BROOKFIELD POWER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007

 

Attached is management's discussion and analysis of Brookfield Power Inc.
Brookfield Power Inc. is a subsidiary of Brookfield Asset Management Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FEBRUARY 29, 2008

INTRODUCTION

The information provided in this management discussion and analysis ("MD&A") is intended to provide readers with an overview of our overall business strategy, our competitive advantages as well as our performance for the years ended December 31, 2007 and 2006, while also providing a framework for understanding our long-term growth trends and our ability to deliver strong and stable cash flows.

The MD&A should be read in conjunction with our audited consolidated financial statements. Additional information can also be found on our website at www.brookfieldpower.com and on the SEDAR website at www.sedar.com, filed under the name of "Brookfield Power Corporation."

BASIS OF PRESENTATION

The financial information contained herein is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the exception of our net operating income which is a non-GAAP measure and may differ from definitions of net operating income used by other companies. Net operating income is our principal focus for performance measurement since it is a tangible measurement and best reflects the cash flows generated by our power assets. We present the information in this format as we believe it is informative for the reader. We define net operating income as revenues from power operations, net of operating and maintenance costs, fuel purchases for the cogeneration plants, power purchases, selling, marketing and administration expenses and property and other generation taxes on our facilities. A reconciliation of net operating income to net (loss) income as presented in our financial statements is presented in the "Analysis of Financial Performance" sections of this report.

Unless otherwise indicated, the terms "the Company", "we", "our" and "us" refer to Brookfield Power Inc. and all of its subsidiaries and joint ventures. All figures are reported in United States dollars, unless otherwise noted.

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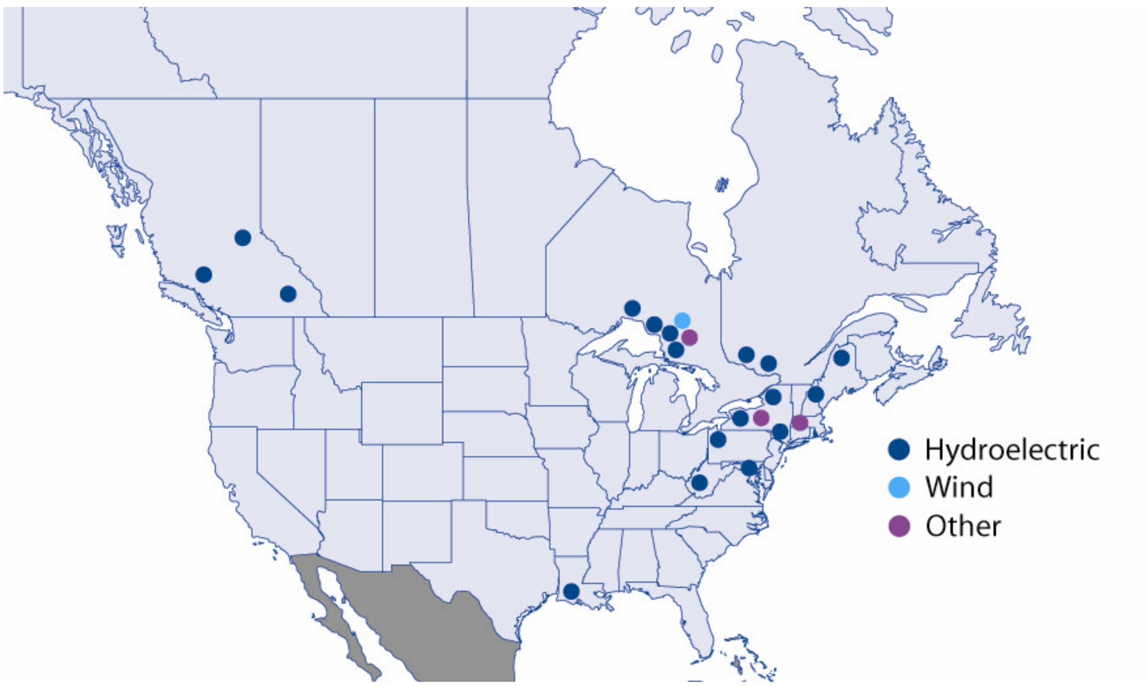
OVERVIEW OF THE BUSINESS

Brookfield Power is a renewable power company that produces and sells energy generated primarily from water and wind resources. We optimize the value of our portfolio through marketing strategies which capture the optionality inherent in our high quality, low cost, long life asset base. We aim to provide our shareholder with long-term sustainable cash flows and create value over time through disciplined growth of our renewable energy business.

We are a wholly owned subsidiary of Brookfield Asset Management Inc. ("Brookfield"), an asset management company focused on property, power and infrastructure assets. Brookfield has approximately $95 billion of assets under management and is co-listed on the Toronto and New York Stock Exchanges under the symbol BAM.

Some of our assets are owned through the Great Lakes Hydro Income Fund (the "Fund"), a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN), of which we own a 50.1% interest.



Power Generation Portfolio - Hydroelectricity
Our portfolio of low-cost hydroelectric power generating facilities is located on multiple river systems. As at December 31, 2007, we owned and managed 130 hydroelectric power generating stations with a combined generating capacity of almost 2,600 megawatts ("MW") that are capable of producing in excess of 12,500 gigawatt hours ("GWh") annually. Our hydroelectric facilities are located on over 40 river systems in six geographic regions, specifically Ontario, Quebec, British Columbia, New York and other north-eastern states, New England and Louisiana. This geographic distribution provides diversification of water flows to minimize the overall impact of fluctuating hydrology. Our storage reservoirs contain sufficient water to produce approximately 20% of our total annual generation and provide partial protection against short-term changes in water supply. The reservoirs also enable us to optimize revenues by generating and selling power during higher priced peak periods.

Our hydroelectric operations are principally located in the regionally interconnected power markets of Ontario, Québec, New York, New England (Maine, Massachusetts and New Hampshire) and PJM (Pennsylvania, New Jersey, Maryland and West Virginia).

In Canada we own and operate 32 hydroelectric power generating stations located on 18 river systems with long-term average ("LTA") annual production in excess of 5,000 GWh.

Markets	Power Operations	River Systems	Generating Stations	Installed Capacity (MW)	LTA (GWh)	Storage Capability (GWh)
Quebec	Lièvre Operations	1	4	249	1,492	518
	Pontiac Operations	2	2	28	195	66
Ontario	Mississagi Operations	3	6	499	797	158
	Sault Hydro Operations	2	5	203	906	205
	Wawa Hydro Operations	5	10	195	921	156
British Columbia	Powell River Operations	2	2	82	523	158
	Pingston Creek Operations	1	1	45	178	
	Valemount Operations	2	2	7	29	
Total Canadian Operations		**18**	**32**	**1,308**	**5,041**	**1,261**

In the US, we own and operate 98 hydroelectric power generating stations located on 24 river systems capable of producing close to 6,000 GWh annually.

