the adoption of these new standards on the consolidated financial statements.

5. 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.

(a) On February 14, 2007, the Company purchased two run-of-the-river hydroelectric generating facilities located on the Raquette River in Potsdam, New York for cash consideration of $16 million. 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 expiring in 2018, which includes a fixed rate until August 2008 and a floating price thereafter.

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

$US millions		
Power generating assets	$	**17**
Other assets		**(1)**
Net assets acquired	$	**16**

(b) Effective August 1, 2007, the Company purchased a run-of-the-river hydroelectric generating facility located on the Upper Hudson River in Glens Falls, New York for cash consideration of $33 million. The facility has a capacity of 15 MW and is capable of generating approximately 60 GWhs of hydroelectricity per year. All generation will be sold under a long-term power purchase agreement expiring in 2017.

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

$US millions		
Power generating assets	$	**27**
Other assets		**7**
Accounts payable		**(1)**
Net assets acquired	$	**33**

(c) On October 9, 2007, the Company completed the acquisition of two hydroelectric generating facilities in northeastern British Columbia with a total installed capacity of 7 MW for cash consideration of $14 million. These two run-of-the-river facilities have the combined capacity to generate approximately 30 GWhs of hydroelectricity per year, with all energy sold under two separate long-term power purchase agreements expiring in 2011 and 2022.

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

$US millions		
Power generating assets	$	**18**
Assumed debt		**(4)**
Net assets acquired	$	**14**

(d) During the year, the Company acquired interests in five development projects to build hydroelectric generating stations. These projects, located in the midwest and northeast of the United States as well as in western Canada, are expected to increase the Company's installed capacity by approximately 90 MW and contribute in excess of 400 GWh of energy per year. The total consideration paid for the Company's interest in these projects was $6 million.

During 2006, the Company entered into the following transactions:

(e) On February 17, 2006, the Company acquired four hydroelectric generating stations in Northern Ontario, with the ability to produce 212 GWh of energy per year and 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:

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

(f) 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, have a total capacity of 39 MW and produce an average of 274 GWh of energy per year.

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

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

(g) 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:

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

6. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions.

(a) 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, 2007, the Company had a balance receivable from KPC in the amount of $3 million (2006 - $5 million), which is included in accounts receivable and other on the balance sheet.

(b) 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 at December 31, 2007, a nominal amount was included in accounts receivable and other related to this purchase agreement (2006 - $1 million).

(c) The Company had Canadian dollar denominated promissory notes in the amount of $31 million (2006 - $26 million) and demand deposits of $108 (2006 - $nil) with Brookfield. Interest income earned on the demand deposits totalled $6 million in 2007 (2006 - $6 million). See note 9 for further details relating to the promissory notes.

(d) The Company holds securities and long-term investments with related parties, of which the securities produce investment income. See notes 9 and 10 for further details.

(e) The Company holds a note payable to Trilon Bancorp Inc. ("TBI"). TBI is wholly owned by Brookfield. As at December 31, 2007, the balance payable on the note was $101 million (2006 - $104 million).

(f) 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 related party. The amount receivable is composed of Canadian and US dollar amounts, is unsecured and is non-interest bearing. At December 31, 2007, the balance receivable was $751 million (2006- $686 million). The change in the amount receivable is the result of the change in foreign exchange rates from December 31, 2006 to December 31, 2007.

(g) The Company has a total of $1,109 million in interest bearing capital securities issued to Brookfield. See note 19 for further details.

(h) 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 2007 for these services was $15 million (2006 - $14 million) and is included in operations, maintenance and administration expenses. For 2007, no amount has been included in revenues for hydrological insurance claims (2006 - $nil).

(i) On August 23, 2007, the Company sold a short-term investment to Brookfield at its redemption value of CDN$8 million. No gains or losses were recorded on this transaction.

(j) On July 1, 2006, the Company sold its interest in Carmichael Limited Partnership to the Fund for total proceeds of CDN$56 million in cash. The transaction was recorded at exchange value.

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

$US millions	**2007**	2006
Revenues		
Sale of power to KPC	**$ 24**	$ 27
Sale of power to FNH	**6**	7
	$ 30	$ 34
Investment income and other		
Interest earned on demand deposits and promissory notes with Brookfield	**$ 8**	$ 7
Income from securities with affiliated companies	**10**	10
	$ 18	$ 17
Expenses		
Interest on capital securities	**$ 125**	$ 125
Interest expense on note payable to TBI	**10**	10
Interest expense on The Catalyst Group letter of credit	**2**	2
Insurance services from Riskcorp Inc.	**15**	14
	$ 152	$ 151

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised of the following:

$US millions	**2007**	2006
Cash	**$ 59**	$ 61
Short-term deposits	**2**	20
	$ 61	$ 81

