

March 10, 2009

RESS & COURIER

Ontario Energy Board
P.O. Box 2319
27th Floor
2300 Yonge Street
Toronto ON M4P 1E4

Attention: Board Secretary

Dear Ms. Walli:

Re: Great Lakes Power - Applications re Section 71 Compliance

Attached, please find the applications and related requests of Great Lakes Power Limited (GLPL), Great Lakes Power Distribution Inc. (GLPDI) and Great Lakes Power Transmission Inc. (GLPTI) as the general partner on behalf of Great Lakes Power Transmission Limited Partnership (GLPTLP), all of which are in connection with the efforts of GLPL to achieve compliance with Section 71 of the *Ontario Energy Board Act* (the "Act").

The central component of this "omnibus" application is GLPL's application for leave to transfer its distribution system to GLPDI. In addition, there are a number of ancillary applications and requests set out in the attached. Board Staff advises that the items contained in the omnibus application will be regarded as four separate case files. The items that will be grouped into each case file, along with the portions of the attached omnibus application that specifically correspond to each item, are as follows:

1. **MAAD Application**

- an application by GLPL for an Order granting leave to transfer to GLPDI its distribution system in its entirety, pursuant to section 86(1)(a) of the Act (See **Exhibit B**)

2. **Notice of Proposal**

- a Notice of Proposal by GLPDI, pursuant to section 81 of the Act (See **Exhibit C**)

3. **Distribution Applications and Requests**

- an application by GLPDI for a license to own and operate a distribution system, pursuant to section 57 of the Act (See **Exhibit D**)

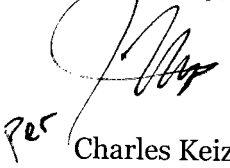
- a request by GLPL to cancel its distribution license, pursuant to section 77(5) of the Act (See **Exhibit D, Tab 1, Schedule 10**)
- a request by GLPL to transfer its current Distribution Rate Order to GLPDI, pursuant to section 18 of the Act (See **Exhibit E**)

4. **Transmission Applications and Requests**

- an Application by GLPTI on behalf of GLPTLP to amend its transmission licence to allow it to own and operate its transmission asset, pursuant to section 74 of the Act (See **Exhibit F**);
- a request by GLPL to cancel its transmission license, pursuant to section 77(5) of the Act (See **Exhibit F, Tab 1, Schedule 10**)
- a request by GLPL to transfer its Customer Delivery Point Performance Standards Approval and its Customer Connections Procedures Approval to GLPTI on behalf of GLPTLP, pursuant to section 18 of the Act (See **Exhibit E**)

We have provided six hardcopies of the omnibus application to the Board and are also providing it electronically via the Board's Regulatory Electronic Submission System (RESS). In addition, CD-ROMs of the omnibus application are available upon request from the Applicant's counsel. Finally, please note that, for parties who do not request a hardcopy of the filing, a CD-ROM containing maps and drawings corresponding to certain portions of the filing is available from the Applicant's counsel upon request.

Yours truly,



Charles Keizer

Tel 416.865.7512
Fax 416.865.7380
ckeizer@torys.com

cc: Tim Lavoie, GLPL

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a license to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution license and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

Great Lakes Power Limited

- and -

Great Lakes Power Distribution Inc.

- and -

Great Lakes Power Transmission LP

- and -

Great Lakes Power Transmission Inc.

March 5, 2009

EXHIBIT LIST

Ex. Tab Sch. Contents of Schedule

A - ADMINISTRATIVE

A	1	1	Exhibit List
		2	Application
		3	Summary of the Application
		4	Orders Sought

B - MAAD APPLICATION – SECTIONS 86(1)(a) & 86(2)

B	1	1	Summary of Exhibit B ▪ Appendix A – Exhibit List ▪ Appendix B – Application ▪ Appendix C – Summary of the Application
		2	Preliminary Filing Requirements for Applications under Section 86 of the <i>Ontario Energy Board Act, 1998</i>
		3	Description of the Distribution Facilities
		4	Corporate Charts for the Parties and Their Electricity Sector Affiliates
		5	Description of GLPL's Electricity Sector Affiliates
		6	Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates
		7	GLPL Distribution's 2007 and 2008 Financial Statements
		8	GLPDI's 2009 and 2010 Pro-Forma Financial Statements
		9	Brookfield Asset Management's 2007 and 2008 Annual Reports

C - NOTICE OF PROPOSAL – SECTION 81

- C 1 1 Summary of Exhibit C
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Preliminary Filing Requirements for a Notice of Proposal under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*
- 3 Description of the Distribution Facilities
- 4 Corporate Charts for the Parties and Their Electricity Sector Affiliates
- 5 Description of GLPL’s Electricity Sector Affiliates
- 6 Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates

D - APPLICATION FOR GLPDI’S DISTRIBUTION LICENCE (SECTION 57) & REQUEST TO CANCEL GLPL DISTRIBUTION LICENCE (SECTION 77(5))

- D 1 1 Summary of Exhibit D in the Context of the Omnibus Filing
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 *Application for Electricity Distribution Licence*
- 3 Description of the Distribution Facilities
- 4 Maps of the Geographic Territories Served by the Distribution System
- 5 GLPL’s Electricity Distribution Licence
- 6 Description of GLPDI’s Electricity Sector Affiliates
- 7 Corporate Charts for the Applicant and its Electricity Sector Affiliates
- 8 GLPL Distribution’s 2007 and 2008 Financial Reports

- 9 GLPDI's 2009 and 2010 Pro-Forma Financial Statements
- 10 Request to Cancel Distribution Licence
 - Appendix A – Distribution Licence
 - Appendix B – Application
 - Appendix C – Summary of the Application

E - REQUEST TO TRANSFER BOARD ORDERS AND APPROVALS – SECTION 18

- E 1 1 Summary of Exhibit E
 - Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 GLPL's Current Distribution Rate Order
- 3 GLPL's Customer Delivery Point Performance Standards (CDPPS) Approval
- 4 GLPL's Customer Connections Procedures (CCP) Approval

F - APPLICATION TO AMEND GLPTLP'S TRANSMISSION LICENCE (SECTION 74) & REQUEST TO CANCEL GLPL'S TRANSMISSION LICENCE (SECTION 77(5))

- F 1 1 Summary of Exhibit F in the Context of the Omnibus Filing
 - Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Licence Amendment Application
- 3 GLPTLP's Current Electricity Transmission Licence
- 4 Description of the Transmission Facilities
- 5 Description of GLPTLP's Electricity Sector Affiliates
- 6 Corporate Charts for the Applicant and its Electricity Sector

Affiliates

- 7 GLPL Transmission's 2007 and 2008 Financial Statements
- 8 Maps of the Geographic Territories Served by GLPTLP's
Transmission Facilities
- 9 Single-line Diagram of the Transmission Facilities
- 10 Request to Cancel Transmission Licence
 - Appendix A – Transmission Licence
 - Appendix B – Application
 - Appendix C – Summary of the Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.

15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

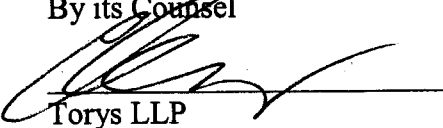
Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.
By its Counsel



Torys LLP
per Charles Keizer

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

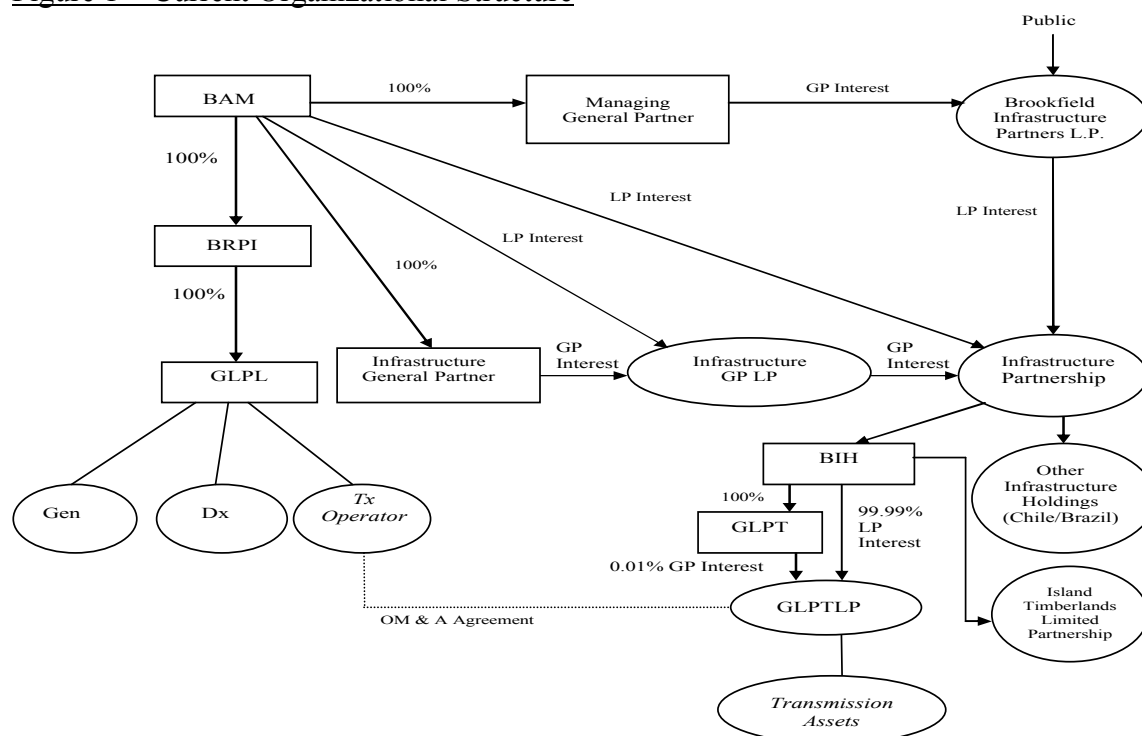


Figure 2: Current Organizational Structure Relating to GLPL

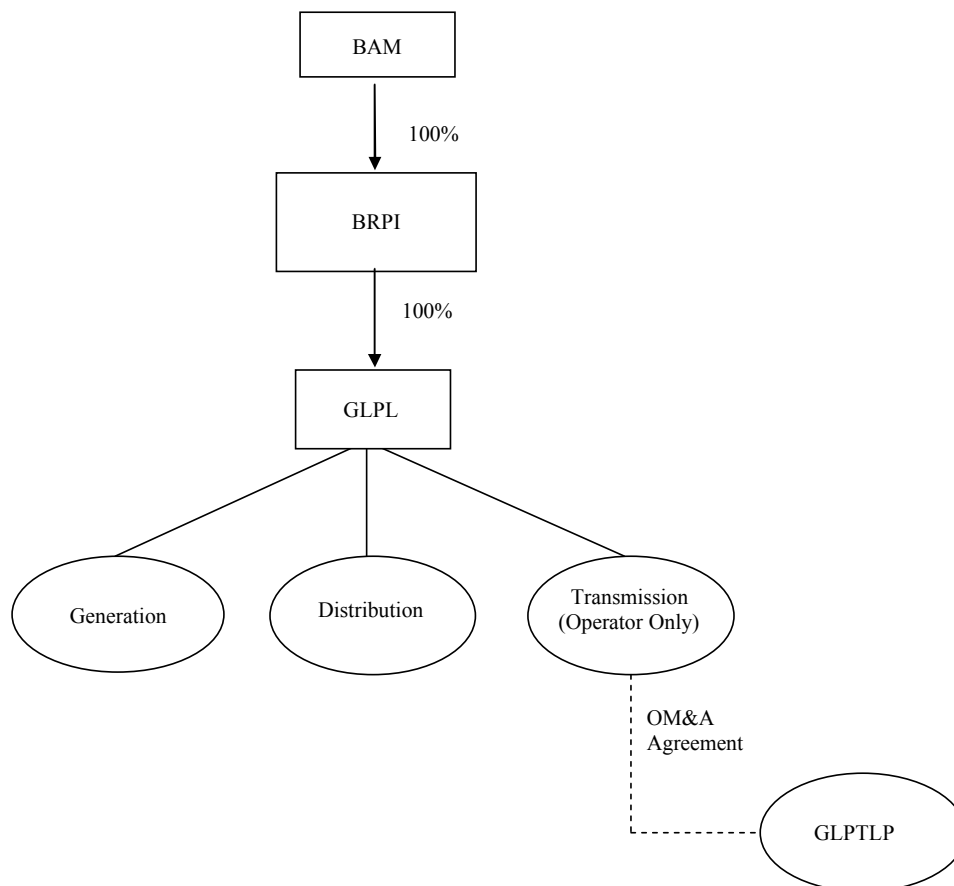
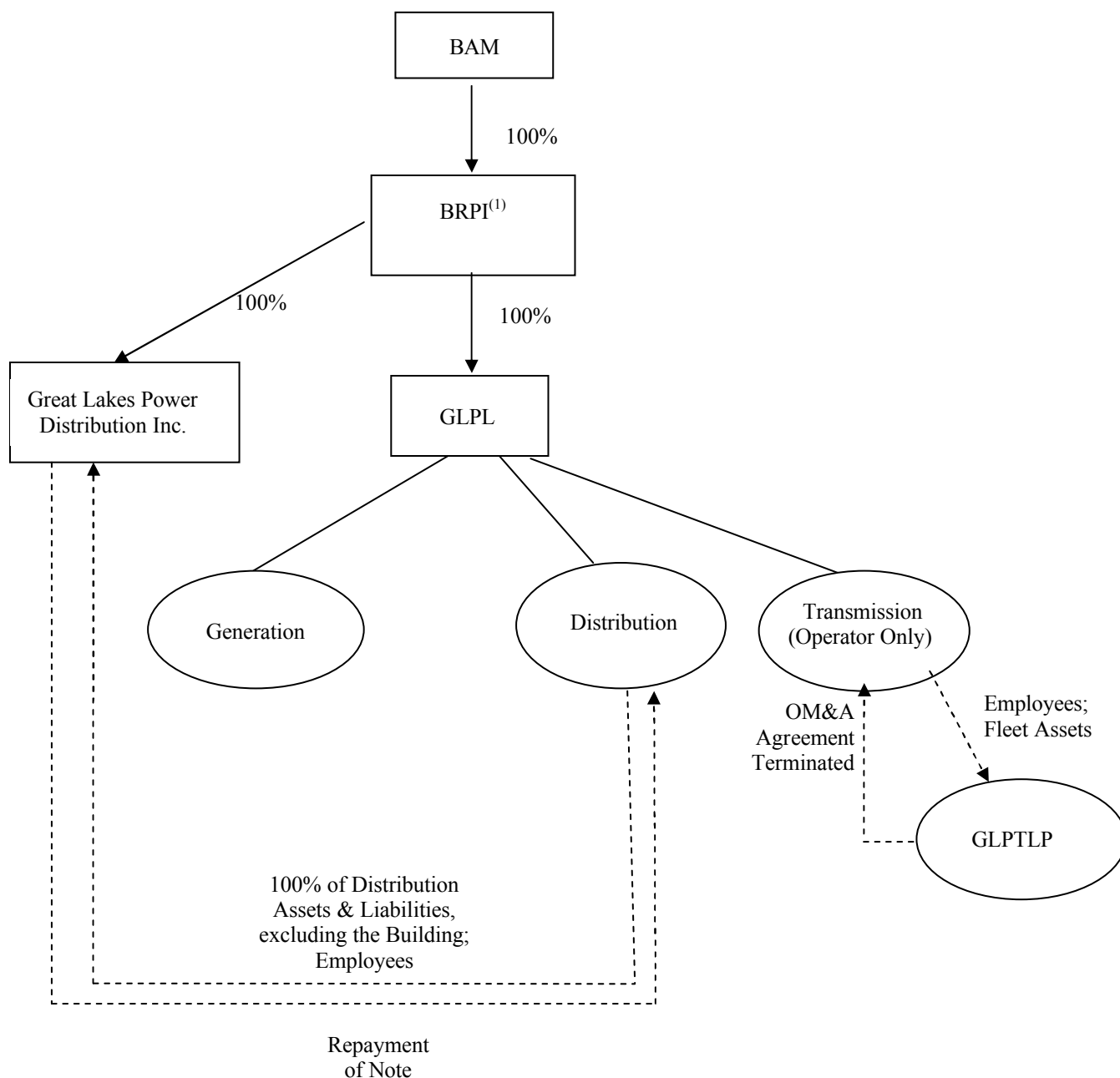