Markets	Power Operations	River Systems	Generating Stations	Installed Capacity (MW)	LTA (GWh)	Storage Capability (GWh)
New England	New England South Operations	2	11	94	537	130
	New England North Operations	3	8	147	850	376
New York	Hudson River Operations	5	14	259	1,001	258
	St. Lawrence River Operations	5	32	229	1,131	130
	Lake Ontario Operations	5	29	214	893	153
PJM	West Virginia Operations	3	3	150	629	
Louisiana	Louisiana Hydro	1	1	192	903	
Total US Operations		**24**	**98**	**1,285**	**5,944**	**1,047**

We also manage all Brazilian power operations owned or operated by Brookfield, which consist of 26 hydroelectric facilities with an installed capacity of 295 MW capable of producing in excess of 1,500 GWh of power annually. Although we invest in the Brazilian operations through preferred shares, these assets are not included in our consolidated financial statements and therefore information regarding those operations is not part of this MD&A.

Power Generation Portfolio - Wind

We own Canada's largest wind farm with an installed capacity of 189 MW comprised of 126 turbines extending over nearly 20,000 acres. All power produced by the wind farm is sold to the Ontario Power Authority ("OPA") under two power purchase agreements expiring in 2026 and 2028.

Markets	Power Operations	Generating Stations	Installed Capacity (MW)	LTA (GWh)
Ontario	Wind	126	189	534
Total Wind Operations		**126**	**189**	**534**

Power Generation Portfolio – Other

We own two natural gas-fired combined cycle facilities, one located in Ontario and one in New York. The Ontario facility sells its power to the Ontario Energy Finance Corporation under a contract which expires in 2014 and has gas procurement contracts extending to 2008. The facility in New York is a merchant plant and is predominantly used to meet power needs at times of peak demand.

We own a 50% interest in a 600 MW pumped storage facility located in Massachusetts. The facility delivers its power, capacity and ancillary services into the New England administered market. Furthermore, a portion of the power and capacity produced from this facility is sold to the Long Island Power Authority under a long-term contract expiring in 2021.

Markets	**Power Operations**	**Generating Stations**	**Generating Units**	**Installed Capacity (MW)**	**Storage Capability (GWh)**
New York	Thermal Operations – New York	1	3	105	
Ontario	Thermal Operations – Ontario	1	3	110	
New England	Pumped Storage Operation	1	2	600	3
Total Other Operations		**3**	**8**	**815**	**3**

Transmission and Distribution

We own a regulated transmission and distribution business in Ontario. The transmission and distribution business consists of 16 transmission stations and 11 distribution stations servicing approximately 11,500 customers.

Power Marketing

We optimize the value of our generating assets through a power marketing strategy that uses long-term contracts to stabilize cash flows and lock in attractive returns, all the while preserving the flexibility of our asset base in order to capture short-term pricing opportunities.

Approximately 55% of our annual generation is sold under long-term power purchase agreements with an average term of 13 years remaining with counterparties, which have long-standing favourable credit histories or investment grade ratings. Our long-term contracts generally do not provide for fixed volume commitments therefore we have limited risk of having to supply power from the market to our customers when we are experiencing low water conditions.

All power produced and not otherwise sold under a contract is sold in the wholesale electricity markets and, due to the low variable cost of hydroelectric power and the flexibility inherent in our facilities, our goal is to concentrate generation during peak pricing periods and maximize revenues. To reduce our exposure to volatile spot pricing in the wholesale electricity market, we enter into short-term financial contracts that represent approximately 25% of our annual generation. The contracts cover a period not exceeding 30 months.

In order to minimize the potential adverse financial impact of low water flows, the remaining 20% of our annual output is sold into the wholesale power markets only when water inflows have been confirmed.

Given the nature of the transactions executed by the power marketing group, we are subject to the complex accounting rules governing derivatives and hedging instruments. The accounting treatment associated with some of these transactions may result in the accounting recognition of gains and losses in periods different than the related economic exposures. This can result in volatility in reported net (loss) income.

Growth via Acquisition and Development
We are committed to expanding our power generation base by strategically acquiring and developing renewable energy projects such as hydroelectric facilities and wind farms. Our acquisitions in the past few years have allowed us to establish a geographic presence in several regions. Although acquisitions will continue to be part of our growth strategy, development of greenfield opportunities will constitute an important element going forward. In doing so, we have established a highly qualified team which will allow us to pursue our development activities.

With a portfolio in excess of 6,000 MW of potential greenfield opportunities at various stages of development, we are well positioned for future growth. We will continue to identify new opportunities to optimize the performance of our portfolio and to expand and continue our diversification strategy in 2008 and beyond.

BUSINESS STRATEGY AND COMPETITIVE ADVANTAGES

Our overall growth strategy is based on solid, long-term value creation principles. Although we are always looking to expand our portfolio, we are patient and strongly believe in ensuring that any additional investment must provide rates of return that are commensurate with their risk.

We own and invest in high quality long-life assets that generate sustainable cash flows which tend to appreciate in value over time. We focus our efforts in areas where there are typically high barriers to entry due to regulatory, physical or cost structure factors and in which we believe we have a competitive advantage. Furthermore, we invest in renewable technology which in itself constitutes a major competitive advantage encompassing additional value for the future.

By respecting the investment guidelines above, while optimizing the value of our existing generating asset platform, we are well positioned to increase the overall underlying value of our business. The key competitive advantages of our business are summarized as follows:

Optimize Current Portfolio – We currently have a high performing portfolio and we will continue to look for ways to extract value from our current assets by improving overall plant performance. Our existing operating assets allow us to leverage the current operating platform and benefit from economies of scale through centrally managed, but locally operated, assets. Ensuring stable cash flows over the long-term remains a key objective of Brookfield Power. Although it is important to ensure continuous value creation through the optimization of our portfolio, we believe it is also critical to reduce the volatility of our cash flows. Our power marketing philosophy is centered around generating strong returns from our portfolio while preserving our ability to capture high spot market conditions. In doing so, we ensure stable cash flows by selling a significant portion of our baseline generation into the forward market or under long-term contract but at the same time retaining some value through our peaking capabilities.

Reliability - As part of our overall strategy, we invest in our assets based on a 20 year capital program designed to ensure we sustain the value and useful life of our assets.The equipment involved in producing hydroelectric power has relatively few moving parts. Since the process does not include combusting fossil fuels at high temperatures or creating steam, there is minimal wear and tear on the machinery, which contributes to long-life, high reliability and low maintenance requirements. Unplanned outage rates for hydroelectric units are among the lowest in the electricity industry.

Pursue Growth Opportunities – Whether it is through acquisition or development of greenfield opportunities, we will continue to expand our asset base through sound investment principles. We will continue to invest in mature and attractive hydro markets such as North America and Brazil where regulatory regimes are stable and there are well established market rules. We will also continue to invest in wind projects in North America given the number of high quality wind sites and the site-redevelopment potential. In addition, we will pursue, on an opportunistic basis, acquisitions that will enhance our renewable power asset mix and overall competitive position.

Low Environmental Impact - Hydroelectric generation produces virtually no greenhouse gas emissions or acid rain, both of which have major impacts on the environment. Hydroelectric generation minimizes thermal, chemical, radioactive, water and air pollution as compared to fossil-fuel and nuclear facilities. Instead of producing substantial amounts of residual wastes during the power generation process, hydroelectric generation simply returns the water to the river.

