BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008

Brookfield Renewable Power Inc. (formerly Brookfield Power Inc. and Brookfield Power Corporation through amalgamation) is a subsidiary of Brookfield Asset Management Inc.

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008

MANAGEMENT'S RESPONSIBILITY

To the Shareholder of Brookfield Renewable Power Inc.

The attached consolidated financial statements have been prepared by Brookfield Renewable 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 24, 2009

AUDITORS' REPORT

To the Shareholder of Brookfield Renewable Power Inc.

We have audited the consolidated balance sheets of Brookfield Renewable Power Inc. (the "Company") (formerly Brookfield Power Inc.) as at December 31, 2008 and 2007 and the consolidated statements of income (loss), 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, 2008 and 2007 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 24, 2009

BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED BALANCE SHEETS

As at December 31

$US millions	notes	**2008**	2007
Assets			
Current assets			
Cash and cash equivalents	10	**$ 144**	$ 61
Accounts receivable and other	9, 11	**240**	259
Derivative assets	7	**62**	31
Due from related party	5, 9	**346**	108
Short-term investments	9, 12	**146**	176
		938	635
Due from related party	5, 9	**1,564**	751
Long-term investments	8, 13	**-**	350
Power generating assets	9, 14	**4,498**	4,053
Other assets	7, 15	**1,033**	1,102
		$ 8,033	$ 6,891
Liabilities			
Current liabilities			
Accounts payable and other	17	**$ 242**	$ 192
Derivative liabilities	7	**11**	52
Credit facilities	18	**101**	12
Current portion of property specific borrowings and other long-term debt	19, 20	**697**	55
		1,051	311
Due to related party	5, 9	**1,329**	101
Property specific borrowings	9, 19	**2,424**	2,691
Other long-term debt	20	**1,179**	1,630
Future income tax liability	21	**201**	134
Debt portion of capital securities	5, 22	**-**	1,103
Other long-term liabilities	7, 23	**237**	355
		6,421	6,325
Non-controlling interests	25	**239**	217
Shareholder's equity	26	**1,373**	349
		$ 8,033	$ 6,891

See accompanying notes to the consolidated financial statements.

Approved on behalf of Brookfield Renewable Power Inc.:

/s/ Richard Legault

Richard Legault
President and
Chief Executive Officer

/s/ Donald Tremblay

Donald Tremblay
Executive Vice-President and
Chief Financial Officer

BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years ended December 31

$US millions	notes	**2008**	2007
Revenues	9	**$ 1,184**	$ 904
Operating expenses (excluding depreciation and amortization)			
Operations, maintenance and administration		**226**	187
Fuel and power purchases		**78**	83
Property, capital and other generation taxes		**73**	60
		807	574
Investment and other income	2, 9	**20**	25
Unrealized derivative gain (loss)	7	**96**	(79)
		923	520
Expenses			
Interest and financing fees	9, 27	**316**	286
Interest on capital securities	9, 22	**31**	125
Depreciation and amortization		**169**	152
Non-controlling interests		**77**	(3)
Provision for (recovery of) income taxes	21	**53**	(21)
		646	539
Net income (loss)		$ **277**	$ (19)

See accompanying notes to the consolidated financial statements.

BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED STATEMENTS OF DEFICIT

Years ended December 31

$US millions	notes	**2008**	2007
Deficit, beginning of year, as previously reported		**$ (261)**	$ (162)
Transitional adjustment for financial instruments		**-**	(27)
Impact of amalgamation	5	**(441)**	-
Adjustment due to acquisition from related party	8	**(55)**	-
Net income (loss)		**277**	(19)
Distributions to holders of common shares and capital securities	26	**(56)**	(53)
Deficit, end of year		**$ (536)**	$ (261)

See accompanying notes to the consolidated financial statements.

BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31

$US millions	note		**2008**		2007
Net income (loss)		**$**	**277**	$	(19)
Available-for-sale financial assets					
Unrealized losses on available-for-sale financial assets, net of income taxes of $1 (2007 - $nil)			**(5)**		(1)
			(5)		(1)
Foreign currency translation					
Unrealized foreign currency translation (losses) gains of self-sustaining foreign operations			**(186)**		104
Net unrealized gains (losses) on hedges of investments in self-sustaining foreign operations			**84**		(71)
			(102)		33
Derivatives designated as cash flow hedges					
Unrealized net gains on derivatives designated as cash flow hedges, net of income taxes of ($11) (2007 – ($7))	7		**25**		26
Recognition in income of losses on derivatives designated as cash flow hedges, net of income taxes of $1 (2007 – $6)			**-**		(24)
			25		2
Other comprehensive (loss) income			**(82)**		34
Comprehensive income		**$**	**195**	$	15

See accompanying notes to the consolidated financial statements.

BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

Years ended December 31

$US millions		**2008**		2007
Accumulated other comprehensive loss, beginning of year	**$**	**(22)**	$	(55)
Transitional adjustment for financial instruments		**-**		(1)
Other comprehensive (loss) income		**(82)**		34
Accumulated other comprehensive loss, end of year	**$**	**(104)**	$	(22)

See accompanying notes to the consolidated financial statements.

BROOKFIELD RENEWABLE POWER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 *$US millions*	notes		**2008**		2007
Operating activities					
Net income (loss)		**$**	**277**	**$**	(19)
Add (deduct) non-cash items:					
Depreciation and amortization			**169**		152
Unrealized derivative (gain) loss	7		**(96)**		79
Non-controlling interests			**77**		(3)
Future income tax expense (recovery)	21		**40**		(23)
Other			**38**		21
			505		207
Net change in non-cash working capital	28		**55**		(57)
			560		150
Financing activities and shareholder distributions					
Borrowings			**338**		870
Debt repayments			**(165)**		(342)
Due to/from related party			**(13)**		(14)
Financing fees			**(5)**		(11)
Issuance of common shares	6, 26		**200**		-
Distributions:					
- To non-controlling interests			**(59)**		(101)
- To common shareholders and holders of capital securities	26		**(56)**		(53)
Contribution from non-controlling interest			**8**		-
			248		349
Investing activities					
Additions to long-term investments	8		**(15)**		(189)
Additions to power generating assets			**(148)**		(140)
Acquisitions of power generating assets	8		**(48)**		-
Acquisition of business	8		**(217)**		(69)
Disposition of business to related party	9		**92**		-
Due to/from related party			**(347)**		(108)
Other assets			**(34)**		(18)
			(717)		(524)
Effect of foreign exchange rate changes on cash and cash equivalents			**(8)**		5
Cash and cash equivalents					
Increase			**83**		(20)
Balance, beginning of year			**61**		81
Balance, end of year	10	**$**	**144**	$	61
Supplementary information					
Interest paid		**$**	**331**	$	395
Taxes paid		**$**	**13**	$	14

See accompanying notes to the consolidated financial statements.

Brookfield Renewable Power Inc.
Notes to Consolidated Financial Statements
December 31, 2008

1. NATURE AND DESCRIPTION OF THE COMPANY

Brookfield Renewable Power Inc. ("BRPI" or the "Company"), formed upon the amalgamation of Brookfield Power Inc. ("BPI") and Brookfield Power Corporation ("BPC"), is incorporated under the laws of Ontario and develops and operates hydroelectric, wind and other power generating facilities in Canada, the United States and Brazil as well as an electricity distribution system in Northern Ontario. The Company is wholly owned by Brookfield Asset Management Inc. ("Brookfield").

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 ("US") dollars, unless otherwise noted.

The Company's significant accounting policies are summarized below:

Principles of consolidation

The consolidated financial statements include:

A. the accounts of all subsidiaries and other controlled entities of BRPI 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"), Brookfield Power Wind Corporation, Itiquira Energética S.A. ("Itiquira") and Brascan Energética S.A. ("BESA");
B. the accounts of all holding companies;
C. 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
D. as a result of the adoption of Accounting Guideline 15, *Consolidation of Variable Interest Entities*, 100% of Catalyst Old River Hydroelectric Limited Partnership ("CORHLP"); effective March 23, 2007, Bear Swamp; 100% of Galera Centrais Elétricas S.A.; and, as part of the Fund, 100% of Powell River Energy Inc. ("PREI"), and Powell River Energy Limited Partnership.

All intercompany balances and transactions have been eliminated upon consolidation. Comparative information represents consolidated BPI financial position and results of operations.

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 financial instruments including derivatives, useful lives, asset impairment, purchase price allocations, valuation of goodwill, 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, within other assets. 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 earned with the passage of time and is recorded on an 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 the respective underlying debts. Financing costs directly attributable to the issuance of property specific borrowings and other long-term debt are capitalized, netted against the respective debts, and are amortized using the effective interest method.