8. ACCOUNTS RECEIVABLE AND OTHER

The composition of accounts receivable and other was as follows:

$US millions	**2007**	2006
Trade receivables	**$ 173**	$ 138
Cash held in escrow for current liabilities	**28**	19
Prepaids and other	**58**	45
	$ 259	$ 202

9. SHORT-TERM INVESTMENTS

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

$US millions	**2007**	2006
Securities		
Real estate	**$ 61**	$ 52
Financial services	**59**	55
Other	**25**	21
Promissory notes	**31**	26
	$ 176	$ 154

The securities portfolio is comprised primarily of Canadian dollar denominated preferred shares. The securities consist of 47% floating rate securities (2006 – 45%) and 53% fixed rate securities (2006 – 55%) with an average yield at December 31, 2007 of 6.3% (2006 – 7.4%). Income earned on securities with affiliated companies in 2007 amounted to $10 million (2006 - $10 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 2007 amounted to $2 million (2006 - $ 1 million).

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

10. LONG-TERM INVESTMENTS

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

$US millions	**2007**	2006
Brascan Brazil Ltd.	**$ 348**	$ 159
Other investments	**2**	-
	$ 350	$ 159

In 2007, the Company had no income from investments with affiliated companies (2006 – $nil).

During 2007, the Company made three separate investments totalling $189 million in preferred shares of Brascan Brazil Ltd., a wholly owned subsidiary of Brookfield that owns, develops and operates hydroelectric generation plants in Brazil, thereby increasing the Company's total preferred share investment in Brascan Brazil Ltd. to $348 million.

11. POWER GENERATING ASSETS

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

As at December 31, 2007

$US millions	**Cost**	**Accumulated depreciation**	**Net book value**
Land	**$ 46**	**$ -**	**$ 46**
Dams	**810**	**73**	**737**
Gas cogenerating stations	**238**	**121**	**117**
Hydroelectric generating stations	**2,890**	**594**	**2,296**
Wind operations	**383**	**23**	**360**
Transmission and distribution systems	**269**	**84**	**185**
Buildings	**83**	**6**	**77**
Equipment	**130**	**33**	**97**
Water rights	**7**	**-**	**7**
Construction work in progress	**131**	**-**	**131**
	$ 4,987	**$ 934**	**$ 4,053**

As at December 31, 2006

$US millions	Cost	Accumulated depreciation	Net book value
Land	$ 40	$ -	$ 40
Dams	762	51	711
Gas cogenerating stations	208	89	119
Hydroelectric generating stations	2,508	488	2,020
Wind operations	327	3	324
Transmission and distribution systems	209	65	144
Buildings	78	3	75
Equipment	128	23	105
Water rights	6	-	6
Construction work in progress	79	-	79
	$ 4,345	$ 722	$ 3,623

12. OTHER ASSETS

$US millions	**2007**			2006
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Power purchase agreements	**$ 250**	**$ 38**	**$ 212**	$ 216
Deferred financing fees (note 3)	**37**	**23**	**14**	48
FERC licences	**48**	**6**	**42**	37
Other depreciable assets	**8**	**2**	**6**	6
	343	**69**	**274**	307
Accrued levelized revenues	**547**	**-**	**547**	553
Cash held in escrow	**41**	**-**	**41**	28
Goodwill	**33**	**-**	**33**	27
EZTC receivable	**35**	**-**	**35**	23
Derivative assets (note 26)	**167**	**-**	**167**	3
Other	**5**	**-**	**5**	7
	$ 1,171	**$ 69**	**$ 1,102**	$ 948

In 2007, the Company acquired a nominal amount related to PPAs (2006 - $68 million). Amortization of power purchase agreements for the year totalled $15 million (2006 - $12 million).

On January 1, 2007, the Company reclassified $30 million of deferred financing fees as a result of new accounting standards. See note 3 for more detail. In 2007, the Company did not incur any deferred financing fees related to its credit facilities or finance debt obligation (2006 – $9 million). Amortization for the year totalled $4 million (2006 – $8 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 York and certain development projects, totalling $7 million (2006 - $1 million). Amortization of all licenses totalled $2 million (2006 - $2 million).

The difference between levelized revenues and cash received is recorded as accrued levelized revenues on the balance sheet. As at December 31, 2007, an amount of $547 million (2006 - $553 million) pertaining to accrued levelized revenues was included in other assets.

Cash held in escrow of $41 million (2006 - $28 million) pertains to undistributed earnings related to CORHLP.

Of the $33 million (2006 - $27 million) of goodwill at December 31, 2007, $28 million was attributable to assets owned directly by the Company, including $2 million related to a development project, and $5 million was attributable to a facility owned by the Fund. No amounts have been charged to income during the year (2006 - $nil) related to goodwill impairment.