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

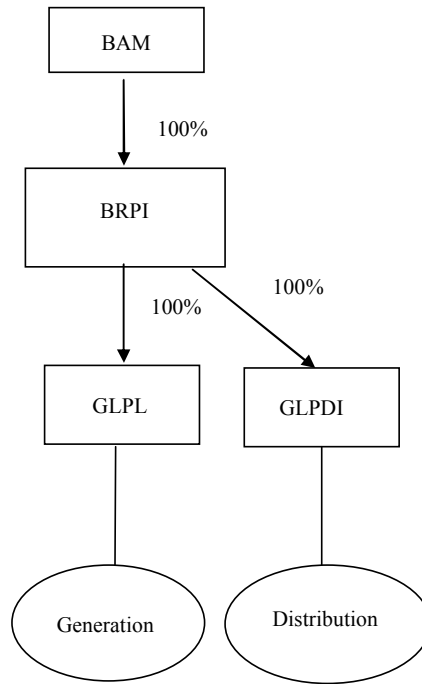
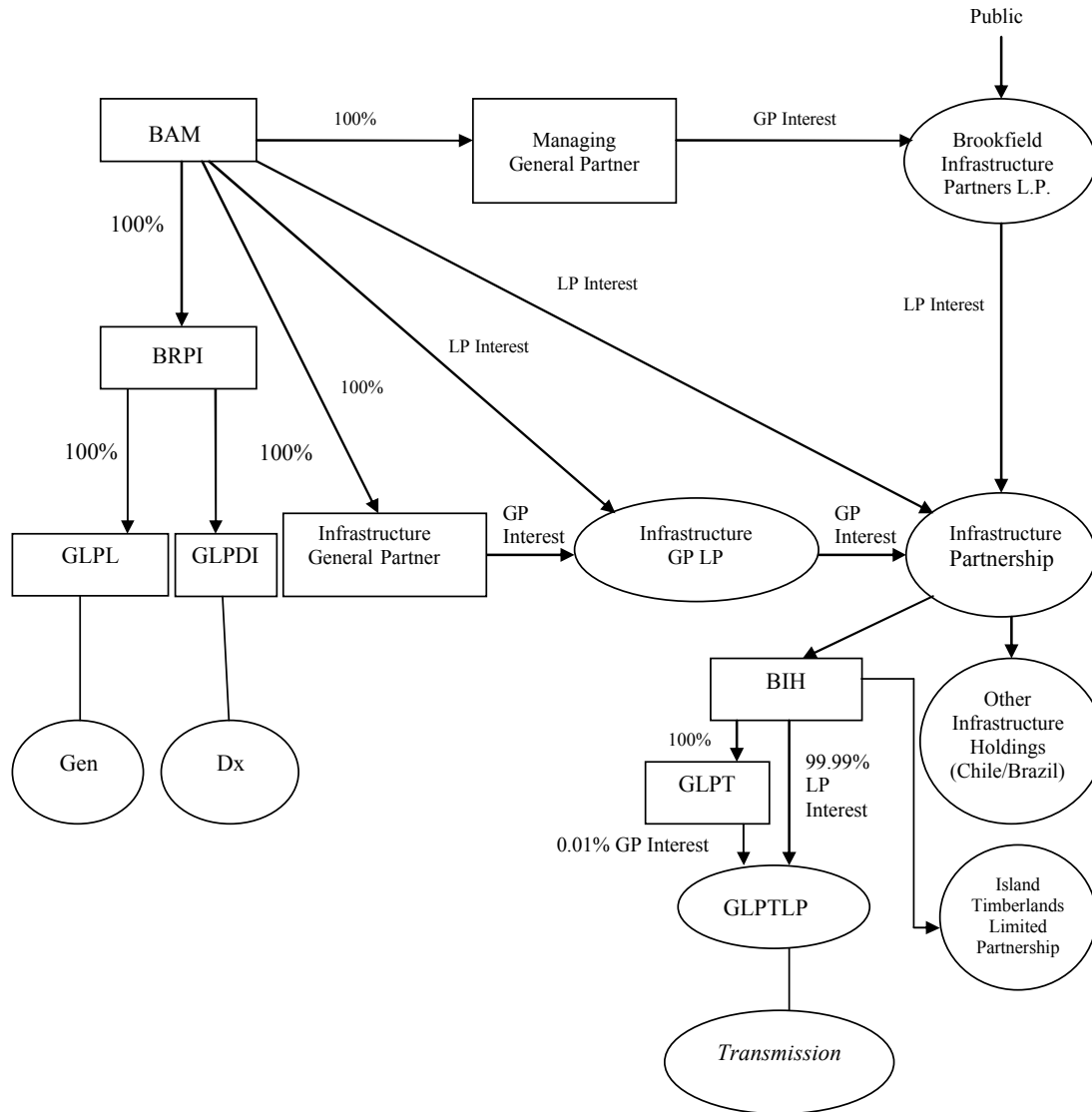


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.

ORDERS SOUGHT

The following orders are sought:

1. Pursuant to s. 86(1)(a) of the *Ontario Energy Board Act* (“OEB Act”), Great Lakes Power Limited (“GLPL”) seeks an Order granting leave to sell its Distribution Assets to Great Lakes Power Distribution Inc. (“GLPDI”).
2. Pursuant to s. 57 of the OEB Act, GLPDI seeks an Order granting it an electricity distribution licence to allow it to own and operate the Distribution Assets being acquired from GLPL, effective from the closing date of the Asset Sale Transaction.
3. Pursuant to s. 18 of the OEB Act, GLPL seeks an Order granting leave to transfer its distribution rate order to GLPDI and an acknowledgement from the Board that any amendments to the rate order, arising from GLPL’s outstanding appeal of the Board’s Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
4. Pursuant to s. 77(5) of the OEB Act, GLPL seeks an Order cancelling GLPL’s electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
5. Pursuant to s. 74 of the OEB Act, GLPTLP seeks an Order amending its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
6. Pursuant to s. 77(5) of the OEB Act, GLPL seeks an Order cancelling GLPL’s electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
7. Pursuant to s. 18 of the OEB Act, GLPL seeks an Order granting leave to transfer GLPL’s Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.

SUMMARY OF EXHIBIT B – MAAD APPLICATION

The materials included in Exhibit B are filed strictly in support of the application by Great Lakes Power Limited (“GLPL”) under s. 86 of the *Ontario Energy Board Act, 1998* (“OEB Act”) (the “MAAD Application”). The purpose of this summary is to describe the nature of the evidence and materials that are set out in Exhibit B relating to the MAAD Application and how this evidence relates to the broader Omnibus Application filed in conjunction with Exhibit B.

The MAAD Application is the central element of the broader Omnibus Application, described below, which includes various requests and applications that are ancillary to the internal reorganization that is the subject of the MAAD Application. The primary purpose of the Omnibus Application, and particularly the MAAD Application, is to support the efforts of GLPL to be compliant with section 71 of the OEB Act.

The MAAD Application, which is provided at **Exhibit B, Tab 1, Schedule 2**, is brought by GLPL, a licensed distributor (ED-2008-0343) under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to Great Lakes Power Distribution Inc. (“GLPDI”). This is referred to throughout the MAAD Application as the “Asset Sale Transaction”. This transaction is depicted in Figure 3 of Appendix C to this Exhibit. The Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business.

The Omnibus Application addresses the following matters that are ancillary to the MAAD Application and internal reorganization:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution system effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application).

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to Great Lakes Power Transmission L.P. ("GLPTLP") effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and transmitter the Omnibus Application includes an application by GLPTLP under s. 74 of the OEB Act for an amendment to its electricity transmission licence so as to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

To facilitate review of the materials in Exhibit B, the following background information on the broader Omnibus Application is provided as appendices to this summary:

- Exhibit List (**Appendix A**);
- Application (**Appendix B**); and
- Summary of the Application (**Appendix C**).

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APPENDIX A

Exhibit List

APPENDIX B

Application

APPENDIX C

Summary of the Application

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APPENDIX A
Exhibit List

EXHIBIT LIST

Ex. Tab Sch. Contents of Schedule

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B - MAAD APPLICATION – SECTIONS 86(1)(a) & 86(2)

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		2	Preliminary Filing Requirements for Applications under Section 86 of the <i>Ontario Energy Board Act, 1998</i>
		3	Description of the Distribution Facilities
		4	Corporate Charts for the Parties and Their Electricity Sector Affiliates
		5	Description of GLPL's Electricity Sector Affiliates
		6	Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates
		7	GLPL Distribution's 2007 and 2008 Financial Statements
		8	GLPDI's 2009 and 2010 Pro-Forma Financial Statements
		9	Brookfield Asset Management's 2007 and 2008 Annual Reports

C - NOTICE OF PROPOSAL – SECTION 81

- C 1 1 Summary of Exhibit C
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Preliminary Filing Requirements for a Notice of Proposal under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*
- 3 Description of the Distribution Facilities
- 4 Corporate Charts for the Parties and Their Electricity Sector Affiliates
- 5 Description of GLPL’s Electricity Sector Affiliates
- 6 Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates

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- D 1 1 Summary of Exhibit D in the Context of the Omnibus Filing
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- 7 GLPL Transmission's 2007 and 2008 Financial Statements
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APPENDIX B

Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.

By its Counsel

A handwritten signature in black ink, appearing to be 'C. Keizer', is written over a horizontal line.