Investing in Renewable Energy – We believe that investing in renewable energy will provide long-term sustainable value for our shareholder. With the ever increasing demand for green energy and concerns for the environment, renewable energy will be the preferred choice of consumers and provide us with a competitive advantage over time. The future regulatory regime with respect to greenhouse gas emissions will likely provide future benefits and added value to our portfolio given its renewable nature and green attributes.

Leveraging our Management Expertise – Our management team has substantial experience and has a positive track record of successfully growing both our asset base and cash flows. We have significant experience in all of our core business aspects including asset management, trading and marketing, risk management, construction management, acquisitions, due diligence and project development. In each of these areas, we have well established processes and procedures along with defined policies which allow us to continuously adhere to our basic investment principles and ensure continuous value creation.

Risk Management – We use risk management strategies to monitor a number of factors to ensure the organization complies with our risk policy and is not exposed to undue risk. More specifically, we monitor hydrology, plant availability, price risk, counterparty risk as well as regulatory and political risks.

Interconnected Markets – Being capable of selling generation across multiple regionally interconnected markets allows us to capture pricing opportunities that exist between these markets and optimize the value of our portfolio.

Storage Capacity - We have the equivalent of over 1,250 GWh of storage capacity in Canada and an additional 1,050 GWh in the US. Such a large storage capacity provides us with the ability to avoid spillage. Contrary to run of the river facilities, we have the ability to store excess water allowing us to generate when market prices are more favourable. The storage capabilities associated with our operating assets allow us to better manage water resources and capture higher prices.

Low Cost Producer – We are one of the lowest cost generators of electricity in North America providing us with a unique advantage in a bid based market where the hourly price of electricity is a function of instantaneous supply and demand that favours low-cost producers. With virtually no fuel costs and minimal overhead and maintenance costs, our assets are competitively positioned relative to other types of generation supply.

Geographic Diversity – Our power generating assets are located in several distinct power markets reducing the impact of individual market or regulatory risk. The regional diversity of our operating plants also helps to mitigate hydrology risk.

BUSINESS RISKS

The following represents a summary of the most relevant risk factors relating to our business. This summary contains only certain risk factors and is not all-inclusive. For a more comprehensive description of these and other possible risks such as: force majeure, rate setting risks, operating and capital expenditure costs, insurance limits, dam safety, labour relations, contract expiry, health, safety, environmental, and litigation, please see the Brookfield Power Corporation Annual Information Form filed with SEDAR at www.sedar.com.

Hydrology - The revenues generated by the power systems are directly correlated to the amount of electricity generated. The amount of electricity generated by the power systems is dependent upon available water flows. Accordingly, revenues and cash flows may be affected by low and high water flows in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that a material hydrologic event will not impact the hydrological conditions that exist within the watershed. We strive to mitigate the risk of variable hydrology conditions by acquiring and operating a portfolio of geographically diverse facilities across six regions in North America. The diversified locations of our power generating assets assist in balancing the impact of generation fluctuations in any one geographic region. We also have access to hydrology insurance. Overall, revenues and cash flows may not necessarily be affected by fluctuations in power generation resulting from variable water conditions.

Energy Price Fluctuations - A significant portion of our revenue is tied, either directly or indirectly, to the spot market price for electricity in the compatible electricity market we operate in. Electricity price volatility could have a material adverse effect on our business, operating results, financial condition or prospects. We endeavour to maximize the stability and predictability of our power generating revenues by contracting future power sales to minimize the impact of price fluctuations, by diversifying watersheds, and by utilizing water storage reservoirs to minimize fluctuations in annual generation levels.

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

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

Credit - We are exposed to credit-related losses in the event of non-performance by counterparties to the financial and physical electricity and gas contracts. Credit risks arise from the potential for a counterparty to default on its contractual obligations and are limited to those contracts where we would incur a loss in replacing the defaulted transaction. The Company minimizes credit risk with counterparties to financial instruments and physical electricity and gas transactions through the selection, monitoring and diversification of counterparties, use of standard trading contracts, collateral and other credit risk mitigation techniques. As well, our power purchase agreements are almost exclusively with customers having long standing credit history or investment grade ratings.

Regulatory Regime and Governmental Permits - The operation of our generation assets is subject to regulation. Water rights are generally owned by governments which reserve the right to control water levels. Any new law or regulation could require additional expenditure to achieve or maintain compliance. Operations that are not currently regulated may become subject to regulation. As legal requirements frequently change and are subject to interpretation, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Some of our operations are regulated by government agencies that exercise discretionary power conferred by statutes. As the scope of such authority is uncertain and may be inconsistently applied, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Our failure to obtain or maintain all necessary licences, leases or permits, including renewals thereof or modifications thereto, may adversely affect our ability to generate income.

2007 ACCOMPLISHMENTS

ACQUISITIONS

During the year, we completed the acquisition of five hydroelectric facilities that added 28 MW to our installed capacity and 125 GWh to our average annual generation. We also acquired interests in five development projects to build hydroelectric generating stations located in the midwest and northeast of the United States, as well as in western Canada. In commercial operation, these projects will add 90 MW to our capacity. Construction has already begun on a 10 MW project located on the Mississippi river in Minnesota.

Project Name	Region	Closing Date	# of Stations	Investment ($US Millions)	Capacity (MW)	LTA (GWh)
Acquisitions						
Potsdam	New York	February 14, 2007	2	$16	6	35
Glens Falls	New York	August 1, 2007	1	33	15	60
Valemount	BC	October 9, 2007	2	14	7	30
			5	$63	28	125

On May 29, 2007, we agreed 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, we announced that we have agreed to acquire the common shares of Itiquira Energética S.A. (“Itiquira”) 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.

During the year, we also agreed to sell our transmission operations located in Northern Ontario to a newly-formed publicly traded partnership created by Brookfield, Brookfield Infrastructure Partners LP for consideration of approximately CDN$210 million less the assumption of CDN$120 million in debt. This transaction is expected to close in 2008.

FINANCINGS

During the year, in spite of a difficult credit environment, we continued to optimize our capital structure by monetizing the value of our asset base through project-level debt on a non-recourse basis.

In May, we were able to raise $220 million in loans secured by our pumped storage facility acquired in 2005 and a hydroelectric facility acquired in 2006. The loans expire in 2012 and 2010 respectively, and have variable, LIBOR-based interest rates.

In addition, during the fourth quarter, we repaid the loan in place to fund the construction of our wind farm in Northern Ontario with the proceeds of a 5-year floating rate loan secured by the wind assets.

Finally, in December, we raised additional debt secured by our New York portfolio. The incremental amount of debt was supported by assets acquired in 2006 and 2007, as well as by additional cash flows resulting from improved market conditions. We raised $130 million in senior secured notes for a term of 10 years at a fixed interest rate that rank pari passu with the existing New York debt. Another $200 million was raised through two series of secured notes that are fully subordinated to the project-level debt. Both of these notes are for five years with Series 1 at a fixed interest rate and Series 2 at a floating rate.