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. These Empire Zone Tax Credits ("EZTC") are classified as long-term due to the timing of the State of New York audits.

13. JOINT VENTURES

The following amounts represent the Company's proportionate interest in joint ventures reflected in the Company's accounts. For 2007, these amounts include Pingston and Bear Swamp up to March 23, 2007, given that Bear Swamp has been fully consolidated since that date. For 2006, these amounts include Pingston and Bear Swamp.

$US millions	Ownership interest	Net income		Net assets	
		2007	2006	**2007**	2006
Pingston	50%	**$ 1**	$ 1	**$ 2**	$ 2
Bear Swamp	50%	**4**	3	**-**	50
		$ 5	$ 4	**$ 2**	$ 52

$US millions	**2007**	2006
Current assets	**$ 1**	$ 8
Long-term assets	**36**	81
Current liabilities	**1**	7
Long-term liabilities	**34**	30
Operating revenues	**15**	30
Operating expenses	**10**	26
Net income	**5**	4
Cash flows from operating activities	**4**	2
Cash flows used in financing activities	**(2)**	(3)
Cash flows used in investing activities	**-**	(1)

14. ACCOUNTS PAYABLE AND OTHER

The composition of accounts payable and other was as follows:

$US millions	**2007**	2006
Trade payables	**$ 156**	$ 142
Interest payable	**36**	29
	$ 192	$ 171

15. CREDIT FACILITIES

	Available		Drawn		Letters of credit	
$US millions	**2007**	2006	**2007**	2006	**2007**	2006
Credit facilities						
Brookfield Power Wind Prince LP	**$ -**	$ 256	**$ -**	$ 248	**$ -**	$ -
Lièvre Power LP	**25**	21	**11**	-	**3**	3
Powell River Energy Inc.	**5**	4	**1**	1	**1**	1
Brookfield Power Corporation	**350**	350	**-**	-	**135**	117
	$ 380	$ 631	**$ 12**	$ 249	**$ 139**	$ 121

On November 30, 2007, the CDN$300 million credit facility held by Brookfield Power Wind Prince LP with a syndicate of Canadian banks was repaid using the funds received from the new long-term financing related to the Prince wind farm project in Ontario. See note 16 for more details.

Lièvre Power LP ("LPLP"), a 100% wholly owned subsidiary of the Fund, has a credit facility in the amount of CDN$25 million available by way of advances in Canadian dollars of (i) prime rate loans (ii) Banker's Acceptance ("BA") loans and (iii) letters of credit. Standby fees are charged on the undrawn LPLP credit facility. If not renewed, the proceeds drawn on the credit facility are due in October 2008. The credit facility is secured by the assets of LPLP and has a variable interest rate that is based on the CDOR rate plus a stamping fee. At December 31, 2007, this fee was 0.50%.

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 proceeds drawn on the credit facility are due in December 2008. The credit facility is secured by the assets of PREI and has a variable interest rate that is based on the CDOR rate plus a stamping fee. At December 31, 2007, this fee was 0.875%.

Brookfield Power Corporation, a 100% wholly owned subsidiary of the Company, has a $350 million revolving unsecured credit facility available by way of advances in Canadian dollars of (i) prime rate loans (ii) BA loans and (iii) letters of credit. The facility expires in April 2009. 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 debt service reserve accounts and collateral for energy trading purposes.

The Company has a commercial paper program with an authorized amount of $100 million (2006 – $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, 2007 and 2006, the Company had not drawn on the commercial paper program.