Torys LLP

per Charles Keizer

APPENDIX C

Summary of the Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

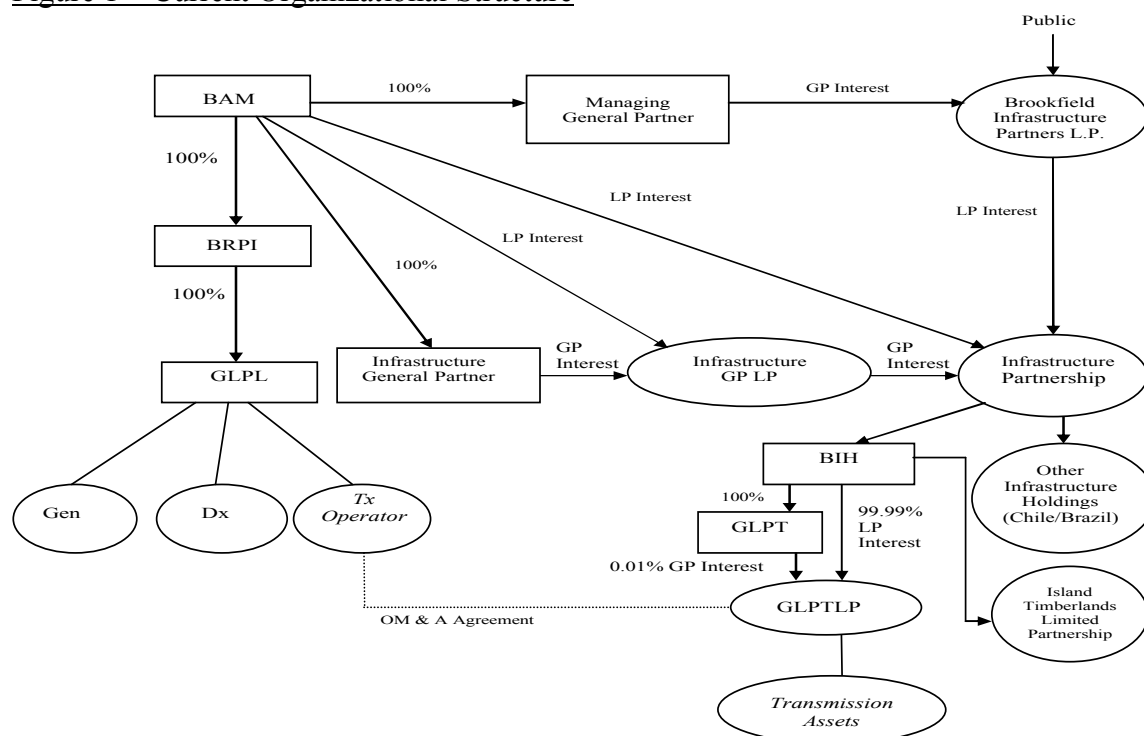


Figure 2: Current Organizational Structure Relating to GLPL

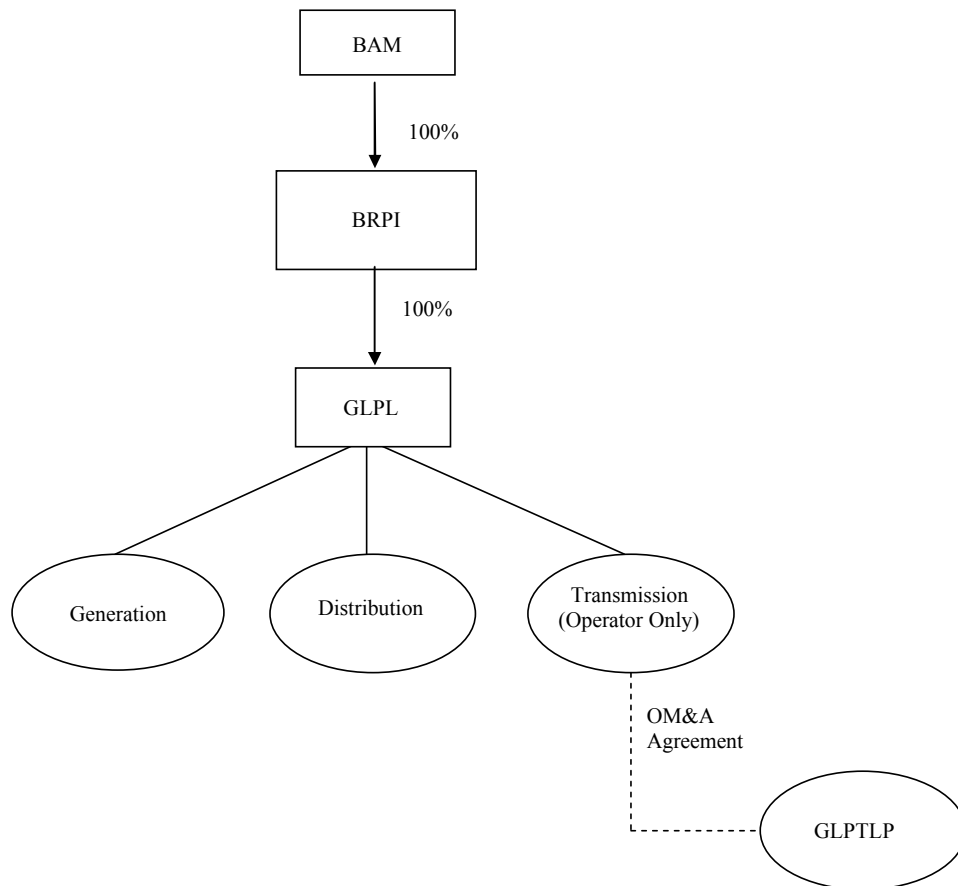
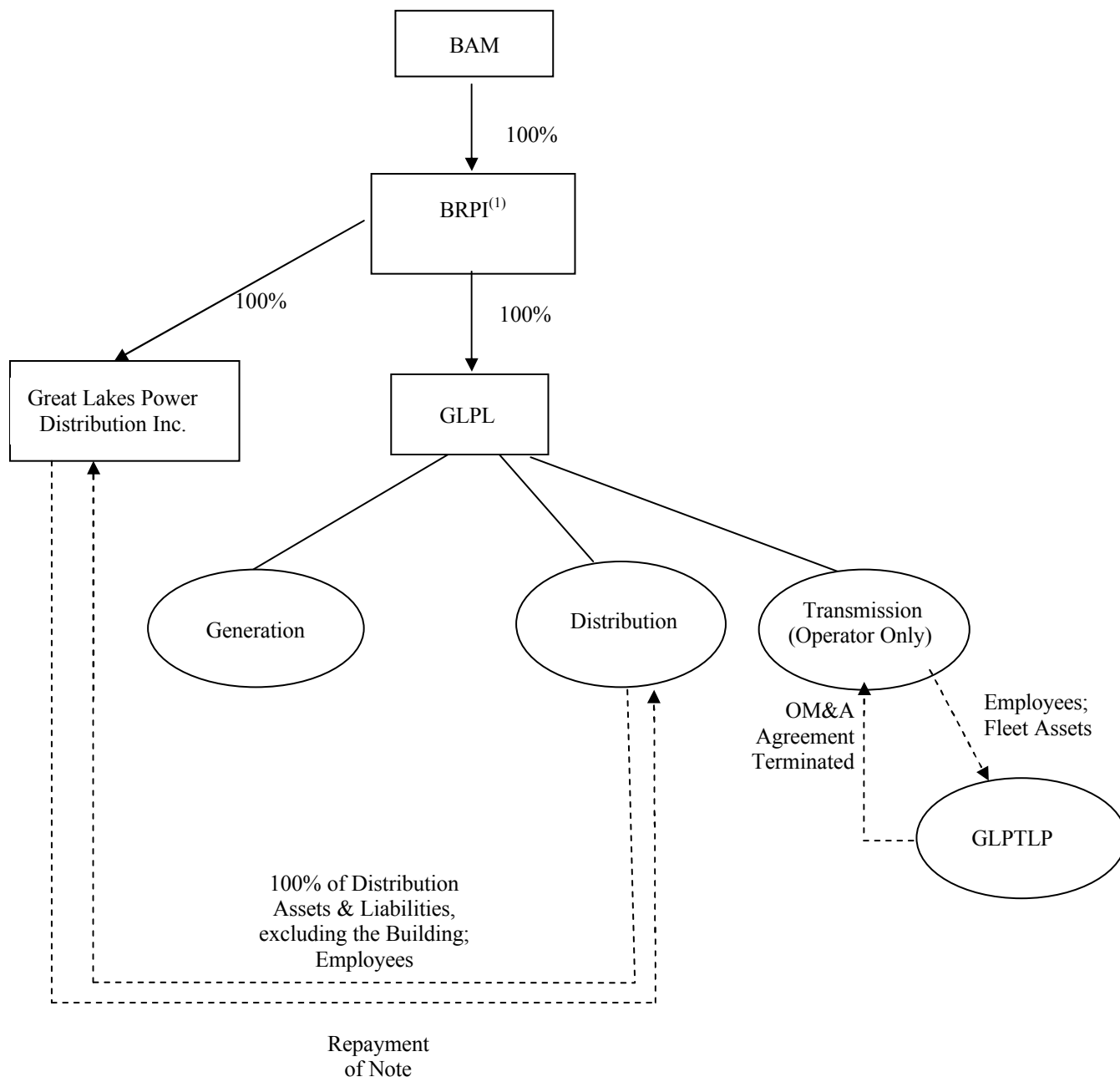
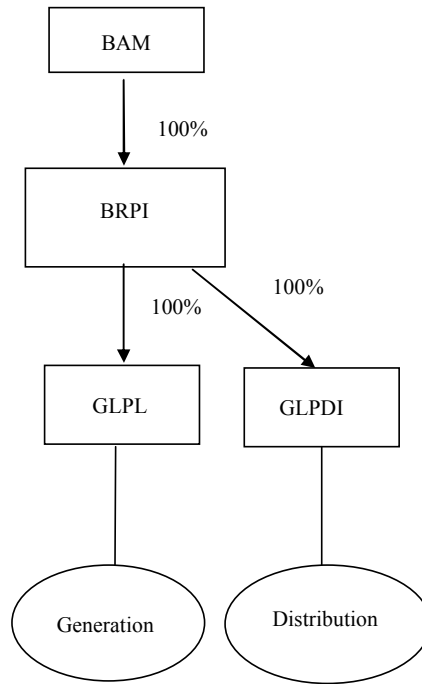


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.

Ontario Energy Board
Preliminary Filing Requirements
For Applications under Section 86
Of the *Ontario Energy Board Act, 1998*

INSTRUCTIONS:

All applicants must complete and file the information requested in Part I. If the transaction would result in a change in control of any of the parties to the proposed transaction, the applicant must also complete and file the information requested in Part II.

The Ontario Energy Board (the "Board") has established this form under section 13 of the *Ontario Energy Board Act, 1998* (the "Act") and requires that a proceeding under section 86 of the Act be commenced by filing this form. Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

For applications involving asset sales between licensed distributors or transmitters as made under section 86(1)(b) of the Act, the "Preliminary Filing Requirements for Applications Under Section 86(1)(b) of the *Ontario Energy Board Act, 1998*" form is required. For all other transactions made under section 86(1)(b), including leasing arrangements, this form should be used. If the transaction involves a leasing arrangement, the applicant must also complete and file the information requested in Part III. For transactions involving a non-licensed entity, please contact Market Operations at market.operations@oeb.gov.on.ca for further guidance.

Persons giving a Notice of Proposal under sections 80 or 81 of the Act in addition to filing an application under section 86 of the Act must also complete the "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*" form in addition to this form.

Please be advised that depending on the nature of the proposed transaction, the parties to the proposed transaction may be required to apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof. Such applications are to be made under separate cover as those types of applications are subject to a separate process. Parties may apply for the cancellation of an existing licence, an amendment to an existing licence, the issuance of a new licence or any combination thereof at the same time the parties apply for approval of the proposed transaction.

PART I: GENERAL MINIMUM FILING REQUIREMENTS

1.1 Nature of the application/notification

1.1.1	Please indicate the nature of the application:	Check Box	
	For leave for a transmitter or distributor to sell, lease or otherwise dispose of all or substantially all of its transmission or distribution system (s. 86(1) (a)).	√	
	For leave for a transmitter or distributor to sell, lease or otherwise dispose of that part of its transmission or distribution system that is necessary in serving the public (s.86 (1) (b)).		
	For leave to amalgamate with any other corporation (s. 86(1) (c)).		
	For leave to acquire voting securities that will exceed 20% of a distributor or transmitter (s. 86(2) (a)).	√	
	For leave to acquire control of a company that holds more than 20% of the voting securities of a transmitter or distributor (s. 86(2) (b)).		
	Great Lakes Power Limited ("GLPL") is applying under s. 86 of the <i>Ontario Energy Board Act, 1998</i> ("OEB Act") in connection with a reorganization to comply with s. 71 of the OEB Act (the "MAAD Application"). The MAAD Application is the central component of a broader 'omnibus' application, which also includes a notice of proposal, an application for a new licence, an application to amend an existing licence, requests to cancel two licences, as well as requests to transfer an existing rate order and other relevant approvals. These requests are described below. With respect to the reorganization, GLPL, a licensed distributor (ED-2008-0343), is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system assets to Great Lakes Power Distribution Inc. ("GLPDI") (the "Asset Sale Transaction"). The Asset Sale Transaction will complete the separation of the distribution business currently owned and operated by GLPL from GLPL's generation business. GLPL will continue to own and operate the generation business. A more detailed description of the proposed reorganization and the omnibus application is contained in the appendices to Exhibit B, Tab 1, Schedule 1 and particularly within the Summary of the Application at Exhibit B, Tab 1, Schedule 1, Appendix C. A description of the distribution facilities that are the subject of this application (the "Distribution System") is at Exhibit B, Tab 1, Schedule 3. As noted above, in conjunction with the MAAD Application, the omnibus application includes the following: • Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see Exhibit C of the Omnibus Application); • An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL's distribution facilities to		

	GLPDI (see Exhibit D of the omnibus application); • A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity distribution licence effective upon the closing of the Asset Sale Transaction (see Exhibit D of the Omnibus Application); • Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see Exhibit E of the Omnibus Application); • As part of establishing a standalone licensed distributor and transmitter the Omnibus Application includes an application by GLPTLP under s. 74 of the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own <i>and</i> operate its transmission system (see Exhibit F of the Omnibus Application); and • A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (See Exhibit F of the Omnibus Application).		
1.1.2	<i>In conjunction with this application, will a notice of proposal be given to the Board under Section 80 of the Act, concerning the intention of a transmitter or distributor (or its affiliate) to acquire an interest in or construct a generation facility in Ontario or to purchase shares in a generation facility in Ontario? If so, this application must be filed together with a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the Ontario Energy Board Act, 1998".</i>		
1.1.3	<i>In conjunction with this application, will a notice of proposal be given to the Board under Section 81 of the Act, concerning the intention of a generator (or its affiliate) to acquire an interest in or construct a transmission or distribution facility in Ontario or to purchase shares in a transmission or distribution facility in Ontario? If so, this application must be filed together with a completed "Preliminary Filing Requirements for a Notice of Proposal Under Sections 80 and 81 of the Ontario Energy Board Act, 1998".</i> Please see Exhibit C of the omnibus application.	√	

1.2 Identification of the Parties

1.2.1 Applicant

As indicated under 1.1.1, above, there are two applicants for this MAAD Application. GLPL is the applicant in respect of the Asset Sale Transaction component of the MAAD Application and BRPI is the applicant in respect of the Share Purchase Transaction component. Their information is provided below.

<i>Name of Applicant</i>	<i>File No: (OEB Use Only)</i>
GREAT LAKES POWER LIMITED ("GLPL")	

<i>Address of Head Office</i> 2 Sackville Road Sault Ste. Marie, Ontario P6B 6J6	<i>Telephone Number</i> (705) 759-7600	
<i>Facsimile Number</i> (705) 941-5600		
<i>E-mail Address</i> 		
<i>Name of Individual to Contact</i> Mr. Tim Lavoie, General Manager	<i>Telephone Number</i> (705) 941-5697	
<i>Facsimile Number</i> (705) 941-5600		
<i>E-mail Address</i> tlavoie@glp.ca		

1.2.2 Other Parties to the Transaction

If more than one attach list

<i>Name of Other Party</i> Great Lakes Power Distribution Inc. ("GLPDI")	<i>OEB Use Only</i>		
<i>Address of Head Office</i> 2 Sackville Road Sault Ste. Marie, Ontario P6B 6J6	<i>Telephone Number</i> (705) 759-7600		
	<i>Facsimile Number</i> (705) 941-5600		
	<i>E-mail Address</i> 		

<i>Name of Individual to Contact</i>	<i>Telephone Number</i>	
Mr. Tim Lavoie, General Manager	(705) 941-5697	
	<i>Facsimile Number</i>	
	(705) 941-5600	
	<i>E-mail Address</i>	
	tlavoie@glp.ca	

1.2.3	<i>Please attach a list of the officers, directors and shareholders of each of the parties to the proposed transaction.</i> <u>GLPL</u> Directors: Basil Carruthers Edward C. Kress Harry A. Goldgut *Mr. Carruthers will be replaced as a Director by Mr. Richard Legault at the closing of the Asset Purchase Transaction. Officers: Richard Legault - President and Chief Executive Officer Donald Tremblay - Executive Vice President Colin Clark - Executive Vice President Laurent Cusson - Executive Vice-President Andre Legault - Chief Operating Officer and Senior Vice President, Canadian Operations Ben Vaughan - Chief Operating Officer & Senior Vice President, Brookfield Energy Marketing Inc. Lee Butler - Vice President, Canadian Operations and Chief Financial Officer Julie Morin - Vice-President, Finance Normand Perreault - Vice President, Canadian Operations Patricia Bood - Vice President and Secretary Walter Di Cesare - Assistant Secretary and Director Legal Services, Canadian Operations Carole Fortier - Director, Human Resources Tracy Brason - General Manager, System Control Centre, Canadian Operations Stephane Masse - General Manager, Wawa Hydro Tim Lavoie - General Manager, Great Lakes Power Mark Faught - Business Controller, Great Lakes Power Duane Fecteau – Director of Administration Jim Deluzio - General Manager, Sault Operations Shareholder: Brookfield Renewable Power Inc. <u>GLPDI</u> Directors: Edward C. Kress	

	Harry A. Goldgut Basil Carruthers Officers: Richard Legault Donald Tremblay Jeff Rosenthal Patricia Bood Tim Lavoie Mark Faught Duane Fecteau Shareholders: BRPI is the sole shareholder of GLPDI. Prior to closing of the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI.	
1.2.4	<i>Please attach a corporate chart describing the relationship between each of the parties to the proposed transaction <u>and</u> each of their respective affiliates.</i> Please see the corporate charts at Exhibit B, Tab 1, Schedule 4.	