Income taxes

The Company uses the asset and liability method to account for the effect of 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 to these instruments are included in net income (loss), unless the instruments are designated as part of a cash flow hedge relationship, in which case they are reported in other comprehensive (loss) income ("OCI"). When a hedging relationship is terminated, amounts previously recognized in accumulated other comprehensive loss ("AOCL") are reclassified to net income (loss) in the period in which the net income (loss) 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 income (loss).

Deferred gains and losses on derivatives relate to the fair value of the long-term derivative contracts at inception, 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.

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.

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 amounts based on fixed interest rates 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.

Foreign exchange and hedges of net investments in foreign operations

The accounts of self-sustaining Canadian and Brazilian 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. The investment is presented at cost where market information is not readily determinable.

Power generating assets

Power generating assets are recorded at cost. The cost of the power generating assets less estimated residual value is depreciated over the remaining service lives of the assets as follows:

	Method	Rate
Dams	Straight-line	40 to 60 years
Combined cycle natural gas-fired generating 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
Dams, hydroelectric generating stations, land and buildings subject to concession arrangements	Straight-line	7 to 25 years
Water rights	Declining balance	2.5% per year

The depreciation of power generating assets held in Brazil is based on the concession term, also known as authorization term. The objective is that at the end of the concession term the assets will have a zero carrying value. The average concession term at the end of 2008 is 20 years (2007 – 20 years). Since land cost is part of the authorization, this cost is also subject to depreciation.

Power purchase agreements and licenses

Power purchase agreements ("PPA") acquired through business combinations 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 up to 46 years, or over the period for which the power purchase agreement prices are above or below 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.

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 carrying value. The projections of 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.

Asset retirement obligations

Obligations associated with the retirement of tangible long-lived assets are recorded when those obligations are incurred. The Company records the liability equal to the estimated fair value of the obligation for asset retirement, and records a corresponding increase to the carrying amount of the related long-lived asset. The asset is depreciated over the useful life of the related assets, and the liability is accreted over the period of expected cash flows with a corresponding charge to operating expenses. The fair value of the obligation for asset retirement is re-assessed annually.

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 straight-line basis over the average remaining service period of active members expected to receive 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, 2008 varies from 10 to 21 years for the pension plans and from 10 to 17 years under the other post-employment benefit plans. For the defined contribution plan, the Company expenses payments based on employee earnings.

Capital securities

Capital securities that were convertible into a fixed number of common shares at the Company's option and interest payments on the capital securities that could be paid by way of a variable number of common shares at the Company's option were bifurcated between liabilities and equity. Refer to note 5 for additional details.

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 options issued under the Company's plan are exercisable into 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 gain related to the translation of foreign currency included in investment and other income for 2008 was $11 million (2007 – $1 million loss).

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the Company adopted the following accounting policies in accordance with Canadian GAAP:

Handbook Section 1535, Capital Disclosures

This section requires disclosure of the Company's objectives, policies and processes for managing capital, the quantitative data about what is regarded as capital, whether all capital requirements have been complied with and, if not, the consequences of such non-compliance.

Handbook Sections 3862 and 3863, Financial Instruments – Disclosures and Presentation

These sections replace Section 3861 and place an increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks.

The new standards have resulted in increased disclosure in the consolidated financial statements (see notes 6 and 7) but have had no impact on the accounting policies or accounting treatments disclosed in note 2.

4. FUTURE ACCOUNTING POLICY CHANGES

Handbook Section 3064, Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, replacing Handbook Sections 3062, *Goodwill and Other Intangible Assets* and 3450, *Research and Development Costs*. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangibles by profit-oriented enterprises. The new section will be applicable to the Company's financial statements beginning January 1, 2009. The Company has determined that this pronouncement will have no significant impact on its financial statements.

Business Combinations – Handbook Section 1582

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. The Section establishes standards for the accounting for a business combination. It provides the Canadian equivalent to the IFRS standard, IFRS 3 (Revised), *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier application is permitted. As this section is consistent with IFRS, it will be applied in accordance with our IFRS conversion framework.

Consolidated Financial Statements – Handbook Section 1601 and Non-Controlling Interests – Handbook Section 1602

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-Controlling Interests*, which together replace Section 1600, *Consolidated Financial Statements*. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), *Consolidated and Separate Financial Statements*. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. As these sections are consistent with IFRS, they will be applied in accordance with our IFRS conversion framework.

Adoption of International Financial Reporting Standards ("IFRS")

The AcSB confirmed in February 2008 that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Canadian Securities Administrators ("CSA") in Staff Notice 52-321 – Early Adoption of International Financial Reporting Standards, Use of US GAAP and Reference to IFRS-IASB indicated that it would be prepared to provide exemptive relief to a Canadian reporting issuer permitting it to prepare its financial statements in accordance with IFRS for financial periods beginning before January 1, 2011. The Company applied to the CSA for exemptive relief to prepare its financial statements in accordance with IFRS for periods earlier than January 1, 2011. The application is still under review.

IFRS is premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not change the cash flows generated by the Company, it will result in changes to the reported financial position and results of operations of the Company, the effects of which will be material.

5. AMALGAMATION

On March 31, 2008, BPI and its former wholly owned subsidiary, BPC, amalgamated into one entity and changed its name to Brookfield Renewable Power Inc. All assets and liabilities of BPI and BPC have been assumed by the Company. As part of the amalgamation, the $1,109 million of capital securities owed to Brookfield and $446 million in short-term US$ denominated balances owed to the Company by Brookfield, outstanding as at December 31, 2007, were replaced with a $1,508 million (CDN$1,548 million) promissory note receivable from Brookfield, a $780 million (CDN$800 million) promissory note payable to Brookfield, and $1,391 million in preferred shares.

In addition, the Company issued a $689 million (CDN$708 million) promissory note to Brookfield. The issuance of this promissory note was treated as a return of capital, with the amount applied first against contributed surplus ($248 million) and the excess amount charged to deficit ($441 million).

The $1,508 million (CDN$1,548 million) promissory note receivable bears no interest and is repayable at any time at the Company's option.

The two promissory notes issued by the Company totalling $1,469 million bear no interest and mature on February 28, 2048. The notes are subordinate to the Company's term debentures, medium-term notes and corporate credit facilities. At the Company's option, the notes can be repaid at any time with a variable number of common shares based on the fair value of the common shares at the repayment date.

The 57,077,112 preferred shares that were issued have a par value of $1,391 million, are non-cumulative and non-voting, with dividends payable at the Company's discretion. They can be redeemed at the Company's option at any time for CDN$25 per share and have preference over common shares upon liquidation.

Upon amalgamation, the 108,339,336 common shares issued and outstanding to Brookfield were exchanged for 2,488,278 common shares of the amalgamated company.

The impact of the amalgamation on the Company's accounts of this non-cash transaction as at March 31, 2008 is summarized in the table below:

$US millions	**Net financial impact**
	Dr/(Cr)
Due from related party – short-term	$ (446)
Promissory note receivable [1]	1,508
Promissory notes payable [2]	(1,469)
Capital securities – debt portion	1,103
Capital securities – equity portion	6
Preferred shares	(1,391)
Contributed surplus	248
Deficit	441

[1] Included in Due from related party – long-term on the balance sheet
[2] Included in Due to related party – long-term on the balance sheet

6. CAPITAL MANAGEMENT

The Company's primary capital management objective is to ensure the sustainability of its capital to support continuing operations, meet its financial obligations, allow for growth opportunities and provide stable dividends to its common shareholder. The Company manages its capital to maintain an investment grade credit rating while providing its shareholder with a prudent use of leverage to enhance returns and ensure access to incremental borrowings needed to fund new growth initiatives.

The Company manages its capital structure in accordance with changes in economic conditions. Generally, acquisitions and developments are funded with external borrowings and equity. In order to adjust the capital structure, the Company may elect to adjust the dividend amount paid to its common and preferred shareholder, increase or reduce the equity participation in new and existing operations, adjust the level of capital spending or issue new preferred or common shares.

The Company manages its capital in order to maintain a debt to capitalization ratio below 75%. As at December 31, 2008, the ratio was 61% (December 31, 2007 – 72%). The table below presents the detail of the Company's capitalization and the calculation of the ratio:

$US millions	**December 31, 2008**	December 31, 2007
Debt		
Credit facilities	**$ 101**	$ 12
Property specific borrowings	**2,722**	2,727
Other long-term debt	**1,578**	1,649
	4,401	4,388
Shareholder's equity	**1,373**	349
Capital securities and promissory notes payable to Brookfield	**1,235**	1,103
Non-controlling interest	**239**	217
Total capitalization	**$ 7,248**	$ 6,057
Debt to capitalization	**61%**	72%

The change in the debt to capitalization ratio during the year ended December 31, 2008 is the result of changes in the Company's capital structure due to the amalgamation described in note 5. In addition, Brookfield contributed $200 million to the Company's equity in January 2008 through the purchase of common shares. There were no changes in the Company's approach to capital management during the year.