16. PROPERTY SPECIFIC BORROWINGS

$US millions	Maturity	Interest rates	Principal Balance	**2007**	2006
Great Lakes Power					
First mortgage bonds					
Series 1 (CDN$384)	2023	6.60%	$ 385	**$ 381**	$ 329
Subordinated debt (CDN$115)	2023	7.80%	115	**114**	98
			500	**495**	427
Pontiac Power					
Mortgage loans					
Coulonge (CDN$33)	2018	10.26%	33	**33**	29
Waltham (CDN$20)	2020	10.99%	20	**20**	18
			53	**53**	47
Brookfield Power New York					
Senior secured notes					
Series 1	2017	5.45%	175	**171**	175
Series 2	2025	5.91%	250	**245**	250
Series 3	2030	5.96%	125	**122**	125
Series 4	2017	5.62%	130	**128**	-
			680	**666**	550
BPUS NewFinance					
Senior secured notes					
Series 1	2012	5.68%	105	**103**	-
Series 2	2012	LIBOR + 125bps	95	**93**	-
			200	**196**	-
Beaver Power					
OEFC loans					
Serpent River (CDN$11)	2038	7.52%	11	**11**	9
Cameron Falls (CDN$13)	2039	7.52%	13	**13**	10
Algonquin Power (CDN$29)	2028	7.52%	29	**29**	23
Mortgage loans					
Serpent River (CDN$3)	2009	11.00%	3	**3**	4
Cameron Falls (CDN$2)	2011	11.60%	2	**3**	3
Algonquin Power (CDN$26)	2016	10.28%	26	**30**	28
			84	**89**	77
Powell River First mortgage bonds (CDN$75)	2009	6.39%	75	**75**	64
Lake Superior Power senior secured note (CDN$22)	2009	4.39%	22	**22**	33
Lièvre Power senior secured bonds (CDN$225)	2025	5.56%	225	**219**	192
Valerie Falls first mortgage bonds (CDN$32)	2042	6.84%	32	**31**	27
Mississagi Power first mortgage bonds (CDN$175)	2020	6.92%	175	**173**	150
Pingston Power senior secured bonds (CDN$35)	2015	5.28%	35	**35**	30
Great Lakes Hydro America Senior secured notes	2014	5.60%	125	**123**	125
Hydro Kennebec senior secured term notes	2008	5.98%	3	**3**	6
Carmichael Falls non-revolving term loan (CDN$29)	2011	4.75%	29	**28**	27
Bear Swamp non-revolving credit facility	2012	LIBOR + 75bps(1)	125	**124**	-
Rumford Falls non-revolving credit facility	2010	LIBOR + 75bps	95	**94**	-
Valemount term loan (CDN$4)	2009	5.95%	4	**4**	-
Prince Wind non-revolving credit facility (CDN$299)	2012	CDOR + 110bps(1)	300	**297**	-
			$ 2,762	**$ 2,727**	$ 1,755
Less: Current portion of property specific borrowings				**(36)**	(26)
				$ 2,691	$ 1,729

(1) Margin varies over the term of the debt

On May 2, 2007, the Bear Swamp joint venture completed a senior secured non-revolving credit facility in the amount of $125 million. The credit facility is secured by the associated power generating assets, matures in May 2012, and has variable quarterly interest payments of LIBOR plus a specified margin that varies over the term of the debt, with principal repayments beginning in May 2010.

On May 8, 2007, Rumford Falls Hydro completed a senior secured non-revolving credit facility in the amount of $95 million. The credit facility is secured by the associated power generating assets, matures in May 2010 and has variable quarterly interest payments of LIBOR plus a specified margin.

The $4 million Valemount debt was assumed on October 9, 2007 as part of the acquisition of the hydroelectric assets in British Columbia described in note 5. The debt bears interest at a fixed rate of 5.95%, payable quarterly, and has principal repayments, also on a quarterly basis, until the debt matures in August 2009.

On November 30, 2007, Brookfield Power Wind Prince Financial Corporation, a subsidiary of the Company, entered into a credit facility in the amount of CDN$300 million available by way of advances in Canadian dollars of (i) Prime rate loans and (ii) BA loans and (iii) BA equivalent notes. Proceeds from this credit facility were used to repay the interim credit facility used for the construction and financing of the wind farm in Ontario. The credit facility is secured by the wind generating assets of Brookfield Power Wind Prince LP, a wholly-owned subsidiary of the Company and expires in November 2012. The interest rate is variable and is reset on the last business day before the end of each quarter. Payments of interest and principal are made on a quarterly basis.

On December 19, 2007, Brookfield Power New York Finance LP, a subsidiary of the Company, issued Series 4 senior secured notes in the amount of $130 million, which mature in December 2017 and bear interest at 5.62%. Interest on the notes is payable semi-annually. The notes are secured by the hydroelectric power generating assets of Erie Boulevard Hydro Power LP (“Erie”), a wholly-owned subsidiary of the Company.

Also on December 19, 2007, another subsidiary of the Company, BPUS NewFinance LLC, issued two series of senior secured notes totalling $200 million. Series 1, in the amount of $105 million, bears a fixed interest rate of 5.68%, with interest payable on a semi-annual basis, and is due in December 2012. Series 2, in the amount of $95 million, bears interest at a variable rate of LIBOR plus 125 basis points, with interest payable on a quarterly basis, and is due in December 2012. The notes are also secured by the hydroelectric power generating assets of Erie.

During 2006, the Company completed the following transactions:

The February 17, 2006 transaction described in note 5 included the assumption of three mortgage loans and debt with the Ontario Electricity Financial Corporation (“OEFC”). 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 exceed the value of the power generated, the excess is added to the loan balance. The loans payable accrue interest at the OEFC’s annual corporate financial discount rate of 7.52% compounded annually. The rate is reset every year by the OEFC.

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 are payable quarterly.

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, 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), the Valemount term loan, and the Prince Wind non-revolving credit facility. Beginning in 2010, payments of principal will be required on the Bear Swamp non-revolving credit facility. Beginning in 2013, payments of principal will be required on the Series 1 Great Lakes Power first mortgage bonds.