1.3 Description of the Businesses of Each of the Parties

1.3.1	<i>Please attach a description of the business of each of the parties to the proposed transaction, including each of their affiliates engaged in, or providing goods or services to anyone engaged in, the generation, transmission, distribution or retailing of electricity ("Electricity Sector Affiliates").</i> A) GLPL: Brookfield Renewable Power Inc. owns 100% of the shares in GLPL, which is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP. The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system. GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 pole km of lines and 1,823 circuit km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations. GLPL's distribution business operates pursuant to licence ED-2008-0343. GLPL's distribution business has its own separate financial and accounting systems. GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems. Please see Exhibit B, Tab 1, Schedule 5 for a description of GLPL's Electricity Sector Affiliates. B) GLPDI:	

	GLPDI is a corporation duly incorporated in Ontario and created for the purpose of acquiring the Distribution System from GLPL and operating that system after the date of acquisition as a standalone licensed distributor. Please see Exhibit B, Tab 1, Schedule 5 for a description of GLPDI's Electricity Sector Affiliates, which are the same as those for GLPL. C) Electricity Sector Affiliates: Please refer to Exhibit B, Tab 1, Schedule 5 for descriptions of the Ontario Electricity Sector Affiliates for all parties to this MAAD Application.	
1.3.2	<i>Please attach a description of the geographic territory served by each of the parties to the proposed transaction, including each of their Electricity Sector Affiliates, if applicable.</i> Maps of the geographic territory served by GLPL are set out at Exhibit B, Tab 1, Schedule 6. If approved by the Board, GLPDI would serve the same geographic territory currently served by GLPL's Distribution System. Please see Exhibit B, Tab 1, Schedule 5 for descriptions of the geographic territories relevant to each of the Electricity Sector Affiliates of the parties.	
1.3.3	<i>Please attach a description of the customers, including the number of customers in each class, served by each of the parties to the proposed transaction.</i> The customers of GLPDI will be the same as those of GLPL's Distribution System. GLPL has a total of approximately 11,600 distribution customers in the following classes: 1. Residential Customers – 7,787 2. Seasonal Customers – 3707 3. Street Lighting – 99	
1.3.4	<i>Please provide a description of the proposed geographic service area of each of the parties after completion of the proposed transaction.</i> As explained in 1.3.2 above, the proposed transaction will not affect the geographic service areas but rather transfers the service area for the Distribution System from GLPL to GLPDI.	

1.4 Description of the Proposed Transaction

1.4.1	<i>Please attach a detailed description of the proposed transaction.</i> As indicated in the response to 1.1.1, above, GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI (the "Asset Sale Transaction"). The Asset Sale Transaction will complete the separation of the distribution business, which is currently owned and operated by GLPL, from the generation business, which will continue to be owned and operated by GLPL. This will provide for compliance with section 7.1 of the OEB Act. For a more detailed and complete description of the transactions, including diagrams illustrating the organizational structure before and after each of the transactions, please see Exhibit B, Tab 1, Schedule 1, Appendix C.	

1.4.2	<i>Please attach the details of the consideration (e.g. cash, assets, shares) to be given and received by each of the parties to the proposed transaction.</i> All distribution related assets (excluding the building at 2 Sackville, Sault Ste. Marie and some fleet vehicles) in exchange for the repayment of a promissory note.	
1.4.3	<i>Please attach the financial statements (including balance sheet, income statement, and sources and uses of funds) of the parties to the proposed transaction for 2 complete years prior to the proposed transaction.</i> GLPDI, as a newly created corporation, does not have financial statements for prior years. As such, audited financial statements for GLPL's distribution business for 2007 are provided at Exhibit B, Tab 1, Schedule 7. Audited financial statements for GLPL's distribution business for 2008 will be filed when they become available.	
1.4.4	<i>Please attach the pro forma financial statements of each of the parties reflecting completion of the proposed transaction for the first full year following the year of the transaction.</i> GLPDI's pro-forma financial statements for Q3 and Q4 2009, as well as the full year for 2010 are at Exhibit B, Tab 1, Schedule 8.	

1.5 Other Information

1.5.1	<i>Please provide copies of all annual reports, proxy circulars, prospectuses or other information filed with securities commissions or similar authorities or sent to shareholders for each of the parties to the proposed transaction and their affiliates within the past 2 years.</i> As GLPL is not a public company, no annual reports are produced. However, the 2007 annual report for Brookfield Asset Management (GLPL's parent) is provided at Exhibit B, Tab 1, Schedule 9. The 2008 annual report for Brookfield Asset Management will be filed when it becomes available.	
1.5.2	<i>Please list all legal documents (including those currently in draft form if not yet executed) to be used to implement the proposed transaction.</i> The following legal documents are required to implement the proposed Asset Sale Transaction: • Asset Purchase Agreement; • Assignment and Assumption Agreement(s) in respect of contract and real property rights; • Transfers of the owned property and real property rights in registerable form together with all authorizations and directions required to effect the registrations of such transfers; • General Conveyance; and • All other deeds, documents of title, conveyances, bills of sale, transfers, assignments, and consents as may be necessary or desirable.	
1.5.3	<i>Please list all Board issued licences held by the parties and confirm that the parties will be in compliance with all licence, code and rule requirements both before and after the proposed transaction. If any of the parties will not be in compliance with all applicable licences, codes and rules after completion of the proposed transaction, please explain</i>	

	<i>the reasons for such non-compliance.</i> GLPL: • EG-2003-0175 (generation) • ET-2008-0342 (transmission) • ED-2008-0343 (distribution) Until very recently, GLPL has been exempt from Section 71 of the OEB Act pursuant to Section 5(4) and Section 5(5) of Ontario Regulation 161/99. This exemption expired on December 31, 2008. GLPL filed a compliance plan with OEB compliance staff on December 17, 2008. Fundamental to that compliance plan is this MAAD Application under Section 86 of the OEB Act. The completion of the transactions that are the subject of this MAAD Application will place GLPL, GLPDI and GLPTLP and their respective affiliates in compliance with Section 71 of the OEB Act. GLPL will remain in compliance with all licence and code requirements after the proposed transaction. GLPDI: GLPDI is applying for an electricity distribution licence under s. 57 of the OEB Act (See Exhibit D of the omnibus application). GLPDI confirms that it will comply with all licence and code requirements both before and after the proposed transaction.	
1.5.4	<i>Please explain whether the proposed transaction will cause a change of control, of any of the transmission or distribution system assets, at any time, during or by the end of the transaction. If yes, please complete Part II.</i> Under the transaction, the ownership of the Distribution System will be transferred from GLPL to GLPDI, in exchange for the repayment of a promissory note. However, as described in Exhibit B, Tab 1, Schedule 1, Appendix C and question 1.4.1 above, there will effectively be no change of control of the Distribution System assets. Brookfield Renewable Power Inc. (BRPI) currently indirectly controls the distribution system assets through its 100% ownership of GLPL. Subsequent to the transactions, BRPI will indirectly control the distribution assets through its 100% ownership of GLPDI. In effect, the transaction is an internal reorganization. Nevertheless, to assist the Board, the Applicant has completed Part II below.	

PART II: ADDITIONAL FILING REQUIREMENTS

If the proposed transaction would result in a change in control of any of the parties to the proposed transaction, this Part must be completed.

2.1 Consumer Protection

2.1.1	<i>Please indicate the impact the proposed transaction will have on consumers with respect to prices and the adequacy, reliability and quality of electricity service.</i> The proposed Transaction causes no harm to customers. For greater detail, please see page 14 of Exhibit B, Tab 1, Schedule 1, Appendix C.	

2.1.2	<i>Please describe the steps, including details of any capital expenditure plans that will be taken to ensure that operational safety and system integrity are maintained after completion of the proposed transaction.</i> As the transactions amount to an internal reorganization, the management, employees and assets operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will ensure operational safety and system integrity in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).	
2.1.3	<i>Please provide details, including any capital expenditure plans, of how quality and reliability of service will be maintained after completion of the proposed transaction. Indicate where service centres will be located and expected response times.</i> As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the distribution system for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).	
2.1.4	<i>Please indicate whether the parties to the proposed transaction intend to undertake a rate harmonization process after the proposed transaction is completed. If yes, please provide a description of the plan.</i> Not applicable.	
2.1.5	<i>Please identify all incremental costs that the parties to the proposed transaction expect to incur. These may include incremental transaction costs (i.e., legal), incremental merged costs (i.e., employee severances) and incremental ongoing costs (i.e., purchase and maintenance of new IT systems). Please explain how the new utility plans to finance these costs.</i> Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Please see Exhibit B, Tab 1, Schedule 1, Appendix C, section 5.	
2.1.6	<i>Please describe the changes, if any, in distribution or transmission rate levels (as applicable) and the impact on the total bill that may result from the proposed transaction.</i> As noted in section 2.1.5 there are no incremental costs incurred (other than transaction costs) from the Asset Sale Transaction.	
2.1.7	<i>Please provide details of the costs and benefits of the proposed transaction to the customers of the parties to the proposed transaction.</i> As explained above, because this is an internal reorganization and since GLPDI intends to operate the distribution system in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL's distribution customers from a cost or operational perspective.	

2.2 Economic Efficiency

2.2.1	<i>Please indicate the impact the proposed transaction will have on economic efficiency and cost effectiveness (in the distribution or transmission of electricity). Details on the impacts of the proposed transaction on economic efficiency and cost effectiveness should include, but are not limited to, impacts on administration support functions such as IT, accounting, and customer service.</i>	

	As explained above, because this is an internal reorganization and since GLPDI intends to operate the distribution system in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL's distribution customers from an economic efficiency or cost effectiveness perspective. The creation of a stand-alone distribution and transmission company will provide greater cost and operational transparency, which will permit each company to continue to strive for further efficiencies as part of the normal course.	

2.3 Financial Viability

2.3.1	<i>Please provide a valuation of any assets or shares that will be transferred in the proposed transaction. Provide details on how this value was determined, including any assumptions made about future rate levels.</i> The distribution system will be transferred to GLPDI at a purchase price that will be set equal to the Net Book Value as determined on the date the transaction closes. Since the purchase price equates to Net Book Value, there is no need to contemplate future rate increases at this time.	
2.3.2	If the price paid as part of the proposed transaction is significantly more than the book value of the assets of the selling utility, please provide details as to why this price will not have an adverse affect on the economic viability of the acquiring utility. As stated in response to 2.3.1, the price will be set equal to the Net Book Value as determined on the date the transaction closes. As such, this question is not applicable.	
2.3.3	<i>Please provide details of the financing of the proposed transaction.</i> No financing is required to complete the transactions.	
2.3.4	<i>Please outline the capital (debt /equity) structure, on an actual basis, of the parties to the proposed transaction prior to the transaction and on a pro forma basis after completion of the proposed transaction. In order to allow the Board to assess any potential impacts on the utility's financial viability, please include the terms associated with the debt structure of the utility as well as the utility's dividend policy after the completion of the proposed transaction. Please ensure that any debt covenants associated with the debt issue are also disclosed.</i> The capital structure of the GLPL distribution business on an actual basis prior to the transaction is, in respect of the distribution assets, 100% equity. GLPDI intends to adopt the same capital structure as the GLPL distribution business. GLPDI does not have a formal dividend policy. The practice of GLPDI will be to dividend all cash flow available after provision for a prudent working capital allowance and reserves. GLPDI will dividend all additional cash.	
2.3.5	<i>Please provide details of any potential liabilities associated with the proposed transaction in relation to public health and safety matters or environmental matters. These may be matters that have been identified in the audited financial statements or they may be matters that the parties have become aware of since the release of the most recently audited financial statements. If there are any pre-existing potential liabilities regarding public health and safety matters or environmental matters for any</i>	

	<i>party to the proposed transaction, provide details on how the parties propose to deal with those potential liabilities after the transaction is completed. Specify who will have on-going liability for the pre-existing potential liabilities.</i> There are no potential liabilities associated with the proposed transaction in relation to public health, safety or environmental matters.	

2.4 Other

2.4.1	<i>If the proposed transaction requires the approval of a parent company, municipal council or any other entity please provide a copy of appropriate resolutions indicating that all such parties have approved the proposed transaction.</i> No resolutions of the parent company or any other entity are required.	
2.4.2	<i>Please list all suits, actions, investigations, inquiries or proceedings by any government body, or other legal or administrative proceeding, except proceedings before the Board, that have been instituted or threatened against each of the parties to the proposed transaction or any of their respective affiliates.</i> Not applicable.	
2.4.3	<i>Regarding net metering thresholds, the Board will, absent exceptional circumstances, add together the kW threshold amounts allocated to the individual utilities and assign the sum to the new or remaining utility. Please indicate the current net metering thresholds of the utilities involved in the proposed transaction. Please also indicate if there are any special circumstances that may warrant the Board using a different methodology to determine the net metering threshold for the new or remaining utility.</i> Not applicable.	
2.4.4	<i>Please provide the Board with any other information that is relevant to the application. When providing this additional information, please have due regard to the Board's objectives in relation to electricity.</i> Please see Exhibit B, Tab 1, Schedule 1, Appendices A-D, which provide background information on this MAAD Application and all other components of the omnibus application.	

PART III: ADDITIONAL FILING REQUIREMENTS REGARDING LEASE TRANSACTIONS

If the proposed transaction involves a leasing arrangement, this Part must be completed.