The Company has provided covenants to certain of its lenders for its corporate debentures and corporate credit facility. The covenants require the Company to meet minimum debt to capitalization ratios. Subsidiaries of the Company have provided covenants to certain of their lenders for their property specific borrowings. These covenants vary from one agreement to another and include ratios that address debt service coverage. Certain lenders have also put in place requirements that oblige the Company and its subsidiaries to maintain debt and capital expenditure reserve accounts. The consequences to the subsidiaries as a result of failure to comply with their covenants could include a limitation of distributions from the subsidiaries to the Company as well as repayment of outstanding debt. The Company was in compliance with all covenants as at December 31, 2008.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company classifies its financial assets and liabilities as outlined below:

Cash and cash equivalents are designated as financial assets held for trading and are measured at fair value with any changes in fair value recorded in net income (loss) 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. Where the quoted market price in an active market is not readily determinable, the investment is presented at cost.

Accounts receivable and other, as well as due from related party, are classified as loans and receivables, accounts payable and other, 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, and each are measured at

fair value at inception and, except for certain related party transactions, are subsequently measured at amortized cost using the effective interest method.

The carrying value approximates fair value for the Company's financial assets and liabilities, with the exception of certain short and long-term investments which are held at cost, as well as property specific borrowings and other long-term debt (excluding the finance debt obligation), whose fair values at December 31, 2008 were $2,662 million and $759 million, respectively (December 31, 2007 - $2,854 million and $848 million, respectively).

Fair value is calculated based on current market prices for debt with similar terms and risks.

The Company has exposure to the following risks from its use of financial instruments: market risk, credit risk and liquidity risk. The Company's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing and anticipated risks, and commitments or obligations based on its past experience.

Market Risk

Market risk, the risk that the fair value of future cash flows of financial assets or liabilities will fluctuate due to movements in market prices, is comprised of the following:

Commodity Prices

Commodity price risk is managed through PPAs and energy contracts. Approximately 50% of the Company's generation is sold pursuant to PPAs with an average remaining duration of 12 years. The Company's generation not sold under PPAs is delivered to wholesale power markets at the prevailing market price. The Company enters into energy derivative contracts to manage the price risk associated with these transactions. The use of such contracts is governed by an established risk management policy that, among other things, sets specific transaction limits. 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 cash flows of the hedged items. In addition to financial contracts, the Company's commodity derivatives also include a long-term PPA with the Long Island Power Authority ("LIPA"), which was determined to be a non-financial derivative.

Commodity derivative assets and liabilities are recorded at their fair values based on the fair value method of accounting, using quoted market prices or, in their absence, a valuation model using third-party evidence and forecasts. At December 31, 2008 and December 31, 2007, the current and long-term portions of the fair value of the Company's commodity derivative assets and liabilities and the fair value methodologies used to calculate those values were as follows:

$US millions	**December 31, 2008**	December 31, 2007
Short-term derivative assets	**$ 62**	$ 31
Long-term derivative assets	**88**	167
Short-term derivative liabilities	**(11)**	(52)
Long-term derivative liabilities	**(48)**	(253)
	$ 91	$ (107)
Fair value methodology		
Net position determined using actively quoted prices	**$ (6)**	$ (10)
Net position determined using observable data or market corroboration	**8**	10
Net position determined using extrapolated data	**89**	(107)
	$ 91	$ (107)

The net position determined using actively quoted prices relates to the Company's gas contracts traded on the New York Mercantile Exchange ("NYMEX") and is based on prices listed on that exchange. The net position of the Company's participation in gas contracts traded in other markets is determined using observable data or market corroboration which mainly consists of broker quotes. The net position of the Company's LIPA contract, as well as the net position of its electricity contracts, are determined using extrapolated data. The current methodology for determining the net position of the Company's LIPA contract uses observable data up to 2012 where the market is sufficiently liquid. Beyond that point, where there is insufficient liquidity in the electricity market to continue to use observable data, the remaining term of the contract is valued using management's best estimate of long-term market gas prices and heat rate to convert natural gas into electricity. As at December 31, 2008, a change of $1/MMBtu in

natural gas prices and a change of 1.0 in MMBtu/MWh in heat rate beyond 2012, with all other variables remaining constant, would have decreased or increased the LIPA contract's net position by $25 million and $22 million, respectively.

The change in the fair values of the Company's commodity derivatives are a result of the current fluctuating price environment for power and fossil fuels.

For the year ended December 31, 2008, the realized component of the Company's commodity derivatives included in revenues was a $20 million gain (2007 - $4 million gain).

For the year ended December 31, 2008, the Company's unrealized commodity derivative gain was $96 million. The gain is comprised of the following components:

$US millions		**2008**		2007
Gain (loss) related to the LIPA contract	**$**	**62**	$	(62)
Gain (loss) on commodity derivatives not qualifying for hedge accounting		**35**		(4)
Gain (loss) related to the long-term PPA with an industrial company owned by Brookfield		**1**		(16)
(Loss) gain related to hedge ineffectiveness on derivatives qualifying for hedge accounting		**(2)**		3
	$	**96**	$	(79)

The unrealized gain included in OCI for 2008 related to the Company's commodity derivatives, net of the reclass to net income (loss) of gains or losses on derivatives that settled during the year, was $47 million, net of income taxes (2007 – $4 million gain).

As at December 31, 2008, a $7/MWh increase or decrease in the market price of electricity on the financial instruments recorded in the consolidated financial statements, with all other variables remaining constant, would have decreased or increased net income (loss) by $14 million and decreased or increased OCI by $28 million. A $7/MWh change has been used as a sensitivity analysis measure as it is estimated to correspond to a change of $1/MMBtu in natural gas prices in markets where electricity prices are set by the price of natural gas.

Interest Rates

Fluctuations in interest rates could impact the Company's cash flows, primarily with respect to the interest payable against the Company's variable rate debt, which is limited to certain property specific borrowings and long-term debt with a total principal value of $1,031 million. As such, the Company and its subsidiaries will, from time to time, enter into agreements designed to minimize the exposure to interest rate fluctuations on these debts. As at December 31, 2008, contracts with a total notional value of $429 million were outstanding resulting in recognition of a fair value liability of $33 million (December 31, 2007 - $1 million). The fair values of the recognized liability were calculated using a valuation model with observable interest rates. As a result of interest rate swap agreements, the Company has $598 million of debt subject to interest rate variability, of which $473 million is related to Brazilian debt facilities and $125 million is related to debt facilities in the United States. For the year ended December 31, 2008, the loss included in OCI related to interest rate swaps was $22 million, net of income taxes (2007 - $2 million loss, net of income taxes). Also included in the $22 million loss included in OCI is a $1 million gain on interest rate swaps settled during the period, net of income taxes (2007 - $nil), that was reclassified to net income (loss) from OCI.

For the year ended December 31, 2008, a 100 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $6 million decrease or increase in the Company's net income (loss). Of the $6 million decrease or increase, $5 million would be attributable to debt issued in Brazil bearing variable interest rates. For the year ended December 31, 2008, a 100 basis point increase or decrease in interest rates, assuming that all other variables remained the same, would have resulted in a $14 million gain or loss in the Company's OCI due to changes in the fair value of the Company's interest rate swap agreements.

Foreign Exchange

The Company, as a U.S. dollar functional currency entity, is exposed to foreign exchange risk on the translation of the accounts of its Canadian and Brazilian self-sustaining operations. In order to mitigate this risk, the Company designates certain monetary liabilities as hedges against its investment in self-sustaining Canadian operations. In

addition, the Company monitors the risk associated with foreign exchange rate fluctuations and, from time to time, may enter into forward foreign exchange contracts or employ other hedging strategies. Derivatives that are not designated as part of an eligible hedge relationship are carried at fair value with changes in fair value recorded in net income (loss) in the period in which they occur.

The Company is also exposed to foreign exchange risk arising on the translation of foreign monetary assets and liabilities recorded in its integrated operations. Gains and losses arising on the translation of these operations are included in investment and other income.