On January 1, 2007, as per the new accounting standards described in note 3, $26 million in deferred financing fees were reclassified and netted against their respective debts. During the year, the Company added $11 million (2006 - $nil) in deferred financing fees relating to new property specific debt obtained during the year. Amortization of deferred financing fees totalling $2 million (2006 - $nil) was included in interest expense for the year.

The fair value of the Company's property specific borrowings was $2,854 million (2006 – $1,856 million) based on current market prices for debt with similar terms and risks.

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

$US millions	Annual repayments
2008	**$ 36**
2009	**108**
2010	**122**
2011	**42**
2012	**584**
Thereafter	**1,870**
	$ 2,762

17. LONG-TERM DEBT

$US millions	Maturity	Interest rates	Principal Balance	**2007**	2006
CDN Corporate debentures					
Series 1 (CDN$450)	2009	4.65%	451	**$ 449**	$ 385
CDN Medium-term notes					
Series 3 (CDN$200)	2018	5.25%	200	**199**	171
Series 4 (CDN$150)	2036	5.84%	150	**149**	128
Powell River Energy Inc.					
Shareholder notes (CDN$22)	2020	0% - 18.00%	22	**22**	18
CORHLP					
Finance debt obligation	2031	10.30%	796	**796**	808
Note payable	2014	5.90%	34	**34**	32
			$ 1,653	**$ 1,649**	$ 1,542
Less: Current portion of long-term debt				**(19)**	(11)
				$ 1,630	$ 1,531

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 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 2007 was 16% (2006 – 16%). The notes mature in 2020.

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, 2007, the net book value of the associated power generating assets and accrued levelized revenues was $326 million and $547 million respectively (2006 - $339 million and $553 million respectively).

On January 1, 2007, as per the new accounting standards described in note 3, $4 million in deferred financing fees were reclassified and netted against their respective debt. The Company did not incur any deferred financing fees in

2007 related to its long-term debt (2006 - $nil). In 2007, interest expense includes $1 million (2006 - $nil) of deferred financing fees amortization related to long-term debt.

The CORHLP note payable is secured by 25% of the Company's partnership interest in CORHLP.

The Canadian dollar corporate debentures are unsecured.

The fair value of the Company's long-term debt, excluding the finance debt obligation, was $848 million (2006 – $737 million) based on current market prices for debt with similar terms and risks. Due to the nature of the finance debt obligation, a fair value cannot be determined.

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

$US millions	Annual repayments
2008	**$ 19**
2009	**480**
2010	**38**
2011	**42**
2012	**47**
Thereafter	**1,027**
	$ 1,653

18. INCOME TAXES

The difference between taxes calculated at the statutory rate and those recorded is reconciled as follows:

$US millions	**2007**	2006
Net (loss) income before tax	**$ (40)**	$ 114
Statutory income tax rate	**36%**	36%
Statutory income tax rates applied to accounting income	**(14)**	41
Non-taxable dividends	**(16)**	(15)
Non-taxable portion of gains or losses	**(23)**	4
Impact of rate reduction	**(22)**	(15)
Difference in foreign tax rates	**(9)**	(8)
Impact of change in legislation	**12**	-
Exchange translation items	**48**	(6)
Other	**3**	7
(Recovery of) provision for income taxes	**$ (21)**	$ 8

For the year ended December 31, 2007, the Company's current tax expense was $2 million (2006 – tax expense of $4 million) and future income tax recovery was $23 million (2006 – tax expense of $4 million).

The Company's future income tax liability of $134 million (2006 – $167 million) is comprised of the following tax affected temporary differences:

	2007	2006
Non-capital losses	**$ (81)**	$ (50)
Other comprehensive income	**1**	-
Other temporary differences	**214**	217
	$ 134	$ 167

The Company has $81 million (2006 - $50 million) in tax effected, unused non-capital losses, which expire as follows.

$US millions	
2018	**$ 2**
2019	**7**
2020	**10**
2021	**4**
2022	**17**
Thereafter	**41**
	$ 81

19. CAPITAL SECURITIES

Capital securities were comprised of the following:

$US millions		**2007**			2006	
	Debt portion	**Equity portion**	**Total**	Debt portion	Equity portion	Total
Capital securities, $909 million	**$ 904**	**$ 5**	**$ 909**	$ 905	$ 4	$ 909
Capital securities, $200 million	**199**	**1**	**200**	199	1	200
Total	**$ 1,103**	**$ 6**	**$ 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 35,633,085 common shares.

The additional $200 million of capital securities are also owned by 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 8,340,284 common shares.