3.1.1	<i>In addition to the information provided in section 1.3.4, please identify separately any assets in the service area that are owned, from those assets that are encumbered by any means, e.g., subject to a lease or debt covenant.</i> Not applicable.	

How to Contact the Ontario Energy Board

The Ontario Energy Board is located at:

P.O. Box 2319
2300 Yonge Street, Suite 2701
Toronto, Ontario
M4P 1E4

Telephone:	416-481-1967
Toll Free Number:	1-888-632-6273
Fax:	416-440-7656
Website:	http://www.oeb.gov.on.ca
Board Secretary's e-mail address:	boardsec@oeb.gov.on.ca

DESCRIPTION OF DISTRIBUTION FACILITIES

Subject to the exceptions described below, the Distribution Facilities include all property and assets, whether real, personal or mixed, tangible or intangible, of every kind and description, wherever located, that are owned or leased by Great Lakes Power Limited ("GLPL") and are related to, or used or required in respect of the distribution business, including all of GLPL's right, title and interest in and to the following assets:

- The 1705 pole kilometers of lines and 1823 circuit kilometers of lines of voltages ranging from 2.4 kV up to 44 kV currently operated by Great Lakes Power Limited ("GLPL"), including all lines, poles, wires and associated equipment and property;
- The real property including all plant, buildings, structures, improvements and fixtures (including all fixed machinery and fixed equipment) located thereon or forming part thereof (collectively, the "Owned Property");
- All easements, licences and permits relating to the distribution business (collectively, the "Real Property Rights");
- All subtransmission distribution stations used in connection with the distribution business, and all associated equipment and property;
- All warranties and all contracts, agreements and other legally binding instruments which have been entered into by GLPL in respect of the distribution business (collectively, the "Contracts");
- All trade accounts receivable and all trade debts due or accruing due to GLPL in respect of the distribution business;
- All plans, research, work, reports, studies, applications, documentation and material prepared by or for the benefit of GLPL in respect of the distribution business;
- All trade marks and trade mark applications, trade names, certification marks, patents and patent applications, copyrights, know-how, formulae, processes, inventions, technical expertise, research data, trade secrets, industrial designs and other similar property related to or used in respect of the distribution business;
- All inventories, work in process, raw materials, spare parts and other materials and supplies related to the distribution business; and
- All business and financial records and systems, including all accounting systems, lists of customers and suppliers, surveys, plans and specifications relating to the transmission business, and all operating manuals, engineering standards and specifications and other information used or required to effectively conduct the distribution business or operate the Distribution Facilities or any of them.

Exceptions

The Distribution Facilities do not include:

- The building at 2 Sackville Road, Sault Ste. Marie, which currently houses GLPL's transmission and distribution employees; and
- Some fleet vehicles.

ONTARIO OPERATIONS - CORPORATE STRUCTURE - CURRENT



(2) Brookfield Renewable Power Inc. owns 46.21% of GLHIF, but through its shares of Great Lakes Power Holding Corporation, which shares are exchangeable on a one-for-one into trust units of the Fund, on a fully exchanged basis, Brookfield Renewable Power holds a 50.01% ownership interest in the Fund.

**DESCRIPTION OF ONTARIO ELECTRICITY SECTOR AFFILIATES OF
GLPL**

Brookfield Asset Management Inc. ("BAM")

BAM is focused on property, power and infrastructure assets, with approximately US\$90 billion of assets under management. BAM's securities trade on the Toronto, New York and Euronext Amsterdam stock exchanges under the symbol BAM.A, BAM and BAMA respectively. BAM is the ultimate parent company to the electricity sector affiliates mentioned below.

Address:

Brookfield Place, Suite 300
181 Bay Street
Toronto, Ontario
M5J 2T3
Phone: 416-363-9491
Fax: 416-365-9642

Brookfield Renewable Power Inc. ("BRPI")

BRPI, wholly-owned by BAM, has more than 100 years of experience as an owner, operator and developer of hydroelectric power facilities. Its total portfolio includes more than 160 generating facilities with approximately 4,000 megawatts of capacity. It also has a significant hydroelectric and wind project pipeline. BRPI's operations are primarily located in North America and Brazil and held through various subsidiaries. Some of its assets are owned through Great Lakes Hydro Income Fund, a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN).

Address:

480 Boulevard de la Cité
Gatineau, Québec
J8T 8R3
Ph: 819-561-2722
Fax: 819-561-7188

Great Lakes Power Transmission Inc. ("GLPT")

GLPT is the general partner of Great Lakes Power Transmission LP ("GLPTLP"), a limited partner that owns transmission facilities in Northern Ontario that are operated by Great Lakes Power Limited ("GLPL"). GLPT and GLPTLP are indirect subsidiaries of Brookfield Infrastructure Partners L.P. ("BIP"). BAM is a major shareholder of BIP. BIP has securities trading on the New York Stock Exchange under the symbol BIP. GLPT is a licensed transmitter on behalf of GLPTLP pursuant to transmission licence ET-2007-0649. GLPL operates the GLPTLP transmission facilities pursuant to operator licence EB-2008-0342.

Address:
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6
Phone: 705-759-7600
Fax: 705-941-5600

Brookfield Energy Marketing Inc. ("BEMI")

BEMI, located in Gatineau, Quebec, is wholly owned by BRPI and conducts most of BRPI's wholesale energy marketing business in Canada and the United States. It manages the scheduling of BRPI's generating assets, sells power into the applicable wholesale electricity markets and enters into short-term financial contracts and power purchase agreements on behalf of the relevant entities. BEMI is a licensed energy wholesale marketer and retailer under OEB licences EW-2005-0471 and ER-2005-0440.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Brookfield Power Wind Prince LP ("BPWP LP")

BPWP LP owns the Prince Wind Energy Project, a wind farm west of Sault Ste. Marie located in the townships of Dennis, Pennefather, Korah, Aweres and Prince, in the District of Algoma in the Province of Ontario. It is owned by BRPI's publicly traded subsidiary, Great Lakes Hydro Income Fund. It is a licensed electricity generator (EG-2006-0130).

Address:
Ontario Wind Operations
400 Allen Side Road
Sault Ste. Marie, Ontario
P6A 6K4
Phone: 705-941-5659
Fax: 705-946-5574

Brookfield Power Wind Corporation ("Brookfield Wind")

Brookfield Wind has been actively involved in the development of wind power projects in Ontario for many years. Brookfield Wind is a licensed electricity generator (EG-2004-0426), but does not currently have any operating generation.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Valerie Falls General Partner Limited (“Valerie GP”)

Valerie GP is the general partner of Valerie Falls Limited Partnership (“Valerie LP”), a limited partnership generating electricity through its 10 MW hydroelectric station on the Seine River at Valerie Falls, three miles north of Atikokan in northwestern Ontario. Valerie GP is a licensed generator on behalf of Valerie LP pursuant to licence EG-2003-0177. Brookfield Renewable Power holds a 65% controlling interest in Valerie GP. The other 35% interest in Valerie GP is held by Seine River Power Inc. (“Seine”), a wholly owned subsidiary of Brookfield Renewable Power. Valerie LP is held 99.99% by Brookfield Renewable Power and 0.01% by Valerie GP.

Address:
Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Mississagi Power Trust (“MPT”)

MPT generates electricity through four hydroelectric facilities: the Aubrey Falls Generating Station, the George W. Rayner Generating Station, the Wells Generating Station and the Red Rock Falls Generating Station. It is owned by Brookfield Renewable Power’s publicly traded subsidiary, Great Lakes Hydro Income Fund. MPT is a licensed generator pursuant to OEB licence EG-2002-0276.

Address:
Mississagi Operations
R.R. #3, 4917 Highway 129
Thessalon, Ontario
P0R 1L0
Phone: 705-842-3377
Fax: 705-842-2086

Lake Superior Power Inc. ("LSPI")

LSPI's cogeneration facility is located in Sault Ste. Marie, Ontario. Lake Superior Power Limited Partnership ("Lake Superior Power LP") is a limited partnership formed to develop and operate a 110 MW natural gas-fired cogeneration plant in Sault Ste. Marie, Ontario. Brookfield Renewable Power is the sole limited partner in the Lake Superior Power LP. The general partner is LSPI, which holds a 1% interest in the project. Brookfield Renewable Power is the sole shareholder of LSPI. LSPI is a licensed generator on behalf of Lake Superior Power LP pursuant to OEB licence EG-2003-0176.

Address:

Lake Superior Operations
102 West Street, P.O. Box 1198
Sault Ste. Marie, Ontario
P6A 5N7
Phone: 705-942-8804
Fax: 705-942-8939

Beaver Power Corporation ("Beaver Power")

The hydroelectric facilities of Beaver Power are located in northern Ontario. Beaver Power directly and indirectly owns three run-of-river hydro-electric generating facilities. It directly owns the Serpent River Project (7 MW) and the Aux Sables Project (4 MW). It also holds a 99.99% limited partnership interest in Algonquin Power (Nagagami) Limited Partnership ("Algonquin LP") which owns the Nagagami Project (19 MW). The remaining 0.01% of Algonquin LP is held by Algonquin Power General Partner (Nagagami) Inc. ("Algonquin GP"), which is 75% held by Algonquin Power Financial Services (Nagagami) Inc., which is a wholly owned subsidiary of Beaver Power. The balance of Algonquin GP is held by the Matawa First Nations Economic Development Corporation.

Beaver Power and Algonquin LP are licensed generators pursuant respectively to licences EG-2002-0408 and EG-2006-0072.

Address (Serpent River & Aux Sables Projects): Mississagi Operations R.R. #3, 4917 Highway 129 Thessalon, Ontario P0R 1L0 Phone: 705-842-3377 Fax: 705-842-2086	Address (Nagagami Project): Wawa Hydro Operations 105 Mills Drive, P.O. Box 320 Wawa, Ontario P0S 1K0 Phone: 705-856-2632 Fax: 705-856-1338

Carmichael Limited Partnership (“Carmichael LP”)

The hydroelectric facility of Carmichael LP is located in northern Ontario. Carmichael LP directly owns Carmichael Falls, a 20 MW generating station on Groundhog River. Carmichael LP is held 99.99% by Great Lakes Power Trust, a wholly-owned subsidiary of Great Lakes Hydro Income Fund, and 0.01% by its general partner, Carmichael GP Inc., which is also wholly-owned by Great Lakes Power Trust. Carmichael LP is a licensed generator pursuant to licence EG-2006-0070.

Address:

Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Brookfield Energy Marketing LP (“BEMLP”)

Brookfield Energy Marketing LP (“BEMLP”), located in Gatineau, Quebec, is a limited partnership which acts in the same capacity as BEMI. Brookfield Wind is its sole limited partner holding a 99.999% interest and BEMI is its general partner with a 0.001% interest. BEMLP is a licensed energy wholesale marketer under OEB licence EW-2005-0300.

Address:

480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

MAPS OF GLPL DISTRIBUTION SYSTEM

Map "AB-10000, GLP Area Overview" contains a legend to provide context as to the location of the rest of the maps included with respect to the GLPL Distribution System. An index of these maps is set out below. The maps are provided in Folder 1 of the accompanying CD-ROM.

Please refer to the legend to determine the location of land areas depicted on the other maps of GLPL's Distribution System.

Map No.	Description
AB-10000	GLP Area Overview
DG-30106	Town of Wawa
DG-30110	Wawa Michipicoten
DG-30249	Hawk Junction, Goudreau, Lochalsh, Missinabie
DG-30305	Montreal River Area
DG-30444	Goulais Bay Area
DG-30445	Batchawana Bay Area
DG-35203	Garden River & Bar River Areas
DG-35204	Desbarats & Bruce Mines Areas
DG-35205	St. Joseph's Island

Financial Statements

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
December 31, 2007



Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6151
www.deloitte.ca

Auditors' Report

To the Directors of
Great Lakes Power Limited

We have audited the balance sheet of Great Lakes Power Limited Distribution Division (the "Division") as at December 31, 2007 and the statements of capital account, operations and comprehensive loss, and cash flows for the year then ended. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Division as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 14, 2008

Member of
Deloitte Touche Tohmatsu

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
BALANCE SHEET
As at December 31

<i>thousands of CDN dollars</i>	<i>Notes</i>	2007	2006
Assets			
Current assets			
Cash		\$ 100	\$ 1,215
Accounts and interest receivable	9	6,007	7,053
Due from related parties	5	1,781	657
Prepaid expenses and other		118	85
Materials and supplies		1,301	1,280
		9,307	10,290
Regulatory assets	9	1,265	1,266
Rate mitigation accrual	9, 12	13,690	11,070
Property, plant and equipment	6	57,503	52,467
		\$ 81,765	\$ 75,093
Liabilities and Capital Account			
Current liabilities			
Accounts and other payables		\$ 3,527	\$ 3,910
Taxes payable		4,474	4,356
		8,001	8,266
Due to related parties	5	19,313	12,394
Regulatory liabilities	9	767	560
Operating debt facility	5	12,000	12,000
Capital debt facility	5	20,500	20,500
		60,581	53,720
Capital account		21,184	21,373
		\$ 81,765	\$ 75,093

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
STATEMENT OF CAPITAL ACCOUNT
Year ended December 31

<i>thousands of CDN dollars</i>	2007	2006
Balance, beginning of year	\$ 21,373	\$ 21,630
Net loss	(189)	(257)
Balance, end of year	\$ 21,184	\$ 21,373

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
Year ended December 31

<i>thousands of CDN dollars</i>	<i>Notes</i>	2007	2006
Revenues		\$ 13,182	\$ 12,885
Operating expenses			
Operating and administration		4,768	4,881
Depreciation		3,559	3,465
Maintenance		3,368	2,871
Taxes, other than income taxes		320	348
		1,167	1,320
Expenses			
Interest, net	5	1,257	1,178
Loss on disposal of property, plant and equipment		22	155
Income taxes - current		77	244
		1,356	1,577
Net loss and comprehensive loss		\$ (189)	\$ (257)

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
STATEMENT OF CASH FLOWS
Year ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Operating activities			
Net loss		\$ (189)	\$ (257)
Items not affecting cash			
Depreciation		3,559	3,465
Loss on disposal of property, plant and equipment		22	155
Net change in non-cash working capital and other	8	(10,884)	(3,681)
		(7,492)	(318)
Investing activities			
Due from related party		(1,150)	-
Additions to property, plant and equipment		(8,872)	(7,051)
		(10,022)	(7,051)
Financing activities			
Due to related parties		16,399	7,998
		16,399	7,998
Increase in cash		(1,115)	629
Cash, beginning of year		1,215	586
Cash, end of year		\$ 100	\$ 1,215
Supplementary Information			
Income taxes paid during the year		\$ -	\$ -

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis that the Distribution Division (the "Division") of Great Lakes Power Limited operates as a separate legal entity. The Division is engaged in the distribution of electricity to the area adjacent to Sault Ste. Marie, Canada and is subject to the regulations of the Ontario Energy Board (the "OEB"). These divisional statements have been prepared, for the purpose of complying with Section 2.1.6 of the Electricity Reporting and Record Keeping Requirements, in accordance with the accounting principles prescribed in the OEB Accounting Procedures Handbook (the "OEB Handbook") and, in circumstances where the OEB Handbook is not prescriptive, in accordance with Canadian generally accepted accounting principles. These financial statements do not include all of the assets, liabilities, revenues and expenses of Great Lakes Power Limited ("GLPL").