For the year ended December 31, 2008, a 10% increase or decrease in the Canadian dollar against the U.S. dollar on the Company's Canadian dollar denominated financial assets and liabilities, assuming that all other variables had remained the same, would have resulted in a $58 million and a $108 million increase or decrease in net income (loss) and OCI, respectively. The impact of this potential fluctuation is mitigated in part by the Company's hedges of its investment in self-sustaining foreign operations. In addition, a 10% increase or decrease in the Brazilian real against the U.S. dollar on the Company's Brazilian real denominated financial assets and liabilities would have resulted in an increase or decrease in OCI of approximately $25 million and an increase or decrease of $nil in net income (loss).

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in the Company incurring a financial loss. The Company's cash flows could be negatively impacted in the event of non-performance by counterparties to its financial and physical electricity and gas contracts. The Company minimizes credit risk with counterparties to financial instruments and physical electricity and gas transactions through the selection, monitoring and diversification of counterparties, and the use of standard trading contracts, collateral and other credit risk mitigation techniques. In addition, the Company's PPAs are reviewed regularly and are almost exclusively with customers having long standing credit histories or investment grade ratings, which limit the risk of non-collection.

As at December 31, 2008, 99% of the Company's trade accounts receivable of $150 million (December 31, 2007 - $173 million) were current and included a total allowance for doubtful accounts of $3 million (December 31, 2007 - $3 million), which represented 2% of total trade accounts receivable, and was entirely related to two specific, non-recurring transactions. The quality of the Company's counterparties and the high level of current accounts receivable mitigate the Company's exposure to credit risk.

In order to engage in energy trading activities, the Company uses collateral deposits and treasury bills as requested by counterparties, the amount of which varies based on the valuation of transactions that are outstanding, as well as the Company's credit rating. As at December 31, 2008, the Company had total outstanding collateral deposits and liabilities of $2 million and $34 million, respectively (December 31, 2007 - $14 million and $nil, respectively). Their fair value is equal to their carrying value due to the fact that these deposits are cash or cash equivalent in nature.

Liquidity Risk

Liquidity risk is the risk the Company cannot meet a demand for cash or fund an obligation when due. Liquidity risk is mitigated by the Company's cash and cash equivalent balances, its access to significant un-drawn credit facilities and through the use and management of short-term investments and amounts due from related party. Accounts payable and other and interest expense are paid with cash flows from operations. The Company believes that its current resources are adequate to meet its requirements for working capital.

The Company is subject to risk associated with debt financing, including the ability to refinance its debt at maturity. This risk is mitigated by the long-term duration of the Company's debt secured by high quality assets. Although the Company remains relatively unaffected by the current global financial market crisis, the Company remains prudent and is already preparing for the refinancing of the Powell River facility property specific debt, which matures in July 2009, the Itiquira term loan and credit facility, and the corporate debentures, all of which mature in December 2009. On February 4, 2009, the Company repaid CDN$105 million of the corporate debentures. Refer to notes 19, 20, and 31 for additional details. Although the Company believes that refinancing these debts will be relatively straightforward given the quality of its assets and their related cash flows, the process will take longer than usual as a result of current market conditions.

The cash obligations related to the Company's financial liabilities as at December 31, 2008 were:

$US millions	Less than 1 year	2-5 years	More than 5 years	Total
Accounts payable and other	$ 226	$ -	$ -	$ 226
Derivative liabilities [(1)]	5	4	-	9
Credit facilities [(2)]	101	-	-	101
Long-term debt				
Property specific borrowings	298	801	1,659	2,758
Finance debt obligation	30	176	571	777
Corporate and other debt	369	43	393	805
Promissory notes	-	-	1,235	1,235
Interest expense [(3)]				
Property specific borrowings	167	531	902	1,600
Finance debt obligation	80	283	550	913
Corporate and other debt	37	79	227	343
Total	$ 1,313	$ 1,917	$ 5,537	$ 8,767

[(1)] Derivative liabilities exclude amounts related to the PPAs with LIPA and the affiliate of Brookfield due to the fact that these have been determined to be non-financial derivatives.

[(2)] The $100 million drawn on the BRPI credit facility was repaid in January 2009.

[(3)] Represents aggregate interest expense expected to be paid over the term of the obligations. Variable rate interest payments have been calculated based on rates in effect on December 31, 2008.

8. ACQUISITIONS

All acquisitions that represent business combinations have been accounted for using the purchase method of accounting. The results of the operations of the acquired businesses have been included in these consolidated financial statements from the date of acquisition.

2008 Acquisitions

On March 31, 2008, the Company completed the acquisition of a hydroelectric generating facility in Minnesota for cash consideration of $48 million. This 18 MW run-of-the-river merchant facility is located on the Mississippi River and has the capacity to generate on average approximately 104 GWh of electricity per year.

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

$US millions	
Power generating assets	**$ 46**
Other assets	**2**
Net assets acquired	**$ 48**

During 2008, the Company completed the acquisition of 100% of the common shares and 100% of the Series A, B and C preferred shares of Itiquira Energética S.A. ("Itiquira") in a series of transactions for total cash consideration of $393 million. On April 28, 2008, the Company purchased 99% of the common shares and 100% of the Series C preferred shares from NRG Energy Inc. for a total cash consideration of $302 million (including transaction costs and a working capital adjustment of $14 million). On August 25, 2008, the Company completed the purchase of the remaining 1% of the common shares and 100% of the Series A preferred shares for total cash consideration of $22 million (R$37.6 million), which was allocated primarily to power generating assets. The third transaction closed on October 7, 2008, when the Company purchased 100% of the Series B preferred shares for cash consideration of $69 million (R$153 million), including transaction costs of $2 million. Itiquira owns a 156 MW hydroelectric generating facility located in the state of Mato Grosso in Brazil. This facility has the capacity to generate approximately 940 GWh of electricity per year. All of the electricity produced by the facility is sold under a long-term PPA.

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

$US millions	
Cash	**$ 55**
Accounts receivable and other	**12**
Power generating assets	**436**
Accounts payable	**(7)**
Future income tax liability	**(59)**
Assumed debt	**(44)**
Net assets acquired	**$ 393**

On November 28, 2008, the Company completed the acquisition of 100% of the common shares of Brascan Energética S.A. ("BESA") from Brascan Brazil Ltd. ("BBL"), a subsidiary of Brookfield, for total consideration equal to BESA's Brazilian GAAP carrying value of $490 million. Consideration consisted of BBL preferred shares which were held by BRPI, including preferred shares acquired in 2008 in the amount of $142 million (of which $15 million was paid in cash and $127 million was effected through reduction of an intercompany balance). BESA's financial results have been consolidated with BRPI's financial results since the closing date of the acquisition.

The preliminary purchase price allocation is as follows:

$US millions	
Cash	**$ 52**
Accounts receivable and other	**33**
Power generating assets	**624**
Intangible assets	**19**
Other assets	**8**
Accounts payable	**(18)**
Long-term debt	**(267)**
Non-controlling interest	**(19)**
Contributed surplus and deficit	**58**
Total consideration	**$ 490**

There was a $58 million difference between the carrying value of BESA and the net assets acquired due to a difference in the estimated useful lives used for calculating the value of the power generating assets acquired under Brazilian versus Canadian GAAP. The power generating assets are depreciated more quickly under Canadian GAAP, resulting in a lower carrying value. Consideration paid was determined based on the higher Brazilian GAAP carrying value. This difference was treated as a reduction of contributed surplus in the amount of $3 million and a charge to deficit in the amount of $55 million.

2007 Acquisitions

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 GWh of electricity per year. All generation will be sold under a long-term PPA expiring in 2018, which included 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**

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 GWh of electricity per year. All generation will be sold under a long-term PPA 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**

On October 9, 2007, the Company completed the acquisition of two hydroelectric generating facilities in north-eastern 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 GWh of electricity per year, with all energy sold under two separate long-term PPAs 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**

9. RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions.

A. Pursuant to a PPA expiring in January 2012, the Company provides Katahdin Paper Company ("KPC"), a company related by common ownership, with energy at a fixed rate. At December 31, 2008, the Company had a balance receivable from KPC in the amount of $1 million (2007 - $3 million), which is included in accounts receivable and other on the balance sheet. KPC has a profit-sharing agreement with a subsidiary of the Company. During 2008, $28 million was earned under the profit-sharing agreement, $14 million of which was allocated to the Company's subsidiary.

B. Pursuant to a PPA 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, 2008, $1 million was included in accounts receivable and other related to this PPA (2007 – nominal amount).

C. As at December 31, 2008, the Company had Canadian dollar denominated promissory notes in the amount of $25 million (2007 - $31 million) and demand deposits of $346 million (2007 - $108 million) with Brookfield. The Company earned $1 million of interest income from the demand deposits in 2008 (2007 - $6 million). See note 12 for further details relating to the promissory notes.