The principal amount of all capital securities is payable at the Company's option with a fixed number of common shares and interest is payable at the Company's option with a variable number of common shares. All capital securities can be redeemed in whole or in part at any time by the Company.

As part of the anticipated amalgamation with BPC, it is expected that the Company will replace the existing capital securities issued to Brookfield with a new equity instrument, the exact terms of which have yet to be determined.

For the year ended December 31, 2007, $125 million was recorded as interest on capital securities on the consolidated statement of (loss) income (2006 - $125 million).

20. OTHER LONG-TERM LIABILITIES

Other long-term liabilities were comprised of:

$US millions	**2007**	2006
Accrued levelized expenses	**$ 80**	$ 77
Pension and employee future benefits (note 21)	**16**	18
EZTC service liability	**5**	4
Derivative liabilities (note 26)	**254**	4
	$ 355	$ 103

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

21. 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.

$US millions	**2007**		2006	
	Defined benefit pension plans	**Non-pension benefits plans**	Defined benefit pension plans	Non-pension benefits plans
Benefit obligation				
Discount rate	**5.25%-5.85%**	**5.25%-5.85%**	5.00%-5.50%	5.00%-5.50%
Rate of compensation increase	**3.50%-4.50%**	**3.50%-5.00%**	3.50%-4.50%	3.50%-4.50%
Initial health care trend rate	**-**	**6.47%-9.00%**	-	6.69%-10.50%
Ultimate trend rate	**-**	**4.24%-5.00%**	-	4.24%-5.00%
Year ultimate rate reached	**-**	**2016**	-	2016
Benefit expense				
Discount rate	**5.50%-6.32%**	**5.50%-6.32%**	5.25%-5.85%	5.25%-5.85%
Long-term rate of return on plan assets	**6.75%-7.50%**	**-**	7.00%-7.50%	-
Rate of compensation increase	**3.50%-4.00%**	**3.50%-4.00%**	3.50%-4.50%	3.50%-4.50%
Initial health care trend rate	**-**	**4.85%-10.00%**	-	6.47%-10.00%
Ultimate trend rate	**-**	**4.24%-5.00%**	-	4.24%-5.00%
Year ultimate rate reached	**-**	**2016**	-	2016
Accrued pension obligations				
Balance, beginning of year	**$ 79**	**$ 17**	$ 86	$ 19
Current service cost	**2**	**1**	2	1
Interest cost	**5**	**1**	4	1
Employee contributions	**1**	**-**	1	-
Benefits paid	**(6)**	**(1)**	(7)	(1)
Actuarial loss (gain)	**2**	**-**	(6)	(4)
Foreign exchange rate changes	**11**	**3**	(1)	1
Balance, end of year	**$ 94**	**$ 21**	$ 79	$ 17
Fair value plan assets				
Balance, beginning of year	**$ 67**	**$ (1)**	$ 62	$ -
Employer contributions	**7**	**-**	5	-
Employee contributions	**1**	**-**	1	-
Benefits paid	**(6)**	**(1)**	(7)	(1)
Actual return on plan assets	**3**	**-**	7	-
Foreign exchange rate changes	**10**	**-**	(1)	-
Balance, end of year	**$ 82**	**$ (2)**	$ 67	$ (1)
Reconciliation of accrued benefit asset (liability)				
Plan deficit	**$ (12)**	**$ (19)**	$ (12)	$ (16)
Unamortized transitional obligation	**3**	**4**	3	4
Unamortized past service cost	**1**	**-**	1	-
Unamortized net actuarial loss (gain)	**8**	**(1)**	3	(1)
Accrued benefit liability	**$ -**	**$ (16)**	$ (5)	$ (13)

	2007		2006	
	Defined benefit pension plans	**Non-pension benefits plans**	Defined benefit pension plans	Non-pension benefits plans
Expense				
Current service costs	**$ 2**	**$ 1**	$ 2	$ 1
Interest on accrued benefits	**5**	**1**	4	1
Actual return on plan assets	**(3)**	**-**	(7)	-
Actuarial loss (gain)	**2**	**-**	(6)	(4)
Costs arising in the period	**$ 6**	**$ 2**	$ (7)	$ (2)
Differences between costs arising in the period and costs recognized in the period in respect of:				
Actuarial (gain) loss	**(1)**	**-**	7	4
Return on plan assets	**(2)**	**-**	2	-
Transitional obligation	**-**	**-**	1	-
Net expense	**$ 3**	**$ 2**	$ 3	$ 2

For the year ended December 31, 2007, the Company incurred $1 million (2006 - $1 million) of pension expense in relation to its defined contribution pension plans.