The following accounting policies have been applied in the preparation of these financial statements:

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Depreciation has been calculated on the cost of the distribution assets on a straight-line basis at rates prescribed in the OEB Handbook as follows:

	Method	Rate
Buildings	Straight-line	5 to 50 years
Equipment	Straight-line	5 to 25 years
Distribution stations, towers and related fixtures	Straight-line	25 to 40 years

Impairment of long lived assets

The Division reviews long-lived assets for other than temporary impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The determination of whether impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. Should an asset be considered to be impaired, an impairment loss is recognized in an amount equal to the excess of the asset's carrying value over its fair value.

Pension and Employee Future Benefits

The cost of retirement benefits for the Division's defined benefit pension plan and post-employment benefits is recognized as the benefits are earned by employees. The Division uses the projected benefit method pro-rated on the length of service and management's best estimate assumptions to value its pension and other retirement benefits. Assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are being amortized on a linear basis over the average remaining service period of active members expected to receive the benefits under the plan. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. The average remaining service lives under the defined benefit pension plan as at December 31, 2007 varies from 12.0 to 16.0 years (2006 – 12.0 to 16.5 years). The average remaining service

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

life under the post-employment benefit plan as at December 31, 2007 is 17.0 years (2006 – 17.0 years).

Capitalization of Interest

Interest on funds used during construction is charged to construction work in progress at the prescribed rate of return applicable to the rate base.

Revenue recognition

Revenue from the delivery of electricity is recorded on a basis of cyclical billings and includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

Purchased power

Purchased power represents all pass through charges billed to the Division by the Independent Electricity System Operator ("IESO"). This expense is comprised of Energy, Transmission, and Wholesale Market Service charges.

Interest expense

Interest expense has been calculated using the approved rate order debt amounts and rates.

Income taxes

The Division's income taxes are calculated on a separate tax return basis. However, GLPL was managing its tax position for the benefit of its business as a whole, and its tax strategies are not necessarily reflective of the tax strategies that the Division would have followed as a stand-alone company.

Use of estimates

The preparation of financial statements in conformity with the accounting principles prescribed in the OEB handbook and Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. During the years presented, management has made a number of estimates and valuation assumptions including accruals, depreciation, asset impairment and those relevant to the defined benefit pension plan. 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 estimates.

Rate Regulation

On January 1, 2005, the Division adopted CICA Handbook Accounting Guideline 19, "Disclosure by Entities Subject to Rate Regulation". The Division is regulated by the OEB. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred costs will be recovered in the future, the Division may defer these costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

future, the Division reports a regulatory liability. Also, if the regulation provides for lesser or greater planned revenue to be received or returned by the Division through future rates, the Division recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities are subject to certain estimates and assumptions, including assumptions made in the interpretation of the relevant regulation.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Division adopted the following new accounting standards for Canadian generally accepted accounting principles:

Handbook Section 1530, Comprehensive Income

This section establishes standards for reporting and presenting comprehensive income (loss), which is defined as the change in owners' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income (loss) until it is considered appropriate to recognize such amounts into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. There was no impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

Handbook Section 3251, Equity

The Division adopted Section 3251, Equity replacing Section 3250, Surplus. This section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive Income. There was no impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

Handbook Section 3855, Financial Instruments – Recognition and Measurement

Under Section 3855, all financial instruments are classified as one of the following: held-for-trading, held-to-maturity investments, loans and receivables, other financial liabilities, or available-for-sale financial assets. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

The Division has implemented the following classification:

- (a) Cash is designated as a financial asset held-for-trading and is measured at fair value through net income at each period end.
- (b) Accounts receivable, interest receivable and due from related parties are classified as loans and receivables. Accounts and other payables and due to related parties are classified as other financial liabilities. These accounts are measured at fair value at inception and are subsequently measured at amortized cost.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

- (c) The operating and capital debt facilities are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost.

There was no material impact on the Division's financial statements as a result of the adoption of the above accounting standard.

3. FUTURE ACCOUNTING POLICY CHANGES

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation.

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

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

The Division does not expect the adoption of these new standards to have a material impact on the financial statements.

4. INCOME TAXES

The Division's future income tax liability of \$843 (2006 - \$1,183) as at December 31, 2007 and the Division's future income tax recovery of \$356 (2006 - recovery \$318) for the year ended December 31, 2007 have not been recorded in the financial statements. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the regulated business at that time. As these financial statements report the results for the Division, the amounts presented for current income taxes represent the amounts that would be payable if the Division was a separate corporate entity.

5. RELATED PARTY TRANSACTIONS

- (a) The Division has provided advances to and received advances from entities under common control and other divisions of GLPL in the normal course of operations. These advances are non-interest bearing and unsecured. It is management's understanding that the advances due to related parties will not come due during the following year.
- (b) In the normal course of operations, Riskcorp Inc., a broker company affiliated with Brookfield Asset Management Inc., GLPL's ultimate parent, entered into transactions with GLPL to provide insurance. These transactions have been measured at exchange value. The total cost allocated

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

to the Division in 2007 for these services was \$111 (2006 - \$107) and no amount remains outstanding at year end (2006 - \$nil).

- (c) Operating debt facility in the amount of \$12,000 (2006 - \$12,000) represents funds due to another division of GLPL and is non-interest bearing, unsecured and due on demand. It is management's expectation that this loan will not come due during the following year.
- (d) Capital debt facility in the amount of \$20,500 (2006 - \$20,500) represents the amount of debt permitted under the application with the OEB, as adjusted, to be allocated to fund the ownership of property, plant and equipment and is unsecured. These funds are due to another division of GLPL. Interest charged to income on these funds is prescribed by regulation in the amount of 6.25% (2006 - 6.25%). Net interest expense on the capital debt facility during the year was as follows:

	2007	2006
Interest expense incurred	\$ 1,295	\$ 1,293
Capitalized interest	(38)	(115)
	\$ 1,257	\$ 1,178

- (e) As a result, the following balances are receivable (payable) at December 31:

	2007	2006
Advances to other divisions of GLPL	\$ 1,298	\$ 158
Advances to entities under common control	483	499
	\$ 1,781	\$ 657
Advances from other divisions of GLPL	\$ (19,285)	\$ (12,394)
Advances from entities under common control	(28)	-
	\$ (19,313)	\$ (12,394)

6. PROPERTY, PLANT AND EQUIPMENT

	2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 842	\$ -	\$ 842	\$ 842
Buildings	7,236	2,201	5,035	5,157
Equipment	22,245	13,943	8,302	515
Distribution stations, towers and related fixtures	71,846	29,336	42,510	45,531
Capital work in progress	814	-	814	422
	\$ 102,983	\$ 45,480	\$ 57,503	\$ 52,467

Cost and accumulated depreciation as at December 31, 2006 were \$94,921 and \$42,454, respectively.

Throughout the year the Division disposed of assets for total net proceeds of \$nil, resulting in a loss on disposal of \$22.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

7. PENSION AND EMPLOYEE FUTURE BENEFITS

GLPL maintains a multiemployer registered defined benefit, final pay pension plan and an unfunded non-pension benefit plan (the "Plans") for all of its employees. The non-pension plan includes benefits such as health and dental care, retirement bonuses and life insurance. The obligation under these plans is determined periodically through the preparation of actuarial valuations. The benefit plan contribution allocated to the Division for 2007 was \$946 (2006 - \$783). The investment rate of return was 6.75% (2006 - 7.00%). The discount rate used was 5.25% (2006 - 5.00%) with a rate of compensation increase of 3.50% (2006 - 3.50%).

GLPL also offers a defined contribution pension plan to certain employees. GLPL contributes amounts based on the level of employee contributions for this plan.

The defined benefit pension plan and post employment benefits information provided in the following table relates to the consolidated financial statements of GLPL.

	2007		2006	
	Defined Benefit Pension Plan	Non-Pension Benefits Plan	Defined Benefit Pension Plan ¹	Non-Pension Benefits Plan
Weighted average assumptions				
Benefit obligation				
Discount rate	5.50%	5.50%	5.25%	5.25%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Initial health care trend rate	-	5.91%	-	6.47%
Ultimate trend rate	-	4.27%	-	4.24%
Year ultimate rate reached	-	2016	-	2016
Benefit expense				
Discount rate	5.25%	5.25%	5.00%	5.00%
Long-term rate of return on plan assets	6.75%	-	7.00%	-
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Initial health care trend rate	-	6.47%	-	6.69%
Ultimate trend rate	-	4.24%	-	4.24%
Year ultimate rate reached	-	2016	-	2016
Accrued benefit obligations				
Balance, beginning of year	\$ 49,771	\$ 7,598	\$ 46,974	\$ 11,890
Current service cost	979	304	947	280
Interest cost	2,700	435	2,362	384
Employee contributions	381	-	372	-
Net benefit payments	(2,521)	(261)	(1,943)	(234)
Actuarial (gain) loss	(308)	147	(1,627)	(4,722)
Balance, end of year	\$ 51,002	\$ 8,223	\$ 47,085	\$ 7,598

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007

(in thousands of CDN dollars)

	2007		2006	
	Defined Benefit Pension Plan	Non-Pension Benefits Plan	Defined Benefit Pension Plan ¹	Non-Pension Benefits Plan
Fair value plan assets				
Balance, beginning of year	\$ 47,976	\$ -	\$ 43,550	\$ -
Employer contributions	2,398	261	1,583	234
Employee contributions	381	-	372	-
Actual return on plan assets	2,041	-	4,414	-
Benefits paid	(2,521)	(261)	(1,943)	(234)
Balance, end of year	\$ 50,275	\$ -	\$ 47,976	\$ -
Reconciliation of accrued benefit liability				
Plan (deficit) surplus	\$ (727)	\$ (8,223)	\$ 890	\$ (7,598)
Unamortized transitional obligation	3,342	3,989	1,549	4,487
Unamortized net actuarial loss (gain)	2,567	(1,421)	1,411	(1,583)
Valuation allowance	(252)	-	(227)	-
Accrued benefit asset (liability)	\$ 4,930	\$ (5,655)	\$ 3,623	\$ (4,694)
Expense				
Current service costs	\$ 979	\$ 304	\$ 947	\$ 280
Interest cost	2,700	435	2,362	384
Actual return on plan assets	(2,041)	-	(4,414)	-
Actuarial (gain) loss	(308)	147	(1,627)	(4,722)
Costs arising in the year	1,330	886	(2,732)	(4,058)
Differences between costs arising in the period and costs recognized in the period in respect of:				
Actuarial (gain) loss	308	(162)	1,627	4,691
Return on plan assets	(1,206)	-	1,367	-
Transitional obligation	520	499	310	499
Increase in valuation allowance provided against accrued benefit asset	26	-	227	-
Net expense	\$ 978	\$ 1,223	\$ 799	\$ 1,132

¹ The fiscal year ended December 31, 2006 figures did not include the GLPL Supplemental Plan. If this was included, the deficit would increase by \$2,685, unamortized transitional obligation would increase by \$2,313, the unamortized net actuarial loss would increase by \$258, and the accrued benefit asset would decrease by \$114.

The accrued benefit liability allocated to the Division as at December 31, 2007 and 2006 is \$280 and \$153, respectively and has been recorded in accounts and other payables.

In 2007, the total employer expense for the Division's defined contribution pension plan was \$128 (2006 - \$132).

Actuarial valuations

Actuarial valuations for these plans are required every three years. The most recent actuarial valuations for the pension and non-pension benefit plans ranged from June 1, 2006 to December 31, 2006. GLPL measures its accrued benefit obligations and the fair value of plan assets for

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

accounting purposes as at December 31 of each year. The valuations include an indexation of pension payments of 2.00% per year (2006 – 2.00% per year). GLPL may choose to perform valuations for these plans prior to the earliest required dates.

Sensitivity analysis

GLPL's sensitivity in the non-pension benefit plan to a 1% change in the health care cost trend rate, for the year ended December 31, 2007, is summarized as follows:

	Benefit Obligation	Benefit Expense
Impact of a 1% increase in health care cost trend rate	\$ 1,761	\$ 205
Impact of a 1% decrease in health care cost trend rate	\$ (1,350)	\$ (150)

Asset category

GLPL's defined benefit pension plan asset allocations at December 31, by asset category are as follows:

	2007	2006
Equity securities	60%	60%
Debt securities	40%	40%
Total	100%	100%

Cash payments

All employer contributions were fully paid during the year and as such, no balance owing remains outstanding as at year-end.

8. STATEMENT OF CASH FLOWS

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

	2007	2006
Accounts and interest receivable	\$ 1,046	\$ (621)
Due from related parties	26	(678)
Prepaid expenses and other	(33)	6
Materials and supplies	(21)	(213)
Long-term portion of rate mitigation accrual	(2,620)	(2,584)
Accounts and other payables	(128)	1,553
Due to related parties	(9,480)	-
Taxes payable	118	330
Regulatory assets and liabilities (net)	208	(1,474)
	\$ (10,884)	\$ (3,681)

Capital asset additions totaling \$773 which were included in accruals at December 31, 2006, have been included in the statement of cash flows for 2007, as they resulted in a cash outflow during the year. Similarly, capital asset additions totaling \$518 included in accruals at December 31,

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(In thousands of CDN dollars)

2007, have been excluded from the statement of cash flows for 2007, as they did not result in a cash outflow during the year.

9. EFFECTS OF RATE REGULATION

The Division operates in accordance with the regulations of the OEB. Regulatory assets and liabilities represent certain revenues earned or costs incurred in the current year or in prior years that have been or are expected to be recovered from customers upon approval from the OEB. In the absence of rate regulation, these balances would have been recorded as revenues or expenses in the statement of operations and other comprehensive loss.