D. The Company holds securities and long-term investments of related parties which produce investment income. See notes 12 and 13 for further details.

E. The Company holds a note payable with a wholly owned subsidiary of Brookfield. As at December 31, 2008, the balance payable on the note was $95 million (2007 - $101 million).

F. On August 1, 2005, the Company redeemed all of its preferred shares in a wholly owned subsidiary of Brookfield. 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, 2008, the balance receivable was $559 million (2007 - $751 million). The change in the amount receivable is the result of the change in foreign exchange rates from December 31, 2007 to December 31, 2008 as well as changes in the due from related party balance resulting from the amalgamation of BPI and BPC.

G. The $1,109 million in interest bearing capital securities issued to Brookfield, along with other US dollar denominated balances owing to and owed by Brookfield were exchanged, upon the amalgamation of BPI and BPC, for Canadian dollar denominated promissory notes and preferred shares. See notes 5 and 22 for more 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 2008 for these services was $11 million (2007 - $15 million) and is included in operations, maintenance and administration expenses. For 2008, no amount has been included in revenues for hydrological insurance claims (2007 - $nil).

I. On March 12, 2008, the Company completed the transfer of its electricity transmission operations located in Northern Ontario to Brookfield Infrastructure Partners L.P. ("BIP"), a related party through common ownership, for a total value of CDN$211 million consisting of CDN$88 million in cash for the transmission assets plus the transfer of CDN$120 million in debt and consideration for working capital of CDN$3 million. The transaction was recorded at carrying value and, as a result, the $45 million difference between the exchange amount and the carrying value was treated as a gain on disposition with a related party and recorded as contributed surplus, a component of shareholder's equity.

J. On November 28, 2008, the Company acquired BESA from Brookfield in exchange for its investment in BBL. The transaction was valued at BESA's Brazilian GAAP carrying amount of $490 million. Refer to note 8 for more detail.

K. 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.

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

$US millions	**2008**	2007
Revenues		
Sale of power to KPC	**$ 22**	$ 24
Sale of power to FNH	**6**	6
	$ 28	$ 30
Investment income and other		
Interest earned on demand deposits and promissory notes with Brookfield	**$ 2**	$ 8
Income from securities with affiliated companies	**10**	10
	$ 12	$ 18
Expenses		
Interest on capital securities	**$ 31**	$ 125
Interest expense on note payable to a subsidiary of Brookfield	**9**	10
Insurance services from Riskcorp Inc.	**11**	15
	$ 51	$ 150

10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were comprised of the following:

$US millions	**2008**	2007
Cash	**$ 48**	$ 59
Short-term deposits	**96**	2
	$ 144	$ 61

11. ACCOUNTS RECEIVABLE AND OTHER

The composition of accounts receivable and other was as follows:

$US millions	**2008**	2007
Trade receivables	**$ 150**	$ 173
Cash held in escrow for current liabilities	**36**	28
Prepaids and other	**52**	49
Collateral deposits	**2**	14
	$ 240	$ 264

12. SHORT-TERM INVESTMENTS

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

$US millions	**2008**	2007
Securities		
Real estate	**$ 50**	$ 61
Financial services	**51**	59
Other	**20**	25
Promissory notes	**25**	31
	$ 146	$ 176

The securities portfolio is comprised primarily of Canadian dollar denominated preferred shares. The portfolio consists of 46% floating rate securities (2007 – 47%) and 54% fixed rate securities (2007 – 53%) with an average yield at December 31, 2008 of 6.2% (2007 – 6.3%).

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 2008 amounted to $1 million (2007 - $2 million).

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

13. LONG-TERM INVESTMENTS

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

$US millions	**2008**	2007
Brascan Brazil Ltd.	**$ -**	$ 348
Other investments	**-**	2
	$ -	$ 350

The Company's investment in BBL was exchanged for 100% of the common shares of BESA. Refer to note 8 for more detail.

In 2008, the Company had no income from investments with affiliated companies (2007 – $nil).

14. POWER GENERATING ASSETS

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

As at December 31, 2008

$US millions	**Cost**	**Accumulated depreciation**	**Net book value**
Land	**$ 62**	**$ 2**	**$ 60**
Dams	**1,149**	**134**	**1,015**
Hydroelectric generating stations	**2,680**	**610**	**2,070**
Wind operations	**314**	**34**	**280**
Gas cogenerating stations	**202**	**115**	**87**
Distribution systems	**64**	**26**	**38**
Buildings	**345**	**31**	**314**
Equipment	**502**	**71**	**431**
Water rights	**5**	**-**	**5**
Construction work in progress	**193**	**-**	**193**
Asset retirement obligation	**5**	**-**	**5**
	$ 5,521	**$ 1,023**	**$ 4,498**

As at December 31, 2007

$US millions	Cost	Accumulated depreciation	Net book value
Land	$ 46	$ -	$ 46
Dams	810	73	737
Hydroelectric generating stations	2,890	594	2,296
Wind operations	383	23	360
Gas cogenerating stations	238	121	117
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

Depreciation expense for the year was $152 (2007 - $137).

15. OTHER ASSETS

$US millions	**2008**			2007
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Power purchase agreements	**$ 235**	**$ 51**	**$ 184**	$ 212
Deferred financing fees	**38**	**24**	**14**	14
FERC licences	**51**	**8**	**43**	42
Other depreciable assets	**31**	**3**	**28**	6
	355	**86**	**269**	274
Accrued levelized revenues	**518**	**-**	**518**	547
Cash held in escrow	**75**	**-**	**75**	41
Goodwill	**27**	**-**	**27**	33
Derivative assets (note 7)	**88**	**-**	**88**	167
Other	**56**	**-**	**56**	40
	$ 1,119	**$ 86**	**$ 1,033**	$ 1,102

Amortization of PPAs for the year was $14 million (2007 - $15 million). The remaining change in net book value is attributable to foreign exchange.

In 2008, the Company capitalized financing fees of $2 million in connection with financing activities completed in January 2009 (2007 - $nil). Amortization of deferred financing fees was $1 million during 2008 (2007 – $4 million).

The Company holds licenses for its U.S. operations issued by the FERC. During 2008, there was $2 million added to FERC licences related to an acquisition (2007 - $7 million). Amortization of all licenses during 2008 was $2 million (2007 - $2 million).

The difference between levelized revenues and cash received relating to the PPA in CORHLP is recorded as accrued levelized revenues on the balance sheet. As at December 31, 2008, an amount of $518 million (2007 - $547 million) pertaining to accrued levelized revenues was included in other assets.

Cash held in escrow of $75 million (2007 - $41 million) pertains to undistributed earnings related to CORHLP.

Of the goodwill recorded on the Company's balance sheet at December 31, 2008, $23 million was attributable to assets owned directly by the Company, including $2 million related to a development project, and $4 million was attributable to a facility owned by the Fund.

16. JOINT VENTURES

The following amounts represent the Company's proportionate interest in joint ventures reflected in the Company's accounts. For 2008, these amounts include Pingston, while the 2007 amounts include Pingston and up to March 23, 2007, Bear Swamp, as Bear Swamp has been fully consolidated since March 23, 2007.

$US millions	Ownership interest	Net income		Net assets	
		2008	2007	**2008**	2007
Pingston	50%	**$ 1**	$ 1	**$ 1**	$ 2
Bear Swamp	50%	**-**	4	**-**	-
		$ 1	$ 5	**$ 1**	$ 2

$US millions	**2008**	2007
Current assets	**$ 1**	$ 1
Long-term assets	**29**	36
Current liabilities	**1**	1
Long-term liabilities	**28**	34
Operating revenues	**4**	15
Operating expenses	**3**	10
Net income	**1**	5
Cash flows from operating activities	**2**	4
Cash flows used in financing activities	**(2)**	(2)

17. ACCOUNTS PAYABLE AND OTHER

The composition of accounts payable and other was as follows:

$US millions	**2008**	2007
Trade payables	**$ 151**	$ 156
Interest payable	**41**	39
Collateral liability	**34**	-
Other	**16**	-
	$ 242	$ 195

18. CREDIT FACILITIES

	Available		Drawn		Letters of credit	
$US millions	**2008**	2007	**2008**	2007	**2008**	2007
Credit facilities						
Lièvre Power LP	**$ 20**	$ 25	**$ 1**	$ 11	**$ 3**	$ 3
Powell River Energy Inc.	**4**	5	**-**	1	**1**	1
Brookfield Renewable Power Inc.	**350**	350	**100**	-	**140**	135
	$ 374	$ 380	**$ 101**	$ 12	**$ 144**	$ 139

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 2009. The credit facility is secured by the assets of LPLP and has a variable interest rate that is based on the Canadian Deposit Offering Rate ("CDOR") plus a stamping fee. At December 31, 2008, this fee was 1.25%.