ANALYSIS OF FINANCIAL PERFORMANCE – YEAR TO DATE

NET OPERATING INCOME

Our net operating income for the year did not fully reflect the long-term cash generation potential of our power generating assets due to relatively low hydrological conditions in several of our river systems. Our overall net operating income decreased from $595 million in 2006 to $574 million in 2007, a decrease of approximately 4%. The negative impact of low hydrology in 2007 was partially offset by our optimization efforts and the appreciation of the Canadian dollar.

As at and for the years ended December 31	Capacity		Invested Capital [1]		Net Operating Income	
(MW and $US Millions)	**2007**	2006	**2007**	2006	**2007**	2006
Hydroelectric generation						
Ontario	**897**	897	**$ 959**	$ 823	**$ 97**	$ 105
Quebec	**277**	277	**434**	371	**59**	93
British Columbia	**134**	127	**172**	133	**15**	15
New England	**240**	240	**397**	400	**47**	54
New York	**852**	832	**1,046**	1,016	**134**	157
Louisiana	**192**	192	**459**	478	**111**	103
Total hydroelectric generation	**2,592**	2,565	**3,467**	3,221	**463**	527
Wind generation	**189**	189	**369**	328	**33**	5
Other power generation	**815**	815	**233**	166	**47**	35
Development projects	**-**	-	**51**	25	**-**	-
Total power generation	**3,596**	3,569	**4,120**	3,740	**543**	567
Transmission and distribution	**-**	-	**192**	146	**31**	28
Other assets	**-**	-	**2,579**	1,986	**-**	-
Total	**3,596**	3,569	**$ 6,891**	$ 5,872	**$ 574**	$ 595

[1] Total power generation assets included in invested capital includes power generating assets and other long-term assets, namely power purchase agreements, FERC licenses, and other depreciable assets.

Generation from existing hydroelectric facilities owned throughout 2006 and 2007 was down almost 1,700 GWh compared to last year and 1,200 GWh below LTA due to lower inflows, mostly in Quebec and New York. A full year of contribution from our 2006 acquisitions, as well as the contribution from the 2007 acquisitions, helped to mitigate part of the shortfall.

Years ended December 31 (GWh)	Long-term Average **(LTA)**	Actual Production **2007**	2006	Variance to **LTA**	2006
Existing capacity as at December 31, 2005					
Ontario	**2,412**	**1,633**	1,898	**(779)**	(265)
Quebec	**1,689**	**1,407**	2,033	**(282)**	(626)
British Columbia	**614**	**628**	633	**14**	(5)
New England	**1,139**	**1,202**	1,268	**63**	(66)
New York	**3,029**	**2,875**	3,716	**(154)**	(841)
Louisiana	**903**	**827**	712	**(76)**	115
Total existing capacity as at December 31, 2005	**9,786**	**8,572**	10,260	**(1,214)**	(1,688)
Acquisitions – during 2006	**1,015**	**952**	472	**(63)**	480
Acquisitions – during 2007 (1)	**57**	**41**	-	**(16)**	41
Total hydroelectric operations	**10,858**	**9,565**	10,732	**(1,293)**	(1,167)
Wind generation	**534**	**478**	99	**(56)**	379
Other power generation (2)	**1,168**	**1,493**	1,168	**325**	325
Total generation	**12,560**	**11,536**	11,999	**(1,024)**	(463)

(1) Long-term average is adjusted to reflect the date of acquisition of the facilities.
(2) Long-term average related to the pumped storage facility is included at 50% until March 23, 2007 and at 100% for the remainder of the year.

HYDROELECTRIC GENERATION

Years ended December 31 (GWh and $US Millions)	**2007** Actual Production	**2007** Revenues	**2007** Operating Costs	**2007** Net operating income	2006 Actual Production	2006 Revenues	2006 Operating Costs	2006 Net operating income
Ontario	**1,852**	**$ 144**	**$ 47**	**$ 97**	2,059	$ 151	$ 46	$ 105
Quebec	**1,407**	**83**	**24**	**59**	2,033	117	24	93
New England	**1,489**	**77**	**30**	**47**	1,438	76	22	54
New York	**3,357**	**210**	**76**	**134**	3,857	227	70	157
Other	**1,460**	**157**	**31**	**126**	1,345	145	27	118
Total	**9,565**	**$ 671**	**$ 208**	**$ 463**	10,732	$ 716	$ 189	$ 527
Per MWh		**$ 70**	**$ 22**	**$ 48**		$ 67	$ 18	$ 49

For 2007, even though we added generating assets to our portfolio, the operating cash flows from our hydroelectric business decreased by $64 million or 12% on a year over year basis. The main driver of our financial results for 2007 was the negative impact of lower than long-term average precipitation levels leading to low generation.

During 2007, our hydroelectric portfolio generated 9,565 GWh, which is 11% below the generation achieved in 2006 and 12% below the long-term average. We experienced the largest generation shortfalls in the Ontario, Quebec and New York regions. In total, the generation decrease on a year over year basis (based on the 2006 realized prices) resulted in a decrease in year over year revenues of $65 million.

We were able to partially offset the negative impact of low hydrology through the active management of the portion of our generation that is not committed under long-term power purchase agreements. This optimization resulted in our net realized revenues on a per MWh basis increasing by 6% in Ontario and New York, despite an environment where market prices in the Ontario and New York markets were relatively flat on average.

We were able to create incremental revenues by selling our output at times of peak pricing, by capturing pricing opportunities that existed between interconnected markets where we own assets and by monetizing non-energy products such as green attributes, capacity value and ancillary services to the market operators.

The strengthening of the Canadian dollar against the U.S. dollar also contributed to the increase in realized prices. The total increase in our annual revenues from 2006 to 2007 that can be attributed to this currency impact was $12 million.

Our operating costs increased on a year over year basis by $19 million or approximately 10%. A portion of this increase in operating costs relates to the stronger Canadian dollar as well as the growth of our asset base on a year over year basis. Additional costs relating to water regulation fees in the US and power marketing activities also impacted our results.

WIND GENERATION

Years ended December 31 (GWh and $US Millions)	**2007**				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Wind power	**478**	**$ 41**	**$ 8**	**$ 33**	99	$ 7	$ 2	$ 5

Our wind facility completed its first full year of operation in 2007. All of the output from this facility is sold to the OPA under a long-term power purchase agreement. The wind facility generated 478 GWh of energy during 2007 representing 90% of its LTA.

The wind farm ran reliably throughout the year and was available 97% of the time. In addition to the revenue from the PPA, the wind farm qualifies for a federal government program that will earn the wind operations $10/MWh generated until 2017.

OTHER POWER GENERATION

Years ended December 31 (GWh and $US Millions)	**2007**				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Cogeneration [(1)]	**929**	**$ 76**	**$ 51**	**$ 25**	901	$ 75	$ 44	$ 31
Pumped storage	**564**	**71**	**49**	**22**	267	25	21	4
Total	**1,493**	**$ 147**	**$ 100**	**$ 47**	1,168	$ 100	$ 65	$ 35

(1) Includes gas resale power equivalent.