The recovery period for these regulatory accounts is not determinable until the application filed by the Division on August 31, 2007 is approved by the OEB. The OEB has guaranteed approval of the variance accounts as per Article 490 of the Accounting Procedures Handbook.

a) The Division recorded the following regulatory assets and liabilities as at December 31:

	2007	2006
<i>Regulatory assets</i>		
OEB variance accounts	\$ 1,109	\$ 1,110
OEB cost assessment fees	156	156
	\$ 1,265	\$ 1,266
<i>Regulatory liabilities</i>		
Transition costs recovery	\$ 767	\$ 560
	\$ 767	\$ 560

OEB variance accounts

As prescribed by regulatory order, OEB variance accounts are used to record the net amounts charged by the IESO and the amount billed to customers, resulting in a regulatory asset or liability. These balances will be recovered or refunded through rates as approved by the OEB.

OEB cost assessment fees

As prescribed by regulatory order, this regulatory account relates to the recovery of cost assessment fees in 2004 and 2005. The recovery period for this balance is unknown at this time. This balance has been included with the 2007 rate application and upon approval, a recovery period will be determined. The risk of non-approval of this balance is negligible because this balance has been recorded as a regulatory asset as prescribed by regulatory order.

Transition costs recovery

As prescribed by regulatory order, this regulatory account relates to the recovery of certain allowed transition costs based on the OEB interim regulatory asset recovery order. During 2007, \$207 (2006 - \$295) was recovered relating to this account through rates. Upon approval from the OEB, this balance will be netted against property, plant and equipment.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

b) Rate mitigation accrual

The rate mitigation accrual relates to the return on equity portion of the revenue requirement from the 2002 rate application to the OEB. Distribution revenue in the amount of \$14,436 (2006 - \$11,927) has been accrued in accordance with the mitigation strategy submitted with the 2002 rate application, with the current portion in the amount \$1,066 (2006 - \$1,066) recorded in accounts and interest receivable. In 2007, \$320 (2006 - \$209) was included in the rate mitigation accrual relating to the cash shortfall that will be collected in future years due to the re-classification of customers to a class with a lower rate, as per the direction from the OEB. The application to the OEB to collect the accrual balance as at December 31, 2003 in the amount of \$4,053 has been approved and as of December 31, 2007, \$2,429 has been collected (2006 - \$1,470). On August 31, 2007, management filed an application to the OEB to continue recovery of its rate mitigation accrual balance up to the date the proposed rates become effective. This revenue has been accrued on the basis that it is collectible through future rates. Management assesses the collectibility of this amount periodically. Collectibility of this balance is supported by the fact that the OEB has approved the rate mitigation accrual at December 31, 2003 and therefore, management believes that the current balances will be approved by the OEB upon submission of the respective applications.

The methodology relating to the calculation of the rate mitigation accrual has been revised (change in accounting estimate). Refer to note 12 for more information.

c) Customer reclassification accrual

The customer reclassification accrual relates to a deficiency arising from the reclassification of one of the Division's customers. As prescribed by regulatory order (RP-2005-0013, EB-2005-0031), the Division is to record the deficiency and apply for recovery at a future date. In accordance with this order, distribution revenue in the amount of \$320 (2006 - \$209) has been recorded as part of the rate mitigation accrual.

10. FINANCIAL INSTRUMENTS

a) Fair value

The carrying amounts in the balance sheet of accounts and interest receivable, due from related parties, accounts and other payables, and taxes payable approximate their fair values, reflecting their short maturities.

The fair values of the operating and capital debt facilities with GLPL Investment Division and the amounts due to related parties are not determinable by management due to the related party nature of the balances.

b) Interest rate risk

The Division's capital debt facility debt bears interest at a rate set periodically by the OEB. Consequently, there is cash flow exposure.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(In thousands of CDN dollars)

c) Credit risk

Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Division would incur a loss in replacing the defaulted transaction. The Division's financial instruments that are potentially exposed to credit risks are accounts and interest receivable. The Division actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures.

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

11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, the Division executes agreements that provide for indemnification and guarantees to third parties in transactions such as debt issuances. The nature of substantially all of the indemnification undertakings prevents the Division from making a reasonable estimate of the maximum potential amount the Division could be required to pay third parties as the agreements do not 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, the Division has not made significant payments under such indemnification agreements.

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

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

12. CHANGE IN ACCOUNTING ESTIMATE

The Division records the rate mitigation accrual using management's best estimate based on the latest available, reliable information. During 2007, management revised the methodology for recording the rate mitigation accrual to record a fixed annual amount, which places all volume variance risk on the Division. This method of estimation is generally accepted by the OEB.

The change in the accounting estimate for the recording of the rate mitigation accrual resulted in a change in the amount of the accrual recorded on the balance sheet during the year. The net effect of the difference of the change in estimate for the recording of the rate mitigation accrual for the current year is:

Accrual balance with revised estimate as of December 31, 2007	Balance with previous estimate as of December 31, 2007	Net effect
\$ 14,436	\$ 14,358	\$ (78)

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

It is impracticable to estimate the net effect of the change in the accounting estimate on the future periods due to the outstanding rate application with the OEB.

GREAT LAKES POWER DISTRIBUTION

Pro-forma Statement of Income

Years ended December 31

	<i>Forecast</i>	<i>Forecast</i>
(dollars in thousands)	2010	2009
Revenues	\$ 17,614	\$ 17,630
Expenses		
Operating and administrative	6,191	6,011
Maintenance	3,634	3,528
Interest	2,725	2,378
Depreciation	4,560	3,876
Taxes, other than income taxes	220	283
	17,330	16,076
Net operating Income	284	1,554
Net income before income taxes	284	1,554
Income taxes - current	231	(267)
Net income	\$ 515	\$ 1,287

Income Tax Calculation		
EBT	\$ 284	\$ 1,554
add: Depreciation	4,560	3,876
less: CCA	(5,392)	(4,528)
less: Capitalized Interest	(152)	(106)
Taxable Income	(701)	796
Current Income Tax (33.5% & 33.0%)	\$ (231)	\$ 267

GREAT LAKES POWER DISTRIBUTION

Pro-forma Balance Sheet

December 31

(dollars in thousands)	<i>Forecast 2010</i>	<i>Forecast 2009</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,955	\$ 2,748
Accounts receivable	3,952	3,954
Prepaid expenses and other	100	100
Materials and supplies	1,206	1,206
	<u>7,213</u>	<u>8,008</u>
Regulatory asset	3,468	3,084
Rate mitigation accrual	13,127	14,440
Property, plant and equipment (Note 1)	77,440	66,772
	<u>\$ 101,248</u>	<u>\$ 92,304</u>

Liabilities and Capital account		
Current liabilities		
Accounts payable and accruals	\$ 3,566	\$ 3,333
	<u>3,566</u>	<u>3,333</u>
Capital debt facility (allocated debt)	44,673	38,977
	<u>48,239</u>	<u>42,310</u>
Capital account	53,009	49,994
	<u>\$ 101,248</u>	<u>\$ 92,304</u>

Notes:

- 1 Fixed Asset additions for 2009 are based on the division's 2009 Capital Expenditures budget. The 2010 Fixed Asset additions are based on the division's 20 year outlook.

GREAT LAKES POWER DISTRIBUTION

Pro-forma Statement of Retained Earnings

Years ended December 31

(dollars in thousands)	<i>Forecast</i> 2010	<i>Forecast</i> 2009
Balance, beginning of year	\$ 49,994	\$ 24,684
Net income	515	1,287
Dividends / investments (Note 1)	2,500	24,023
Balance, end of year	\$ 53,009	\$ 49,994

Note:

- 1 Dividends / Investment acts as a revolving debt that funds the capital spending and operations of the division.

GREAT LAKES POWER DISTRIBUTION

Pro-forma Statement of Cash Flows

Years ended December 31

(dollars in thousands)	<i>Forecast</i> 2010	<i>Forecast</i> 2009
Operating activities		
Net Income	\$ 515	\$ 1,287
Add non cash item:		
Depreciation	4,560	3,876
Net change in non-cash working capital	1,164	6,931
	<u>6,239</u>	<u>12,094</u>
Investing activities		
Due from/(to) related parties	-	2,080
Proceeds on disposition of property, plant and equipment, net	-	4,889
Property, plant and equipment additions	(15,228)	(10,644)
	<u>(15,228)</u>	<u>(3,675)</u>
Financing activities		
Due to related parties	-	(26,949)
Operating debt facility	-	(12,000)
Capital debt facility (allocated debt)	5,696	2,977
Dividends / investments	2,500	24,023
	<u>8,196</u>	<u>(11,949)</u>
Increase (decrease)	(793)	(3,530)
Balance, beginning of year	2,748	6,278
Balance, end of year	\$ 1,955	\$ 2,748

Brookfield Asset Management

2007 Annual Report



Profile and Investment Principles

Brookfield is a global asset manager. Focused on property, power and infrastructure assets, the company has approximately \$95 billion of assets under management and is co-listed on the New York, Toronto and Euronext stock exchanges under the symbol BAM.

BUSINESS PHILOSOPHY

- Build the business based on honesty and integrity in order to enhance our reputation
 - Attract and retain high calibre individuals who will grow with us over the long term
 - Ensure our people think and act like owners in all their decisions
 - Treat our clients' money like it is our own
-

INVESTMENT GUIDELINES

- Invest where we possess competitive advantages
 - Acquire assets on a value basis with a goal of maximizing return on capital
 - Build sustainable cash flows to provide certainty, reduce risk and lower the cost of capital
 - Recognize that superior returns often require contrarian thinking
-

MEASUREMENT OF OUR CORPORATE SUCCESS

- Measure success over the long term by total return on capital
 - Encourage calculated risks, but compare returns with risk
 - Sacrifice short-term profit, if necessary, to achieve long-term capital appreciation
 - Seek profitability rather than growth, because size does not necessarily add value
-

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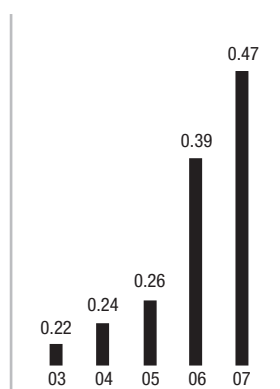
Financial Highlights

AS AT AND FOR THE YEARS ENDED DECEMBER 31

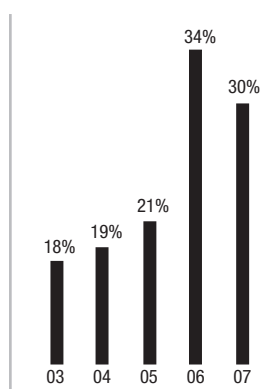
(MILLIONS, EXCEPT PER SHARE AMOUNTS)

	2007	2006	2005
Per fully diluted common share			
Cash flow from operations	\$ 3.11	\$ 2.95	\$ 1.46
Cash return on equity	30%	34%	21%
Market trading price – NYSE	\$ 35.67	\$ 32.12	\$ 22.37
Net income	\$ 1.24	\$ 1.90	\$ 2.72
Dividends paid	\$ 0.47	\$ 0.39	\$ 0.26
Total			
Assets under management	\$ 94,340	\$ 71,121	\$ 49,700
Consolidated balance sheet assets	\$ 55,597	\$ 40,708	\$ 26,058
Revenues	\$ 9,343	\$ 6,897	\$ 5,220
Operating income	\$ 4,509	\$ 3,776	\$ 2,319
Cash flow from operations	\$ 1,907	\$ 1,801	\$ 908
Net income	\$ 787	\$ 1,170	\$ 1,662
Diluted number of common shares outstanding	611	611	608

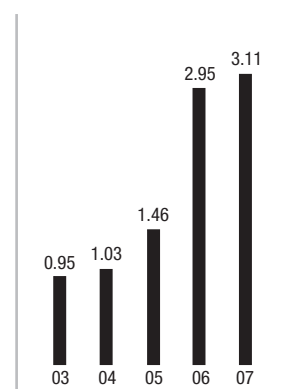
Dividends Per Common Share
in dollars



Return on Equity
percentage



Cash Flow Per Share
in dollars



A Global Asset Manager



We are a long-term, value-oriented investor with approximately \$95 billion of assets under management.

Our primary objective is to own and manage investment funds that generate attractive long-term returns through the direct and indirect ownership of assets producing sustainable cash flows in our areas of expertise – property, power, infrastructure and specialty funds.

With over 100 years of experience investing and operating these high quality assets globally, we are uniquely positioned to offer specialty investment products to our clients.



**Market
Capitalization***

\$20 billion

**Assets Under
Management**

\$95 billion

**Stock Exchange
Listings**

NYSE, TSX, Euronext

**Employees in the Americas,
Europe and Australasia**

Over 10,000

* As at December 31, 2007

Letter to Shareholders

OVERVIEW

In 2007, we recorded our highest ever cash flow from operations of \$1.9 billion or \$3.11 per share. This represented only a slight increase over 2006 given the special gains we recorded that year but is more than double our results in 2005. This cash flow growth was due to increased assets under management, solid performance from most of our operations, and some realization items. Net income was approximately \$800 million and while not as relevant a measure for our business because it includes depreciation, was nonetheless one of the highest in the company's history.

Higher cash flows and increased assets under management translated into an increase in the intrinsic value of our business overall, with a few notable but thankfully small exceptions. Our share price in the market increased by 11% over the year. Including dividends, the total return for 2007 was 12%, although that market gain has been erased since the beginning of January given the general malaise in the financial markets.

Our shares underperformed their five and 10 years' averages in the stock market, but given the negative performances of asset managers, property related companies and financial entities we at least held our own.

Annualized Returns	Brookfield — NYSE	S&P	TSX
YEARS			
1	12%	6%	10%
5	46%	13%	18%
10	25%	6%	10%
20	16%	12%	10%

In 2007, we achieved many of our goals and missed a few. Most importantly, our funds continue to record strong investment results and we have expanded our operating platform around the globe. We now have a physical presence in most of the world's major markets.

We increased gross assets under management by \$25 billion, enhanced our fundraising capabilities, expanded the business into Australia, the Middle East and Asia, invested approximately \$10 billion of capital and are in the midst of fundraising for a number of new funds within our areas of expertise. Notable additions to our assets under management were the purchase of \$7 billion of property assets in Australia and New Zealand, \$1 billion of retail shopping centres in Brazil and approximately \$2 billion of timber and agricultural lands. We also added \$6 billion of real estate equities and fixed income advisory mandates, largely through the acquisition of a specialty investment management firm, which we intend to further expand globally and into new infrastructure product offerings.