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 2009. 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, 2008, this fee was 1.25%.

BRPI has a $350 million revolving unsecured credit facility available by way of advances in Canadian dollars and US dollars of (i) prime rate loans, (ii) BA loans, and (iii) letters of credit. The facility expires in two tranches; $50 million in April 2010 and $300 million in April 2011. The credit facility bears interest at BA / LIBOR plus an applicable margin. The applicable margin refers to the spread applied to direct borrowings and issuances of letters of credit and is tiered on the basis of the Company's unsecured senior long term debt rating. At December 31, 2008, the margin was 0.75%. Standby fees are charged on the undrawn balance.

The Company and its subsidiaries issue letters of credit under the various credit facilities that are 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 (2007 – $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, 2008 and 2007, the Company had not issued any commercial paper under the program.

19. PROPERTY SPECIFIC BORROWINGS

The following table presents the Company's property specific borrowings by region and segment, including certain of their underlying characteristics.

	As at December 31, 2008			As at December 31	
$US millions	Maturities	Weighted-Average Interest rates	Principal Balance	**2008**	2007
Canada					
Conventional hydroelectric (CDN$1,085)	2009 - 2042	6.79%	$ 889	**$ 881**	$ 1,088
Wind (CDN$291)	2012	5.60%	239	**237**	297
Other (CDN$8)	2009	4.39%	6	**6**	136
		6.53%	**$ 1,134**	**$ 1,124**	$ 1,521
United States					
Conventional hydroelectric	2010 - 2030	5.48%	$ 1,125	**$ 1,105**	$ 1,082
Pumped storage	2012	4.56%	125	**124**	124
		5.39%	**$ 1,250**	**$ 1,229**	$ 1,206
Brazil					
Itiquira term loan	2009	4.28%	$ 120	**$ 117**	$ -
Itiquira credit facility (R$165)	2009	14.10%	70	**68**	-
BNDES[1] debt facilities (R$432)	2012 - 2023	9.71%	180	**180**	-
Galera Centrais Elétricas ($R9)	2012	12.00%	4	**4**	-
		8.81%	**$ 374**	**$ 369**	$ -
Company					
Total property specific borrowings	2009 - 2042	6.32%	$ 2,758	**$ 2,722**	$ 2,727
Less: Current portion				**(298)**	(36)
				$ 2,424	$ 2,691

[1] Brazil National Bank for Economic Development

The Company incurred $5 million of deferred financing fees in 2008 related to its property specific borrowings (2007 - $11 million). In 2008, interest expense includes $4 million (2007 - $2 million) of deferred financing fees amortization related to property specific borrowings.

Details regarding certain significant property specific borrowings, including those coming to maturity in 2009, are detailed below by geographic segment.

Canada Property Specific Borrowings

The principal balances, and associated interest payments, of all Canada property specific borrowings are denominated and repayable in Canadian dollars.

Borrowings secured by the Company's Canadian conventional hydroelectric facilities include the Powell River first mortgage bonds that are repayable in 2009, have a principal balance of $61 million (CDN$75 million) at December 31, 2008, and bear interest at a fixed rate of 6.39%.

The wind property specific borrowing disclosed in the table above is a non-revolving credit facility made available by way of advances in Canadian dollars of (i) prime rate loans, (ii) BA loans and (iii) BA equivalent notes. The credit facility is secured by the wind generating assets of Brookfield Power Wind Prince LP, a wholly-owned subsidiary of the Company and bears interest at a variable rate of CDOR plus 1.10%. The Company subsequently entered into a swap agreement to fix the interest rate on the credit facility at 5.60%.

The other property specific borrowings disclosed in the table above are comprised of first mortgage bonds secured by the property of the Company's Lake Superior Power subsidiary. The Lake Superior Power first mortgage bonds have a principal balance of $6 million (CDN$8 million) at December 31, 2008, are repayable in 2009 and bear interest at a fixed rate of 4.39%. In 2007, other property specific borrowings also included $114 million related to the Company's electricity transmission operations that were transferred to BIP in 2008. Refer to note 9 for additional details regarding the transfer of the Company's electricity transmission operations.

United States Property Specific Borrowings

The Company has non-revolving credit facilities secured by the properties of its Rumford Falls and Bear Swamp subsidiaries. The Rumford Falls credit facility is classified in the conventional hydroelectric segment in the table above while the Bear Swamp credit facility is classified in the pumped storage segment. The credit facilities will mature between 2010 and 2012 and bear interest at variable rates of LIBOR plus 0.75% and 1.13%, respectively. The Company has entered into a swap agreement to fix the interest rate on the $95 million Rumford Falls credit facility at 3.84%.

Brazil Property Specific Borrowings

With the exception of the Itiquira term loan, which is denominated and repayable in US dollars, the principal balances, and associated interest payments, of all other Brazil property specific borrowings are denominated and repayable in Brazilian reais. Brazil property specific borrowings are all classified in the conventional hydroelectric segment for segment disclosure purposes.

The Itiquira term loan is secured by the power generating assets of Itiquira and bears interest at a variable rate of US LIBOR plus 1.10% per annum from closing to December 31, 2008, US LIBOR plus 1.20% per annum from January 2009 to June 2009 and US LIBOR plus 1.30% per annum from July 2009 to maturity in December 2009.

Itiquira also has a credit facility by way of advances. The credit facility is secured by its power generating assets and bears interest at a variable rate of 1.00% plus the Interbank Deposit Certificate ("CDI") from closing to December 30, 2008, 1.10% plus CDI from December 31, 2008 to June 30, 2009 and 1.20% plus CDI from July 1, 2009 to December 23, 2009.

Certain of the Company's Brazilian subsidiaries have debt facilities provided by BNDES and secured by the property of each respective subsidiary. The BNDES debt facilities bear interest at variable rates of TJLP, the long-term interest rate quoted by BNDES, plus margins ranging from 1.93% to 5.50%. Certain of the Company's Brazilian subsidiaries also have non-revolving term loans, provided by BNDES, secured by their respective properties. The term loans bear interest at the Brazilian B.C. ("Basket-of-currency") rate plus margins ranging from 3.00% to 5.50%.

Galera Centrais Elétricas, a subsidiary of the Company through BESA, has a debt facility provided by Brazil's Middle West Financing Fund. The debt facility bears a fixed rate of interest.

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

$US millions	Canada	United States	Brazil	**Total**
2009	$ 89	$ -	$ 209	**$ 298**
2010	20	98	21	**139**
2011	31	4	22	**57**
2012	218	343	19	**580**
2013	10	-	15	**25**
Thereafter	766	805	88	**1,659**
	$ 1,134	$ 1,250	$ 374	**$ 2,758**

20. LONG-TERM DEBT

$US millions	Maturity	Interest rates	Principal Balance	**2008**	2007
CDN Corporate debt					
Series 1 (CDN$450)	2009	4.65%	369	**$ 369**	$ 449
Series 3 (CDN$200)	2018	5.25%	163	**163**	199
Series 4 (CDN$150)	2036	5.84%	122	**122**	149
PREI – Shareholder notes (CDN$22)	2020	10% - 18.00%	18	**18**	22
CORHLP					
Finance debt obligation	2031	10.30%	777	**777**	796
Note payable	2014	5.90%	35	**35**	34
BESA – Corporate credit facility (R$220)	2015	CDI + 3.05%	94	**90**	-
BESA – Research and project financing (R$9)	2011	TJLP + 5.00%	4	**4**	-
			$ 1,582	**$ 1,578**	$ 1,649
Less: Current portion of long-term debt				**(399)**	(19)
				$ 1,179	$ 1,630

The Canadian dollar corporate debentures are unsecured. The Company repaid CDN$105 million of the Series 1 notes on February 4, 2009. Refer to note 31 for additional details.

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

The CDN$22 million PREI shareholder notes consist of a CDN$2 million subordinated promissory note due to a minority shareholder of PREI bearing no interest, and of a CDN$20 million subordinated promissory note bearing interest, payable quarterly, based on PREI's previous year's income before interest, taxes, depreciation and amortization subject to a maximum of 18% and a minimum of 10%. The interest rate charged in 2008 was 14% (2007 – 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, 2008, the net book value of the associated power generating assets and accrued levelized revenues was $313 million and $518 million respectively (2007 - $326 million and $547 million, respectively). The CORHLP note payable is secured by 25% of the Company's partnership interest in CORHLP.