Cogeneration

Our cogeneration facilities include a 110MW facility located in Ontario and a 105MW facility located in New York. The facility in Ontario benefited in 2007 from long-term gas supply and power sales contracts which expire in 2009 and the strengthening of the Canadian dollar. The New York facility, which is generally dispatched only as a peaking plant at times of very high demand, benefited from increased capacity payments in the New York market. The cost increases at both plants on a year over year basis relate primarily to increased fuel and transportation costs.

Pumped Storage

In 2007, we signed a long-term contract to provide the Long Island Power Authority (“LIPA”) with approximately half of the output from our pumped storage facility, which is located in Massachusetts. The increased operating cash flows from this facility in 2007 are due to a combination of contractual increases in the long-term contract and our efforts during the year to capture higher value for the capacity and energy that this plant provides. Furthermore, results were also impacted by the accounting impact of consolidating 100% of this asset in our results, effective March 23, 2007, whereas in 2006 we proportionately consolidated our 50% interest.

TRANSMISSION AND DISTRIBUTION

Transmission and distribution revenues of $45 million were $4 million above 2006 results. This increase is the result of increased rates, as well as the impact of the stronger Canadian dollar. Operating costs were $1 million above those of 2006 largely as a result of costs incurred relating to the pending transfer of the transmission assets to the new publicly-traded entity created by Brookfield. In total, net operating income increased by $3 million year over year.

NET (LOSS) INCOME

In 2007, we realized a net loss of $19 million, down from net income of $106 million in 2006. Besides the previously discussed impact of net operating income, this is primarily the result of an unrealized loss on derivative instruments of $79 million (2006 – gain of $10 million), higher interest and financing fees of $42 million and higher depreciation and amortization of $28 million.

$US Millions	**2007**	2006
Net operating income	**$ 574**	$ 595
Investment income and other	**25**	26
Unrealized derivative (loss) gain	**(79)**	10
Interest and financing fees	**(286)**	(244)
Interest on capital securities	**(125)**	(125)
Depreciation and amortization	**(152)**	(124)
Non-controlling interests	**3**	(24)
Recovery of (provision for) income taxes	**21**	(8)
Net (loss) income	**$ (19)**	$ 106

UNREALIZED DERIVATIVE LOSSES AND GAINS

During 2007, we recorded a net unrealized loss of $79 million in the income statement as a result of the valuation of our commodity derivatives, compared to a net unrealized gain on commodity derivatives of $10 million for 2006.

In 2007, we implemented the new Canadian accounting standards for financial instruments. The adoption of these new regulations had a significant impact on our consolidated financial statements, stemming from the new accounting treatment of commodity derivatives, hedging activities and power purchase and sale agreements.

Most of our financial contracts are derivatives that qualify for hedge accounting, with the changes in their fair value flowing through other comprehensive income (“OCI”). Before 2007, these transactions were only presented by way of notes in our financial statements. Our commodity derivatives also include financial contracts that do not qualify as cash flow hedges, with the changes in fair value being recorded through net (loss) income.

In 2007, due to the particulars of the new standards, the 15-year contract with LIPA and a long-term contract to supply power for the operations of a Brookfield affiliate, expiring in 2012, qualify as non-financial derivative contracts. As a result, they are recorded on the balance sheet at fair value, with the changes in their respective fair values being included in unrealized derivative gains and losses in the income statement.

The contracts in question are long-term in nature, extending out as far as 2021, and ascribing a fair value involves the forecasting of energy prices, and other inputs, over a significant period of time. As new external market data becomes available, is applied to the model, and extrapolated out over the volume and duration of these contracts, the fair value of these contracts could increase or decrease significantly. Consequently, these two contracts, the purpose of which is to provide stable cash flows and high rates of return on generating assets, will create volatility when reported in the financial statements. Economically, the accounting losses stemming from these contracts are offset by an increase in the revenue generating potential of the assets that are used to service these contracts.

For the year, our $79 million unrealized derivative loss includes a $65 million loss related to the LIPA contract (2006 - $nil), a $16 million loss related to the long-term power purchase agreement ("PPA") with an affiliate of Brookfield (2006 - $nil), an unrealized loss on our other commodity derivatives of $1 million (2006 - $10 million) and a gain of $3 million related to hedge ineffectiveness (2006 - $nil). .

INTEREST AND FINANCING FEES

Interest and financing fees expense increased by $42 million over the prior year. Key elements include the added costs of a full year's expense on the medium-term notes issued in November of 2006 and the financing related to our wind operations, which added a combined $25 million in interest charges. A further $9 million of costs were added by the new financings obtained in May. The majority of the remaining variance is the result of the appreciation of the Canadian dollar on our Canadian denominated debt.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense totalled $152 million, an increase of $28 million over 2006, primarily due to depreciation on assets acquired during the year, as well as a full year of depreciation on power generating facilities acquired or commissioned in 2006. The continued strengthening of the Canadian dollar also had a significant impact on our depreciation expense.

NON-CONTROLLING INTERESTS

Non-controlling interests relate to income associated with the non-controlling interests in our consolidated entities. The decrease of $27 million, from an expense of $24 million in 2006 to a recovery of $3 million in 2007, is primarily due to lower net income earned by the Fund as a result of lower hydrology year-over-year and a one-time non-cash tax charge resulting from the new taxation rules governing income trusts. The non-controlling interest related to the pumped storage facility was $7 million for the year (2006 - $nil).

PROVISION FOR INCOME TAXES

Provision for income taxes resulted in a recovery of $21 million in 2007 compared to an $8 million expense for 2006. This primarily resulted from lower pre-tax earnings and a reduction in tax rates that were enacted in 2007. A full reconciliation between the statutory tax rate and the effective tax rate is presented in the notes to the annual consolidated financial statements.

ANALYSIS OF FINANCIAL PERFORMANCE – Q4-2007

NET OPERATING INCOME

Our net operating income for the fourth quarter was essentially flat quarter over quarter. Low hydrological conditions in the latter half of 2007 continued to impact our results; however, contributions from assets acquired or commissioned in 2006 and 2007, as well as our marketing initiatives, helped to mitigate the impact of low generation.

As at and for the quarters ended December 31 (MW and $US Millions)	Capacity		Invested Capital [1]		Net Operating Income	
	2007	2006	**2007**	2006	**2007**	2006
Hydroelectric generation						
Ontario	**897**	897	**$ 959**	$ 823	**$ 24**	$ 11
Quebec	**277**	277	**434**	371	**10**	16
British Columbia	**134**	127	**172**	133	**4**	2
New England	**240**	240	**397**	400	**11**	11
New York	**852**	832	**1,046**	1,016	**36**	40
Louisiana	**192**	192	**459**	478	**16**	29
Total hydroelectric generation	**2,592**	2,565	**3,467**	3,221	**101**	109
Wind generation	**189**	189	**369**	328	**13**	5
Other power generation	**815**	815	**233**	166	**14**	11
Development projects	**-**	-	**52**	25	**-**	-
Total power generation	**3,596**	3,569	**4,121**	3,740	**128**	125
Transmission and distribution	**-**	-	**192**	146	**7**	6
Other assets	**-**	-	**2,578**	1,986	**-**	-
Total	**3,596**	3,569	**$ 6,891**	$ 5,872	**$ 135**	$ 131

(1) Total power generation assets included in invested capital includes power generating assets and other long-term assets, namely power purchase agreements, FERC licenses, and other depreciable assets.