(b) Plan assets categories
The Company's defined benefit pension plan asset allocation at December 31, by asset category was as follows:

	% of total plan assets	
Asset category	**2007**	2006
Equity securities	**61%**	60%
Debt securities	**39%**	40%
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, 2007, is summarized as follows:

	Benefit obligation	Benefit expense
Impact of a 1% increase in health care cost trend rate	$ 3	-
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 December 31, 2004 to December 31, 2007. 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.

22. NON-CONTROLLING INTERESTS

The amounts recorded as non-controlling interests as at December 31, 2007 and 2006 relate to the following consolidated subsidiaries:

$US millions	**2007**	2006
Catalyst Old River Hydroelectric Partnership	**$ 37**	$ 37
Powell River Energy Inc. and other subsidiary	**31**	33
Great Lakes Hydro Income Fund	**171**	179
Bear Swamp Power Co. LLC	**(22)**	-
	$ 217	$ 249

In 2007, Bear Swamp signed a contract to provide the Long Island Power Authority ("LIPA") with capacity and energy under a 15 year agreement. As a result of this contract and its related derivatives with its partners, Bear Swamp, a 50% joint venture, is now fully consolidated by the Company as of March 23, 2007, resulting in an additional non-controlling interest for the Company.

23. SHAREHOLDER'S EQUITY

The Company is authorized to issue an unlimited number of common shares, of which 101,512,218 were issued and outstanding as at December 31, 2007 (December 31, 2006 – 101,512,218):

$US millions	**2007**	2006
Common shares	**$ 422**	$ 422
Deficit	**(261)**	(162)
Contributed surplus	**204**	199
Accumulated other comprehensive loss	**(22)**	(55)
	343	404
Equity component of capital securities (note 19)	**6**	5
	$ 349	$ 409

The Company is authorized to issue an unlimited number of preferred shares, none of which were outstanding as at December 31, 2007 or 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 (2006 - $52 million and $1 million).

Stock based compensation expense relating to the granting of stock options and deferred share units of Brookfield is recorded as an increase to contributed surplus and totalled $5 million in 2007 (2006 - $2 million).

24. INTEREST AND FINANCING FEES

Interest and financing fees are comprised of:

$US millions	**2007**	2006
Interest and financing fees on property specific borrowings	**$ 146**	$ 115
Interest on long-term debt	**138**	126
Other interest and financing fees	**2**	3
	$ 286	$ 244

During the year, the Company capitalized $1 million of interest costs (2006 - $2 million).

25. CHANGE IN NON-CASH WORKING CAPITAL

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

$US millions	**2007**	2006
Accounts receivable and other	**$ (61)**	$ 73
Accounts payable and other	**25**	(50)
Effect of foreign exchange	**(21)**	(14)
	$ (57)	$ 9

26. 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 in order 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 and for the future purchase of gas to supply our operations. At a hedge's inception and on an ongoing basis, the Company formally assesses 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.

At December 31, 2007, the current and long-term portions of the fair value of the derivative assets and liabilities were as follows:

$US millions	**2007**	2006
Short-term derivative assets	**$ 31**	$ 19
Long-term derivative assets	**167**	3
Short-term derivative liabilities	**(52)**	(19)
Long-term derivative liabilities	**(253)**	(4)

The significant increase in these balances from 2006 is due to the fact that at December 31, 2006 only the non-hedging portion of the Company's commodity derivatives was recorded on the balance sheet while, due to a change in accounting standards effective, January 1, 2007, all derivatives are now recorded on the balance sheet (see note 3).

For the year ended December 31, 2007, the Company's unrealized commodity derivative loss was $79 million (2006 - $10 million gain). This net loss includes losses of $82 million related to the change in value of the Company's outstanding commodity derivatives (2006 - $10 million gain) and is net of gains of $3 million for the year (2006 - $nil) related to the ineffectiveness of hedging contracts.

The deferred gain included in OCI for 2007 related to the Company's commodity derivatives, net of the reclass to net (loss) income of gains or losses on derivatives that settled during the year, was $4 million, net of tax (2006 - $nil).

The Company's commodity derivatives are comprised of financial contracts that are in place to economically hedge physical power sales in future months, to hedge gas sales and future purchases, and also two long-term PPAs, one being with LIPA and the other with an affiliate of Brookfield, both of which were determined to be non-financial derivatives.