The BESA corporate credit facility in the amount of R$220 million was completed in September 2008 and matures in September 2015. The full R$220 million was drawn in September 2008. Principal repayments of R$31 will be made in March and September of each year until maturity, starting in September 2012. The facility bears interest at a rate of 3.05% plus CDI.

The BESA – Research and Project Financing debt facility is an agreement to provide financial resources for the initial expenses incurred during project development. This long-term debt matures in January 2012, requires monthly principal repayments and bears an interest rate of TJLP + 5.00%.

The Company did not incur any deferred financing fees in 2008 related to its long-term debt (2007 - $nil). In 2008, interest expense includes $4 million (2007 - $1 million) of deferred financing fees amortization related to long-term debt.

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

$US millions	Annual repayments
2009	**$ 399**
2010	**39**
2011	**43**
2012	**59**
2013	**78**
Thereafter	**964**
	$ 1,582

On July 28, 2008, the Company filed a base shelf prospectus with the Ontario Securities Commission for up to $750 million of debt securities. The Company filed an amended and restated Prospectus Supplement and related pricing supplement on February 3, 2009 and issued medium term notes in the amount of CDN$300 million on the same date. Refer to Note 31 for additional details.

21. INCOME TAXES

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

$US millions	**2008**	2007
Net (loss) income before tax	**$ 330**	$ (40)
Statutory income tax rate	**33%**	36%
Statutory income tax rates applied to accounting income	**109**	(14)
Non-taxable dividends	**(17)**	(16)
Non-taxable portion of gains or losses	**1**	(23)
Impact of rate reduction	**(6)**	(22)
Difference in foreign tax rates	**(8)**	(9)
Impact of change in legislation	**-**	12
Exchange translation items	**(6)**	48
Exchange gain eliminated on amalgamation	**(30)**	-
Other	**10**	3
Provision for (recovery of) income taxes	**$ 53**	$ (21)

For the year ended December 31, 2008, the Company's current tax expense was $13 million (2007 – tax expense of $2 million) and future income tax expense was $40 million (2007 – future income tax recovery of $23 million).

The Company's future income tax liability of $201 million (2007 – $134 million) is comprised of the following tax affected temporary differences:

	2008	2007
Non-capital losses	**$ (66)**	$ (81)
Other comprehensive income	**10**	1
Net book value in excess of undepreciated capital cost	**257**	214
	$ 201	$ 134

The Company has $66 million (2007 - $81 million) in tax-effected, unused non-capital losses, which expire as follows.

$US millions	
2020	**$ 6**
2021	**4**
2022	**1**
2023	**1**
2024	**4**
Thereafter	**50**
	$ 66

22. CAPITAL SECURITIES

Capital securities are comprised of the following:

$US millions	**2008**			2007		
	Debt portion	**Equity portion**	**Total**	Debt portion	Equity portion	Total
Capital securities, $909 million	**$ -**	**$ -**	**$ -**	$ 904	$ 5	$ 909
Capital securities, $200 million	**-**	**-**	**-**	199	1	200
Total	**$ -**	**$ -**	**$ -**	$ 1,103	$ 6	$ 1,109

The $1,109 million in interest bearing capital securities issued to Brookfield, along with other US dollar denominated balances owing to and owed from Brookfield were exchanged, upon the amalgamation of BPI and BPC, for Canadian dollar denominated promissory notes and preferred shares. See note 5 for more detail.

The $909 million and $200 million of capital securities that were owned by Brookfield bore an annual interest rate of 11.3%, payable quarterly. All capital securities had the ability to be redeemed in whole or in part at any time by the Company.

For the year ended December 31, 2008, $31 million was recorded as interest on capital securities on the consolidated statement of income (loss) (2007 - $125 million).

23. OTHER LONG-TERM LIABILITIES

Other long-term liabilities are comprised of:

$US millions	2008	2007
Accrued levelized royalty expenses	**$ 82**	$ 80
Pension and employee future benefits (note 24)	**15**	16
Derivative liabilities (note 7)	**81**	254
Other	**59**	5
	$ 237	$ 355

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

24. PENSION AND EMPLOYEE FUTURE BENEFITS

Canadian and US Operations Pension Plans:

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.

$US millions	**2008**		2007	
	Defined benefit pension plans	**Non-pension benefit plans**	Defined benefit pension plans	Non-pension benefit plans
Benefit obligation				
Discount rate	**5.50%-6.32%**	**5.50%-6.32%**	5.25%-5.85%	5.25%-5.85%
Rate of compensation increase	**3.50%-4.00%**	**3.50%-4.00%**	3.50%-4.50%	3.50%-5.00%
Initial health care trend rate	**-**	**5.92%-9.00%**	-	6.47%-9.00%
Ultimate trend rate	**-**	**4.24%-5.00%**	-	4.24%-5.00%
Year ultimate rate reached	**-**	**2016**	-	2016
Benefit expense				
Discount rate	**6.28%-7.50%**	**6.28%-7.50%**	5.50%-6.32%	5.50%-6.32%
Long-term rate of return on plan assets	**6.75% - 7.50%**	**-**	6.75%-7.50%	-
Rate of compensation increase	**3.50%-4.00%**	**3.50%-4.00%**	3.50%-4.00%	3.50%-4.00%
Initial health care trend rate	**-**	**5.67%-9.00%**	-	4.85%-10.00%
Ultimate trend rate	**-**	**4.24%-5.00%**	-	4.24%-5.00%
Year ultimate rate reached	**-**	**2016**	-	2016
Accrued pension obligations				
Balance, beginning of year	**$ 94**	**$ 21**	$ 79	$ 17
Current service cost	**2**	**-**	2	1
Interest cost	**5**	**1**	5	1
Employee contributions	**1**	**-**	1	-
Benefits paid	**(7)**	**(1)**	(6)	(1)
Actuarial (gain) loss	**(16)**	**(3)**	2	-
Foreign exchange rate changes	**(13)**	**(3)**	11	3
Balance, end of year	**$ 66**	**$ 15**	$ 94	$ 21

$US millions	**2008**		2007	
	Defined benefit pension plans	**Non-pension benefit plans**	Defined benefit pension plans	Non-pension benefit plans
Fair value plan assets				
Balance, beginning of year	**$ 82**	**$ (2)**	$ 67	$ (1)
Employer contributions	**6**	**2**	7	-
Employee contributions	**1**	**-**	1	-
Benefits paid	**(7)**	**-**	(6)	(1)
Actual return on plan assets	**(15)**	**-**	3	-
Foreign exchange rate changes	**(12)**	**-**	10	-
Balance, end of year	**$ 55**	**$ -**	$ 82	$ (2)
Reconciliation of accrued benefit asset (liability)				
Plan deficit	**$ (11)**	**$ (15)**	$ (12)	$ (19)
Unamortized transitional obligation	**2**	**3**	3	4
Unamortized past service cost	**1**	**-**	1	-
Unamortized net actuarial loss (gain)	**9**	**(4)**	8	(1)
Accrued benefit asset (liability)	**$ 1**	**$ (16)**	$ -	$ (16)

	2008		2007	
	Defined benefit pension plans	**Non-pension benefit plans**	Defined benefit pension plans	Non-pension benefit plans
Expense				
Current service costs	**$ 2**	**$ -**	$ 2	$ 1
Interest on accrued benefits	**5**	**1**	5	1
Actual return on plan assets	**15**	**-**	(3)	-
Actuarial (gain) loss	**(16)**	**(3)**	2	-
Settlement/curtailment loss	**1**	**-**		
Costs arising in the period	**$ 7**	**$ (2)**	$ 6	$ 2
Differences between costs arising in the period and costs recognized in the period in respect of:				
Actuarial loss (gain)	**16**	**3**	(1)	**-**
Return on plan assets	**(20)**	**-**	(2)	**-**
Transitional obligation	**1**	**1**	-	**-**
Net expense	**$ 4**	**$ 2**	$ 3	$ 2

For the year ended December 31, 2008, BRPI incurred $1 million (2007 - $1 million) of pension expense in relation to its defined contribution pension plans.

Plan assets by category

BRPI's defined benefit pension plan asset allocation at December 31, by asset category was as follows:

	% of total plan assets	
Asset category	**2008**	2007
Equity securities	**60%**	61%
Debt securities	**40%**	39%
Total	**100%**	100%

Sensitivity analysis

BRPI's sensitivity of the non-pension benefit plan obligation and expense to a 1% change in the health care cost trend rate is insiginificant for the year ended December 31, 2008.

Actuarial valuations

Actuarial valuations for BRPI's pension plans are required every three years. The dates of the most recent actuarial valuations for BRPI's pension and non-pension benefit plans ranges from December 31, 2005 to December 31, 2007. BRPI measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. BRPI may choose to perform valuations for these plans prior to the earliest required dates.