Quarters ended December 31 (GWh)	Long-term Average **(LTA)**	Actual Production		Variance to	
		2007	2006	**LTA**	2006
Existing capacity as at December 31, 2005					
Ontario	**562**	**383**	280	**(179)**	103
Quebec	**399**	**228**	527	**(171)**	(299)
British Columbia	**134**	**152**	107	**18**	45
New England	**277**	**289**	314	**12**	(25)
New York	**803**	**726**	996	**(77)**	(270)
Louisiana	**145**	**110**	194	**(35)**	(84)
Total existing capacity as at December 31, 2005	**2,320**	**1,888**	2,418	**(432)**	(530)
Acquisitions – during 2007 [1]	**29**	**21**	-	**(8)**	21
Acquisitions – during 2006	**241**	**213**	265	**(28)**	(52)
Total hydroelectric operations	**2,590**	**2,122**	2,683	**(468)**	(561)
Wind generation	**156**	**152**	93	**(4)**	59
Other power generation	**320**	**377**	287	**57**	90
Total generation	**3,066**	**2,651**	3,063	**(415)**	(412)

(1) Long-term average is adjusted to reflect the date of acquisition of the facilities.

HYDROELECTRIC GENERATION

Quarters ended December 31 (GWh and $US Millions)	**2007**				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Ontario	**443**	**$ 39**	**$ 15**	**$ 24**	326	$ 24	$ 13	$ 11
Quebec	**228**	**16**	**6**	**10**	527	23	7	16
New England	**362**	**18**	**7**	**11**	392	20	9	11
New York	**822**	**56**	**20**	**36**	1,137	60	20	40
Other	**267**	**26**	**6**	**20**	301	38	7	31
Total	**2,122**	**$ 155**	**$ 54**	**$ 101**	2,683	$ 165	$ 56	$ 109
Per MWh		**$ 73**	**$ 26**	**$ 47**		$ 62	$ 21	$ 41

Net operating income from our hydroelectric business decreased by $8 million, or 7%, on a quarter over quarter basis. The main driver of the shortfall was the negative impact of lower than long-term average generation levels.

Our hydroelectric portfolio generated 2,122 GWh, which was 21% below the generation achieved in 2006 and 18% below long-term average. Very dry conditions in late summer and fall negatively impacted our generation levels predominantly in Quebec, New York and Louisiana. The impact of these conditions was somewhat mitigated by improved generation in Ontario, which had a strong finish to the year in 2007. In total, the generation decrease on a year over year basis (based on Q4-2006) resulted in a decrease in quarter over quarter revenues of $27 million.

Market prices for the period were between 15% and 20% higher than in the same period in 2006 across all of our markets. In this pricing environment, we were able to achieve better realized prices on a per MWh basis, or $16 million of total incremental revenues, across our entire production.

During the quarter, the appreciation of the Canadian dollar against the U.S. dollar also offset a portion of the impact from low hydrology. The total increase in our annual revenues from the fourth quarter of 2006 to the same period in 2007 that can be attributed to this currency impact is $8 million.

WIND GENERATION

Quarters ended December 31 (GWh and $US Millions)	**2007**				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net operating income**	Actual Production	Revenues	Operating Costs	Net operating income
Wind power	**152**	**$ 15**	**$ 2**	**$ 13**	93	$ 6	$ 1	$ 5

The increase in production and operating results for our wind farm was due mainly to the fact that 2007 represented a full period of production whereas, in 2006, the wind farm only commenced full commercial operation in November. Generation for the fourth quarter of 2007 of 152 GWh represented 97% of the expected long-term average.

OTHER POWER GENERATION

Quarters ended December 31 (GWh and $US Millions)	**2007**				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net operating income**	Actual Production	Revenues	Operating Costs	Net operating income
Cogeneration [1]	**243**	**$ 22**	**$ 15**	**$ 7**	229	$ 22	$ 11	$ 11
Pumped storage	**134**	**21**	**14**	**7**	58	5	5	-
Total	**377**	**$ 43**	**$ 29**	**$ 14**	287	$ 27	$ 16	$ 11

[1] Includes gas resale power equivalent.

Cogeneration

Our cogeneration facilities provided 243 GWh of power generation in the fourth quarter of 2007 versus 229 GWh during the same period of 2006, due in large part to additional peak production from our New York facility. Revenue of $22 million was the same in both periods despite the increased production as a result of a one-time inflationary adjustment made to the PPA in 2006. The increase in operating costs is the result of increased fuel purchases in order to meet production demands coupled with higher fuel prices.

Pumped Storage
As previously discussed, the pumped storage facility is now being consolidated at 100%, which results in a significant increase in the operating results of the facility. However, we have also benefited from contractual price increases and higher capacity values in relation to this facility.

TRANSMISSION AND DISTRIBUTION

Transmission and distribution revenues totalled $12 million in the fourth quarter of 2007, an increase of $2 million from the fourth quarter of 2006. This is mainly the result of a stronger Canadian dollar and additional investments approved by the Ontario Energy Board in 2006. Costs were higher in 2007 by $1 million, also mainly due to the impact of foreign exchange rates, resulting in net operating income for the period of $7 million, compared to $6 million for the same period in 2006.

NET (LOSS) INCOME

In the fourth quarter of 2007 we incurred a net loss of $17 million compared to net income of $14 million in the same period of 2006. The factors leading to this result are discussed below.

$US Millions	**2007**	2006
Net operating income	**$ 135**	$ 131
Investment income and other	**5**	12
Unrealized derivative (loss) gain	**(46)**	5
Interest and financing fees	**(76)**	(66)
Interest on capital securities	**(32)**	(32)
Depreciation and amortization	**(41)**	(34)
Non-controlling interests	**3**	(5)
Recovery of income taxes	**35**	3
Net (loss) income	**$ (17)**	$ 14

INVESTMENT AND OTHER INCOME

Investment and other income decreased by $7 million largely due to gains realized on the sale of long-term investments in 2006 that were not repeated in 2007.

UNREALIZED DERIVATIVE LOSSES AND GAINS

During the fourth quarter of 2007, the net unrealized loss related to the valuation of our commodity derivatives was $46 million compared to a net unrealized gain on commodity derivatives of $5 million in 2006. This unrealized loss includes a $37 million loss related to the LIPA contract (2006 - $nil), a $9 million loss related to the long-term PPA with an affiliate of Brookfield (2006 - $nil). Economically, the accounting losses are offset by an increase in the revenue generating potential of the assets that are used to service these contracts. An unrealized loss on our other commodity derivatives of $2 million (2006 - $5 million) and a $2 million gain related to hedge ineffectiveness (2006 - $nil) also impacted our net (loss) income.

INTEREST AND FINANCING FEES

Interest and financing fees for the fourth quarter of 2007 were $10 million higher than the same period in 2006. The addition and assumption of debt during the year, as well as the inclusion of deferred finance fee amortization in interest expense in 2007, increased interest charges by $5 million while the stronger Canadian dollar added an additional $5 million.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the fourth quarter of 2007 totalled $41 million, which is $7 million higher than the same period in 2006. The increase in depreciation and amortization is due to the acquisitions made during the year, the impact of foreign exchange on our Canadian assets, and additions made to the existing asset base.