As the power purchase agreements with LIPA and the Brookfield affiliate are derivatives, they are recorded at fair value and are included in the aforementioned commodity swap assets and liabilities, with fluctuations in fair value included in the $79 million unrealized derivative loss recognized in net (loss) income. The resulting impact on the financial statements as at December 31, 2007 related to these two power purchase agreements is as follows:

$US millions	**2007**
Derivative assets – current	$ 10
Derivative assets – long-term	141
Derivative liabilities – current	(32)
Derivative liabilities – long-term	(233)
Deficit - transitional adjustment for financial instruments	33
Unrealized derivative loss	$ (81)

(b) Interest rate

Due to changes in the timing of the anticipated debt issuance related to the Company's wind farm, the Company terminated all forward-starting interest rate swap agreements entered into with major financial institutions. As a result, the Company received a net cash settlement on all transactions of $2 million from third parties and recorded a gain of $7 million in income related to hedge ineffectiveness. Subsequent to the issuance of the debt at a variable rate, the Company entered into swap agreements with third parties with a total notional value of CDN$299 million in order to lock in a fixed rate. At December 31, 2007, the amount included in long-term derivative liabilities is $1 million (December 31, 2006 – $nil). For the year ended December 31, 2007, the loss included in OCI related to the interest rate swaps was $2 million, net of tax (2006 - $nil).

(c) Foreign exchange

Derivatives that are not designated in an eligible hedge relationship are carried at fair value with changes in fair value recorded in net (loss) income in the period in which they occur. As at December 31, 2007, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $nil (December 31, 2006 - $4 million) and a nominal amount was included in net income for the year (2006 - $nil).

27. SEGMENTED INFORMATION

The Company operates high quality hydroelectric generating assets located in Canada and the United States with operations in six power markets across North America: Ontario, Quebec, British Columbia, New England, New York and other northeast markets, and Louisiana. The "Other" reporting segment consists of the activities of the Company's wind operations, cogenerating stations, pumped storage facility, and transmission and distribution business. These seven segments represent the Company's reportable segments, which are used to manage the business, and are generally 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 notes 2 and 3 of these financial statements.

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.

$US millions	Ontario	Quebec	British Columbia	New England	New York & other	Louisiana	Other	2007
Revenues	**$ 144**	**$ 83**	**$ 23**	**$ 77**	**$ 210**	**$ 134**	**$ 233**	**$ 904**
Net operating income	**97**	**59**	**15**	**47**	**134**	**111**	**111**	**574**
Interest and financing fees	**45**	**17**	**9**	**12**	**33**	**96**	**74**	**286**
Depreciation and amortization	**24**	**11**	**4**	**16**	**29**	**19**	**49**	**152**
Power generating assets	**892**	**433**	**172**	**384**	**1,006**	**326**	**840**	**4,053**
Total assets	**1,246**	**401**	**179**	**409**	**1,353**	**1,089**	**2,214**	**6,891**
Property specific borrowings	**702**	**272**	**114**	**220**	**862**	**-**	**557**	**2,727**

$US millions	Ontario	Quebec	British Columbia	New England	New York & other	Louisiana	Other	2006
Revenues	$ 151	$ 117	$ 21	$ 76	$ 227	$ 123	$ 149	$ 864
Net operating income	105	93	15	54	157	103	68	595
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	1,154	371	137	266	1,255	1,069	1,620	5,872
Property specific borrowings	610	239	94	131	550	-	131	1,755

28. 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 agreements are renewable and extend as far as the year 2057.

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.

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 (2006 – CDN$350 million), with a total of CDN$286 million issued as of December 31, 2007 (December 31, 2006 – CDN$269 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, 2007 and December 31, 2006 relating to these guarantees.

In the normal course of operations, the Company has committed as at December 31, 2007 to spend approximately $23 million (2006 - $26 million) on capital projects in the next year. The Company also has $47 million in lease commitments for future years (2006 - $51 million).

On May 29, 2007 the Company announced its intentions to acquire a hydroelectric generating facility in Minnesota. This 18 MW run-of-the-river merchant facility is located on the Mississippi River and has the capacity to generate approximately 104 GWh of energy per year. This transaction, which is subject to various closing conditions (including regulatory approval), is expected to close in 2008.

On December 21, 2007, the Company announced that it has agreed to acquire 99% of the common shares and 100% of the Series C preferred shares of Itiquira Energética S.A. ("Itiquira"), from NRG Energy Inc. for $288 million. Itiquira owns a 156 MW hydroelectric facility located in Mato Grosso State in Brazil. All power produced by the facility is sold under a long-term power purchase agreement. The transaction completion is subject to receipt of regulatory approval and other customary closing conditions and is expected to close in the first quarter of 2008.

The Company is awaiting final approval to transfer its transmission operations located in Northern Ontario to a newly-formed publicly traded partnership created by Brookfield. This transaction is expected to close in 2008. For 2007, the revenues, net income and net assets associated with this division were $33 million, $7 million, and $11 million (2006 – $30 million, $7 million, $8 million), respectively.

The Company has asset retirement obligations associated with its power generating assets. The retirement date for these power generating assets 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.

29. SUBSEQUENT EVENTS

On January 24, 2008, Brookfield injected $200 million of capital into the Company in order to provide additional liquidity to the Company. In return, Brookfield received 6,827,118 common shares in the Company.

Brookfield Power

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