25. NON-CONTROLLING INTERESTS

The amounts recorded as non-controlling interests as at December 31, 2008 and 2007 relate to the following consolidated subsidiaries:

$US millions	**2008**	2007
Catalyst Old River Hydroelectric Partnership	**$ 40**	$ 37
Powell River Energy Inc. and other subsidiary	**33**	31
Great Lakes Hydro Income Fund	**146**	171
Bear Swamp Power Co. LLC	**2**	(22)
Subsidiaries of Brascan Energética S.A.	**18**	-
	$ 239	$ 217

26. SHAREHOLDER'S EQUITY

The Company is authorized to issue an unlimited number of common shares. On January 24, 2008, Brookfield injected $200 million of capital into the Company. In return, Brookfield received 6,827,118 of the Company's common shares. Through the amalgamation process of BPI and BPC, the 108,339,336 common shares outstanding at March 31, 2008 were exchanged for 2,488,278 common shares of the amalgamated company. Refer to note 5 for more detail.

As at December 31, 2008, 2,488,278 common shares were issued and outstanding (December 31, 2007 –101,512,218). The Company is also authorized to issue an unlimited number of preferred shares, of which 57,077,112 were outstanding as at December 31, 2008 (December 31, 2007 – $nil):

$US millions	2008	2007
Common shares	**$ 622**	$ 422
Preferred shares	**1,391**	-
Deficit	**(536)**	(261)
Contributed surplus	**-**	204
Accumulated other comprehensive loss	**(104)**	(22)
	1,373	343
Equity component of capital securities (note 22)	**-**	6
	$ 1,373	$ 349

The Company's distributions to holders of common shares and capital securities consisted of $56 million in the form of common share dividends and a nominal amount of interest related to the equity portion of capital securities (2007 - $52 million and $1 million).

Stock based compensation expense related to the granting of stock options and deferred share units of Brookfield is recorded as a $4 million increase to contributed surplus in 2008 (2007 - $5 million).

27. INTEREST AND FINANCING FEES

Interest and financing fees are comprised of:

$US millions	2008	2007
Interest and financing fees on property specific borrowings	**$ 161**	$ 146
Interest on long-term debt	**148**	138
Other interest and financing fees	**7**	2
	$ 316	$ 286

During the year, the Company capitalized a nominal amount of interest costs (2007 - $1 million).

28. CHANGE IN NON-CASH WORKING CAPITAL

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

$US millions	2008	2007
Accounts receivable and other	**$ 56**	$ (61)
Accounts payable and other	**19**	25
Effect of foreign exchange	**(20)**	(21)
	$ 55	$ (57)

29. SEGMENTED INFORMATION

The Company operates mostly renewable power assets which include high quality conventional hydroelectric generating assets located in Canada, the United States and Brazil, a pumped storage hydroelectric facility located in the United States and a wind farm located in Canada. The Company also operates two combined cycle natural gas-fired generating stations, an electricity distribution business in Northern Ontario and, up to March 12, 2008, an electricity transmission business also located in Northern Ontario. These segments represent the Company's reportable segments, which are used to manage the business. The accounting policies of these reportable segments are the same as those described in

notes 2 and 3 of these financial statements. During the year, management determined that the Company had developed to a size that required changes in its reportable segments and the manner in which business performance is evaluated. Prior to 2008, management evaluated business performance by regional power market. Beginning in 2008, management began evaluating the business based on the type of power generation (Hydroelectric, Wind and Other). Hydroelectric is now further evaluated by major region (Canada, the United States and Brazil) for conventional hydroelectric generation and pumped storage. Presentation of 2007 comparative information has been adjusted to reflect 2008 presentation.

The Company analyzes the performance of its operating segments based on operating cash flow, which consists of revenues from the Company's power operations, net of operating and maintenance costs, fuel purchases for its co-generation plants, power purchases, marketing and administration expenses and municipal and other generation taxes on its facilities. Operating cash flow is not a measure of performance under Canadian GAAP. However, management uses this measure to assess the operating performance of its reportable segments.

	Hydroelectric				**Wind**	**Total Renewable Power**	**Other**	**2008**
	Conventional Hydroelectric			**Pumped storage**				
$US millions	**Canada**	**United States**	**Brazil**					
Revenues	**$ 361**	**$ 551**	**$ 51**	**$ 86**	**$ 40**	**$ 1,089**	**$ 95**	**$ 1,184**
Operating cash flow	**271**	**397**	**33**	**37**	**32**	**770**	**37**	**807**
Interest and financing fees	**73**	**160**	**17**	**7**	**16**	**273**	**43**	**316**
Depreciation and amortization	**40**	**66**	**18**	**2**	**18**	**144**	**25**	**169**
Power generating assets	**1,209**	**1,744**	**930**	**100**	**287**	**4,270**	**228**	**4,498**
Total assets	**1,629**	**2,808**	**1,080**	**214**	**319**	**6,050**	**1,983**	**8,033**
Property specific borrowings	**881**	**1,105**	**369**	**124**	**237**	**2,716**	**6**	**2,722**

	Hydroelectric				Wind	Total Renewable Power	Other	2007
	Conventional Hydroelectric			Pumped storage				
$US millions	Canada	United States	Brazil					
Revenues	$ 250	$ 421	$ -	$ 71	$ 41	$ 783	$ 121	$ 904
Operating cash flow	171	292	-	22	33	518	56	574
Interest and financing fees	71	141	-	6	18	236	50	286
Depreciation and amortization	39	64	-	2	19	124	28	152
Power generating assets	1,497	1,716	-	97	364	3,674	379	4,053
Total assets	1,826	2,851	-	203	400	5,280	1,611	6,891
Property specific borrowings	1,088	1,082	-	124	297	2,591	136	2,727

30. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company and its subsidiaries may, from time to time, be involved in legal proceedings, claims and litigation 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 2054.

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 and its subsidiaries also 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. As at December 31, 2008, the Company had $144 million in letters of credit outstanding (December 31, 2007 - $139 million).

As of December 31, 2008, the total nominal amount of Parental Guarantees ("PGs") issued was CDN$358 million (December 31, 2007 – CDN$286 million). The Company's credit covenants require that the mark-to-market of PGs issued be lower than CDN$350 million. As of December 31, 2008, the mark-to-market exposure of the PGs issued was CDN$63 million (December 31, 2007 - CDN$55 million). Historically, the Company has not been obligated to make significant payments for these guarantees. No amount was included in the Company's consolidated balance sheet for December 31, 2008 and December 31, 2007 relating to these guarantees.

In the normal course of operations, the Company has committed as at December 31, 2008 to spend approximately $93 million (2007 - $23 million) on capital projects in the next year. The Company also has $87 million in lease commitments for future years (2007 - $47 million).

The Company has asset retirement obligations associated with its power generating assets. The retirement date for the majority of the power generating assets cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be estimated at this time. An asset retirement obligation of $5 million has been established for a specific lease within the Company's wind operations for the removal of all structures from the property upon expiry of the lease in 2033 (2007 - $nil).

31. SUBSEQUENT EVENTS

On January 6, 2009, the Fund closed its previously announced public offering raising gross proceeds of CDN$75 million. Concurrent with the closing of the public offering, the Company purchased 627,500 trust units of the Fund at a price of CDN$16.00 per trust unit for total consideration of CDN$10 million.

On February 4, 2009, the Company sold its interest in the 189 MW Prince Wind farm in Ontario and a 50% joint venture interest in the 45 MW Pingston Hydro station in British Columbia to the Fund for total proceeds of CDN$130 million, comprised of CDN$65 million cash and CDN$65 million of exchangeable shares in the corporation that owns the two projects. The exchangeable shares can be converted into Fund units at any time, allowing the Company to maintain its 50.01% ownership interest in the Fund.

The Company issued medium-term notes ("the notes") in the amount of CDN$300 million pursuant to its Short Form Base Shelf Prospectus dated July 28, 2008 and a related amended and restated Prospectus Supplement and related pricing supplement filed February 3, 2009. The notes will mature on February 3, 2012, bear a fixed annual interest rate of 8.75%. On February 4, 2009, the Company utilized CDN$105 million of the proceeds to repay a portion of the Series 1 Corporate debentures that were scheduled to mature in December 2009.

On February 25, 2009, the Company declared a $1,100 million dividend payable to its common shareholder. Payment of the dividend was effected by reducing the amount receivable from the Company's common shareholder. Immediately prior to declaring the dividend, the Company issued preferred shares to Brookfield in the amount of $1,100 million with proceeds being a reduction in the balance owing to Brookfield.

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(Printed in Canada)