NON-CONTROLLING INTERESTS

The recovery of $3 million during the fourth quarter of 2007, when compared to the $5 million expense during the same period of 2006, is related mostly to lower quarterly net income in the Fund and Louisiana, as well as the inclusion of the non-controlling interest of our pumped storage facility.

PROVISION FOR INCOME TAXES

We had a tax recovery of $35 million in the fourth quarter of 2007 compared to $3 million in 2006. This increase of $32 million primarily resulted from a reduction in the tax rates that were enacted in the fourth quarter of 2007.

SUMMARY OF HISTORICAL QUARTERLY RESULTS

Variations in quarterly results are correlated with the amount of electricity generated in any given quarter, which is in turn dependent on available water inflows. Other marketing and asset enhancement initiatives also impact the quarterly results. The following is a summary of unaudited quarterly financial information for the last eight consecutive quarters:

$US millions (except generation)	**2007**				**2006**			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Power generated (GWh)	**2,651**	**2,195**	**3,173**	**3,517**	3,063	2,516	3,131	3,289
Revenues	**225**	**179**	**243**	**257**	208	175	220	261
Net operating income	**135**	**96**	**161**	**182**	131	117	152	195
Net (loss) income	**(17)**	**(27)**	**6**	**19**	14	-	35	57

FINANCIAL POSITION

Our strong and flexible capital structure enables us to provide financial stability and a low cost of capital to our operations, as well as the ability to react quickly to acquisition opportunities.

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. We continue to have a strong balance sheet and healthy financial ratios. As at December 31, 2007, we maintained current cash and cash equivalents of $61 million in addition to the un-drawn credit facilities, liquidity from our short-term investment portfolio and amounts due from a related party. Given our historical profitability and our ability to manage expenses, we believe that our current resources are adequate to meet our requirements for working capital and capital expenditures through the foreseeable future.

We continue to maintain investment grade unsecured issuer ratings from DBRS (BBB (High)), Standard and Poor's (BBB) and Fitch (BBB-), which are influenced by a prudent level of low-cost asset financing and modest levels of corporate debt. The long-life nature of our assets allows us to finance with non-recourse debt and minimal near-term maturities, minimizing risks associated with liquidity and refinancing.

The property specific borrowings are generally secured by the assets of the related property and, as such, limit our exposure in the unlikely case of default. We provide covenants to certain of our lenders, as do most borrowers. As at December 31, 2007, we were in compliance with all property specific debt related covenants.

The authorized capital of Brookfield Power consists of an unlimited number of common shares. As at December 31, 2007, there were 101,512,218 shares of the Company issued and outstanding (2006 – 101,512,218). As of the date of this MD&A, there were 108,339,336 shares issued and outstanding, subsequent to the share issuance of January 24, 2008.

BALANCE SHEET ANALYSIS

$US millions	**2007**	2006	Change
Working capital	**$ 243**	$ 185	$ 58
Long-term investments	**350**	159	191
Power generating assets	**4,053**	3,623	430
Other assets	**1,102**	948	154
Short-term derivative assets and liabilities (net)	**(21)**	-	(21)
Credit facilities	**(12)**	(249)	237
Property specific borrowings	**(2,727)**	(1,755)	(972)
Other long-term liabilities	**(355)**	(103)	(252)

Long-term investments increased by $191 million, mostly as a result of increased investment in Brascan Brazil Ltd. in order to fund the acquisition and construction of hydroelectric generating stations in Brazil.

Power generating assets increased by $430 million including net capital additions of $198 million. The appreciation of the Canadian dollar further increased the value by close to $320 million. The impact of consolidating our pumped storage facility added a further $48 million to our power generating assets. Depreciation for the year totalled $132 million in 2007.

The implementation of new accounting standards surrounding financial instruments significantly impacted our balance sheet in 2007 by adding $164 million to our other assets related to long-term commodity derivatives, partly offset by the reclassification of deferred financing fees. Before 2007, all derivatives designated as cash flow hedges were only disclosed by way of notes to the financial statements.

Also as a result of the new accounting standards, we added $12 million to our short-term derivative assets and $33 million to our short-term derivative liabilities.

The repayment of the credit facility related to the wind operations is the main reason for the decrease of $237 million in our credit facilities. This decrease is offset by the new long-term property specific debt that replaced the credit facility.

Besides the new wind-related debt, we added $550 million of new property specific debt during the year as described in our 2007 accomplishments. The impact of the stronger Canadian dollar increased our property specific debt by an additional $185 million.

The net impact of foreign exchange on our working capital accounts was $27 million in 2007.

LIQUIDITY

$US millions	**2007**	2006	Change
Cash flow from operating activities	**$ 150**	$ 263	$ (113)
Cash flow from financing activities	**349**	324	25
Cash flow used in investing activities	**(524)**	(606)	82
Impact of foreign exchange on cash	**5**	-	5
Net cash outflow	**$ (20)**	$ (19)	$ (1)

Operating Activities - In 2007 we generated $150 million from operating activities, a decrease of $113 million from $263 million in 2006. This decrease is primarily the result of the increase in interest and financing fees and the decrease in net operating income. Non-cash working capital increased by $57 million in 2007, compared to a decrease of $9 million in 2006, primarily as a result of the change in the value of commodity derivatives, generation-based tax accruals and trade receivables.

Financing Activities - New borrowings for 2007 totalled $870 million (2006 - $598 million). This increase in cash inflows was largely offset by the $342 million of debt repayments during the year (2006 - $112 million) that was mainly driven by the repayment of the loan facility related to the construction of the wind farm. Dividends paid to holders of common shares and interest on the equity portion of capital securities totalled $53 million in 2007, consistent with 2006. Distributions to non-controlling interests totalled $101 million in 2007 compared to $30 million in 2006 due mainly to a special distribution as a result of the new financing obtained on our pumped storage facility. The repayment of amounts due to related parties totalled $14 million in 2007 (2006 - $73 million). We incurred $11 million (2006 - $6 million) in deferred financing fees in 2007 related to new debt issuances.

Investing Activities – During 2007, we used $69 million (2006 - $344 million) to expand our operations through the acquisition of power generating assets and businesses. In addition, and consistent with our 20 year sustaining capital investment plan, we also invested $115 million in several capital projects during the year (2006 - $83 million) to preserve and enhance the reliability of our operations. We also spent $25 million on development projects during 2007 (2006 - $23 million). 2006 capital expenditures also included $276 million in construction costs related to the wind farm. We increased our investment in Brascan Brazil Ltd. by $189 million (2006 - $24 million) as we look to Brazil as a significant source of future growth. Finally, we invested $108 million in interest-earning advances to related parties as opposed to the drawing down of $115 million in 2006 in order to help fund acquisitions.

CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual obligations as of December 31, 2007:

$US Millions	2008	2009	2010	2011	2012	Thereafter	Total
Long-term debt							
Property specific borrowings	$ 36	$ 108	$ 122	$ 42	$ 584	$ 1,870	$ 2,762
Finance debt obligation	19	29	38	42	47	621	796
Corporate and other debt	-	451	-	-	-	406	857
Capital securities	-	-	-	-	-	1,103	1,103
Capital projects [1]	23	-	-	-	-	-	23
Interest Expense [2]							
Property specific borrowings	167	160	157	154	147	1,188	1,973
Finance debt obligation	82	80	77	73	69	614	995
Corporate and other debt	40	40	19	19	19	274	411
Capital Securities	125	125	125	125	125	5,263	5,888
Total	$ 492	$ 993	$ 538	$ 455	$ 991	$ 11,339	$ 14,808

(1) In the normal course of operations, the Company has committed as at December 31, 2007 to spend approximately $23 million on capital projects in the next year (2006 - $26 million).

(2) Represents aggregate interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates.

GUARANTEES

In the normal course of operations, we execute agreements that provide for indemnification and guarantees to third parties in transactions such as energy trading and marketing, business dispositions, business acquisitions, construction projects, capital project purchases, and sales and purchases of assets and services. We have also agreed to indemnify our directors and certain of our officers and employees. The nature of substantially all of the indemnification undertakings prevents us from making a reasonable estimate of the maximum potential amount that we could be required to pay third parties, as many of 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, we have made no significant payments under such indemnification agreements. We provide guarantees as described in note 28 of the 2007 annual consolidated financial statements. There have been no material changes for the year ended December 31, 2007 to the disclosures related to the guarantees.

RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company enters into agreements and transactions with Brookfield and some of its affiliates. The Company also holds short and long-term investments in Brookfield and its subsidiaries that generate interest income. See note 6 of the consolidated financial statements for more detail on our related party transactions.

$US Millions	**2007**	2006
Revenues		
Sale of power	**$ 30**	$ 34
Investment and other income		
Interest earned on demand deposits, promissory notes, and securities with affiliated companies	**$ 18**	$ 17
Expenses		
Interest expense on capital securities	**$ 125**	$ 125
Interest expense on note payable and letters of credit	**$ 12**	$ 12
Insurance services from Riskcorp Inc.	**$ 15**	$ 14

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in note 2 (Significant Accounting Policies) and note 3 (Changes in Accounting Policies) of the 2007 consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates include determination of accruals, levelized accounting, mark-to-market of derivatives, purchase price allocations, useful lives, asset impairment testing, future income tax liabilities and those relevant to the defined benefit pension and non-pension benefit plans. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

On January 1, 2007, we adopted the following sections for Canadian generally accepted accounting principal purposes:

Handbook Section 1530, Comprehensive Income - This section establishes standards for reporting and presenting comprehensive income (loss), 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, we now present consolidated statements of comprehensive income and accumulated other comprehensive loss ("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 - We 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 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 (loss) 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 other comprehensive income (loss). 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.

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 in net (loss) income.

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
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.

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. Section 1535 requires disclosures of our objectives, policies and processes for managing capital, the quantitative data about what we regard as capital, whether we have complied with any capital requirements and, if not, the consequences of such non-compliance. Sections 3862 and 3863 replace Section 3861 and revise and enhance the current disclosure and presentation standards. They place an increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how we manage those risks.

These new standards will be effective for us on January 1, 2008 and we are currently evaluating the impact of the adoption of these new standards on the consolidated financial statements.

OUTLOOK

We continue to have a positive outlook about the future prospects for our business in the long-term. While energy prices have stabilized in many of our markets in recent years, capacity markets that have been established in New York, New England and PJM and increasing value from the ancillary capabilities of our assets have allowed us to capture additional value. We also believe that over time, the “green” attributes of our renewable portfolio will become increasingly valuable as large load serving entities and governments address issues surrounding maintaining power supplies in a carbon-constrained world.

In the near term, we have seen a return to normal and in some cases, above average hydrology conditions across our portfolio in the first month of 2008. While we cannot predict hydrology on a short-term basis, we are encouraged by the increases in precipitation after the dry run through the late summer and fall of 2007. From a pricing perspective, the table below indicates that for 2008, approximately 78% of our long-term average volume has been sold forward at a weighted average price of $71 per MWh either through long-term contracts or with shorter term financial contracts. We will continue to seek opportunities to stabilize cash flows by extending the average size and duration of our annual output sold under long-term contracts.

For the portion of our generation that is uncontracted, we will continue to use the flexibility of our reservoirs and our low cost position to capture value.

The following table sets forth our contract profile over the next five years, assuming long-term average generation:

Years ended December 31	2008	2009	2010	2011	2012
Generation (GWh)					
Contracted:					
Hydroelectric generation	5,177	4,125	4,094	3,627	3,564
Wind generation	536	536	536	536	536
Other	850	407	406	412	404
Power sales agreements	**6,563**	**5,068**	**5,036**	**4,575**	**4,504**
Financial contracts	3,169	3,376	287	-	-
Uncontracted	2,732	3,364	6,467	7,221	7,284
	12,464	**11,808**	**11,790**	**11,796**	**11,788**
Contracted revenues					
% of total	78	72	45	39	38
Revenue ($US millions)	$ 688	$ 622	$ 411	$ 376	$ 377
Price ($/MWh)	$ 71	$ 74	$ 77	$ 82	$ 84

We currently manage all Brazilian hydroelectric operations currently owned by Brookfield. With the acquisition of Itiquira, we are making our first entry into the Brazilian energy market through direct ownership. As a logical progression, it is anticipated that, at some point during 2008 and pending all necessary regulatory and other approvals, we will acquire the hydroelectric generating assets currently held by Brookfield to add to our portfolio, further diversifying our geographic base. These moves will also allow us to gain entry into markets outside of North America.

As previously mentioned, we will be transferring our transmission assets into a new publicly traded entity in 2008. This transaction is in-line with our long-term strategy of focusing on our core operations, which consist of producing energy from renewable sources.

We intend to amalgamate with Brookfield Power Corporation, a wholly-owned subsidiary, by the end of the first quarter of 2008.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements concerning the Company's business and operations. Forward looking statements can be identified by the use of words, such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements involve assumptions and known and unknown risks, uncertainties and other factors which may cause the actual results or performance to be materially different from any future results or performance expressed or implied by the forward statements.

Examples of such statements include, but are not limited to, factors relating to production and the business, financial position, operations and prospects for the Company. They include (1) the level of generation; (2) energy prices; (3) the cost of production; (4) interest rates as they bear on indebtedness; (5) planned capital expenditures; (6) the impact of changes in the exchange rate on costs and results of operations; (7) the negotiation of collective agreements with unionized employees; (8) business and economic conditions; (9) the legislation governing air emissions, discharges into water, waste, hazardous materials and workers' health and safety as well as the impact of future legislation and regulations on taxation, expenses, capital expenditures and restrictions on operations; and (10) regulatory investigations, claims, lawsuits and other proceedings. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied in the forward-looking statements contained herein and as such, you are cautioned not to place undue reliance on these forward-looking statements.

These forward-looking statements represent our views as of the date of this MD&A. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to February 29, 2008, the date of this MD&A.

/s/ Donald Tremblay

Donald Tremblay
Executive Vice President and Chief Financial Officer