Looking to 2008, we believe we are well positioned to continue building our business in the current environment. We have significant capital available, a healthy balance sheet and a performance culture where operating management teams can find a home as long-term owners and operators of their businesses. We believe these three items provide us with a strategic advantage over many other global asset managers, and should bode well for us in 2008 and 2009.

MARKET ENVIRONMENT

For almost 20 years, we have witnessed a period of unprecedented world economic growth and prosperity interrupted only briefly by periods of mild recession. This incredible period of growth has been fueled by globalization, the collapse of communist protectionism, huge productivity gains made possible by technology, and the secular decline of inflation and long-term interest rates, among other factors.

But as with everything, pressures and stresses eventually build up. Over the past few years, most of these remained below the surface. However, since the summer of 2007 they have now come into plain view. The first signs showed up in the debt

markets, which by mid 2007 had become extremely robust. Today, credit spreads have widened dramatically as global banks struggle to clear their unsold inventory of transactions and deal with residential mortgage securities created in the prior environment. What began as a bank issue, is now beginning to affect homeowners, consumers and industry in general.

Time will tell how all of this plays out. That said, the powerful forces that started this period of positive growth largely remain in place. This provides us with many reasons to remain optimistic over the longer term. Nonetheless, we remain cautious in these uncertain times and have taken a number of actions and measures over the past six months to help manage our risks in this changing environment. Specifically, we:

- raised capital wherever possible and extended the duration of debt. In particular, we sold assets which were not core to our long-term business;
- ensured that our investment teams did not commit to any significant investment opportunities without committed financing in place;
- reduced the risk of short-term financial assets that we hold, through outright sale, or other means; and,
- purchased credit protection on a portfolio of approximately \$2 billion notional of corporate debt as a hedge against the rising cost of debt due to a widening in credit spreads. To date, this credit protection has generated realized and unrealized gains in excess of \$100 million, some of which were accounted for in the results in 2007.

Fortunately, we have entered 2008 in a strong financial position. We also believe the current volatile environment favours long-term owners and operators of assets. Our balance sheet strength and our long-term investment horizon should, as a result, play to our advantage as other owners of assets wishing to sell begin to place greater importance on certainty

of closing. And, as we typically finance our investments with significant equity, often comprising up to 50% of the purchase price, and finance the balance with fixed-rate, long-term investment grade financing, we are not as affected as many of our competitors who rely on the more volatile high-yield debt markets to finance their acquisitions.

With credit costs and terms tighter, much of the drive behind the recent leveraged buyout environment has dissipated. With these factors no longer driving prices, we are more likely to attain our long-term return on investment goals going forward. In the context of these forward-looking views, we believe there will be great opportunities to put investment capital to work in our areas of focus in order to generate greater-than-average returns over the longer term.

And despite the possibility of a U.S. recession, we believe in the resilience of the U.S. economy, and the dramatic impact that the integration of the developing world is having on world GDP growth. These facts favour a positive investment environment once this adjustment process has run its course.

GOALS AND STRATEGY

As stated before, our long-term goal is to achieve a compound 12% annual growth in the cash flows from operations on a per-share value. This should lead to a total underlying value increase on a per-share basis of greater than 12%. This return will not occur consistently each year, but we believe we can achieve this objective over the longer term by continuing to focus on four key operating strategies:

- Build a world-class asset management firm for institutional and retail investors, offering a focused group of products on a global basis to our clients.
- Differentiate our product offerings by utilizing our decades of investment and operating experience and our long-term investment horizons, allowing us to have a different, longer-

term perspective in acquisitions and building operations, thereby enabling us to generate greater returns over the long term for our partners.

- Focus our products on simple to understand, high quality, long-life, cash-generating physical assets that require minimal sustaining capital expenditures and have some form of barrier to entry, a characteristic which should lead to appreciation in the value of these assets over time.
- Maximize the value of our operations by actively managing our assets to create operating efficiencies, lower our cost of capital and enhance cash flows. Given that our assets generally require high initial capital investment, have relatively low variable cost, and can be leveraged on a long-term, low-risk basis, even a small increase in the top-line performance typically results in a much more meaningful contribution to the bottom line.

We believe we can continue to successfully grow our global asset management business, because underlying fundamentals for asset management, particularly within the infrastructure space, continue to be positive. In fact, in an uncertain world, we believe our lower-risk, lower-volatility products should become even more appealing, especially as investors reprice risk in the marketplace.

Changes in both demand and supply continue to drive the fundamentals of our business. With respect to demand for our products, institutional pools of capital across the world now total in excess of \$20 trillion. As allocations by these investors to our type of products increase, we believe the demand for our product offerings will continue to grow at a rapid pace.

At the same time, the required investment in infrastructure assets is estimated at several trillion dollars annually in order to provide proper infrastructure in emerging economies, ensure appropriate upkeep of infrastructure in currently developed markets, and support further global expansion. We need only

to participate in a very small way to fulfill our plans over the next ten years.

GLOBAL OPERATING PLATFORM

For many decades we have owned and operated the type of assets we now buy in conjunction with our asset management clients. We believe this differentiation, with hands-on operators in all of our businesses, has and will continue to enable us to outperform investors who do not have these capabilities.

In order to service our highly sophisticated group of investors, we have continued to invest in our existing operating platforms in property, renewable power, timber and transmission. We have also been developing operating platforms to support other emerging forms of infrastructure, and globalized the business because many institutions are increasingly looking for an investment manager with a global product offering, providing reliable one-stop shopping.

Over the past five years we have increased our staff to over 10,000, which includes 300 investment professionals. We have enhanced our presence in North and South America, built upon our business in Europe, added a meaningful presence in Australia, and established bases in Dubai, Hong Kong and China. We believe this corporate investment will pay off for you and for our co-investors as we increase the size of many of our fund offerings in the next few years.

CURRENCIES

The increasingly global nature of our operating platforms has had the effect of increasing the foreign content of our business. To date, because of the decline of the U.S. dollar, this internationalization has added value to the company, compared to having only been invested in the U.S.

We report our results in U.S. dollars and, from a currency perspective, changes in the value of the U.S. dollar relative to

other currencies will impact the operating results and values of our non-U.S. activities. Often we hedge our non-U.S. operations with local debt, but typically the equity and increases in value are not hedged. We estimate that currently approximately 50% of our market capitalization is represented by U.S. dollars and the balance of 50% is invested internationally. The largest international investments are in Canada and Australia, with the next largest in Brazil and the UK.

The decline of the U.S. dollar against world currencies in 2007 had a positive impact on the intrinsic values and cash flow producing ability (in U.S. dollars) of our non-U.S. assets. A 10% movement in the U.S. dollar against our other currencies results in a change in the value of approximately \$2.00 per share. These numbers are merely indicative, and the exact calculations will change quarterly. And, while we don't try to take currency positions, we are an international investor, and therefore our returns are inevitably affected by currency movements across the world.

MARKETING OF FUNDS

During 2007, we added approximately \$10 billion of managed capital to our operations and are currently in the market with a number of private funds where we hope to raise several billions more. Most of this capital will come from global institutional investors, and in order to accommodate the increased demands on our resources, we have continued to expand our capabilities, both to market these funds and to better service these institutions.

In addition to private funds, we also sponsor specialty public issuers that enable public market investors to participate directly in our investment strategies. The first major initiative in this regard was the creation of NYSE-listed Brookfield Infrastructure Partners. By now you should have each received your units of this new entity by way of a special dividend. As articulated before, we intend to utilize Brookfield Infrastructure

as our primary growth vehicle for the purchase of certain infrastructure assets in the future. We hope that Brookfield Infrastructure will appeal to those investors seeking higher yield and lower volatility than traditional equity investments.

Our long-term goal is to substantially expand our assets under management, ultimately ending up with our commitment to each strategy at less than 20%. As a result, and given the scale of capital which we have in the business today, we should be able to substantially grow our assets under management with the capital we have in the business.

INVESTMENT RETURNS AND FINANCIAL REPORTING

As stated in our second quarter report to you, we are often asked about the overall make-up of our cash flow from operations, and in particular, whether we focus on current cash flows or cash flows on a total-return basis. The short answer is that we focus on both, but predominantly on total return.

To date, for simplicity purposes, we have focused our reporting to you on the cash flows generated on an ongoing basis from our operations and realization gains as they occur. Given our continued focus on total-return investing, this is an important concept to understand and worth exploring in further detail.

On average, we invest capital seeking at least a 12% to 15% leveraged return. We assess returns on a total basis – meaning that we include the present values of cash flows received over the life of our investment as well as the “terminal value,” which represents the value of the investment at a future point in time. This is commonly referred to as an internal rate of return, or “IRR”.

As you know, we focus on assets that we believe will generate increasing levels of cash flow over time, and that appreciate in value. In many cases, the current cash return from an investment at inception may be well below the targeted IRR. This means that for accounting purposes, the returns that are

reflected in our financial results are typically significantly below our internal rate of return in the early years of our ownership. Over time, as the cash flows increase, higher returns will be reflected in our reported results.

What is usually not reflected in our financial results are increases in the values of our investments over the amount of the original invested capital. The values of assets such as ours typically increase by an amount equal to the capitalized value of the increase in the associated cash flows. This appreciation in value is generally not reflected in our financial results until such time as we sell the asset, at which point we will record a realization gain. However, we are generally inclined to hold assets indefinitely, preferring to monetize the accrued value by refinancing the asset as opposed to an outright sale. This has the added benefit of deferring any accrued tax liability but, in the absence of a crystallization event, the accrued value may never appear in our reported financial results.

The implications of this analysis are twofold. The first is that the cash flows reported on a meaningful amount of our capital are not, in our view, representative of the total return that we expect to receive over the life of the investment. This is particularly so for newer investments, development initiatives, and securities investments. The second implication is that realization gains, when they do occur, form an important part of our total returns and typically represent only a small portion of the overall increase in intrinsic value that is built each year within our operations.

SUMMARY

We remain committed to building a world-class asset manager, and investing capital for you and our co-investment partners in high quality, simple to understand assets which earn a solid cash-on-cash return on equity, while always emphasizing downside protection of the capital employed.

The primary objective of the company continues to be generating increased cash flows, and as a result, higher intrinsic value on a per-share basis over the longer term.

It is always important to remind ourselves that there may be occasional periods of time, maybe years, when the market value of any company, for various reasons, may not equate to the intrinsic value of the business. This fact often presents us opportunities to acquire assets in the public market at less than intrinsic value, but can similarly affect your shareholdings in our company for periods of time. Given the “bearishness” that exists in the capital markets today, this is probably more important to note than usual.

And, while I personally sign this letter, I respectfully do so on behalf of all of the members of the Brookfield team, who collectively generate the results for you. Please don’t hesitate to contact any of us, should you have suggestions, questions, comments, or investment ideas.



J. Bruce Flatt
Managing Partner
February 7, 2008

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report to Shareholders contains forward-looking information within the meaning of Canadian provincial securities laws and other “forward-looking statements”, within the meaning of certain securities laws including Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. We may make such statements in this report, in other filings with Canadian regulators or the SEC or in other communications. These forward-looking statements include among others, statements with respect to our financial and operating objectives and strategies to achieve those objectives, capital committed to our funds, the potential growth of our asset management business and the related revenue streams therefrom, statements with respect to the prospects for increasing our cash flow from or continued achievement of targeted returns on our investments, as well as the outlook for the company’s businesses and for the Canadian, United States and global economies and other statements with respect to our beliefs, outlooks, plans, expectations, and intentions.

The words “believe”, “typically”, “expect”, “think”, “potentially”, “encouraging”, “principally”, “tend”, “primarily”, “generally”, “represent”, “anticipate”, “position”, “intend”, “estimate”, “encouraging”, “expanding”, “scheduled”, “should”, “endeavour”, “promising”, “seeking”, “often” and other expressions of similar import, or the negative variations thereof, and similar expressions of future or conditional verbs such as “may”, “will”, “should”, “likely”, “would” or “could” are predictions of or indicate future events, trends or prospects and which do not relate to historical matters or identify forward-looking statements. Although Brookfield Asset Management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: economic and financial conditions in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and exchange rates; availability of equity and debt financing; strategic actions including dispositions; the ability to effectively integrate acquisitions into existing operations and the ability to attain expected benefits; the company’s continued ability to attract institutional partners to its Specialty Investment Funds; adverse hydrology conditions; regulatory and political factors within the countries in which the company operates; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; and other risks and factors detailed from time to time in the company’s form 40-F filed with the Securities and Exchange Commission as well as other documents filed by the company with the securities regulators in Canada and the United States including in the Annual Information Form under the heading “Business Environment and Risks”.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Brookfield Asset Management, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as may be required by law, the company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

CAUTIONARY STATEMENT REGARDING USE OF NON-GAAP ACCOUNTING MEASURES

This Annual Report and accompanying consolidated financial statements make reference to cash flow from operations on a total and per share basis. Management uses cash flow from operations as a key measure to evaluate performance and to determine the underlying value of its businesses. The consolidated statements of cash flow from operations provides a full reconciliation between this measure and net income. Readers are encouraged to consider both measures in assessing Brookfield’s results.

Management's Discussion and Analysis of Financial Results

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PART 1 – INTRODUCTION

The information in this Management Discussion and Analysis of Financial Results ("MD&A") should be read in conjunction with our audited consolidated financial statements, which are included on pages 83 through 115 of this report. Additional information, including the company's Annual Information Form, is available on the Corporation's web site at www.brookfield.com and on SEDAR's web site at www.sedar.com. For additional information on each of the five most recently completed financial years, please refer to the table on page 116 of this report.

BUSINESS OVERVIEW

Brookfield is a global asset management company, with a primary focus on property, power and infrastructure assets. We have established leading operating platforms in these sectors and, through them, own and manage a broad portfolio of high quality assets that generate long-term cash flows and opportunities for value creation for us and our clients. We create value for our shareholders by increasing, over time, the cash flows generated by managing these assets for our clients as well as from the capital that we have invested alongside our clients.

BASIS OF PRESENTATION

We have organized the MD&A on a basis that is consistent with how we operate the business. We organize our activities into a Corporate Group and individual Operating Platforms which focus on a specific business segment. These platforms include commercial properties, power generation, infrastructure, development and other properties, specialty funds and advisory services.

We make a distinction within our operating platforms between Asset Management and Operations. We characterize Asset Management as including, among other things: strategic oversight, investment analysis, capital allocation and advisory and other specialized services such as investment banking, facilities management and property leasing. Operations represent the balance of activities directly associated with the underlying businesses. Accordingly, we segregate our financial results between Asset Management and Operations. We also segregate our financial results and our assets, liabilities and capital by Operating Platform.

In reporting our asset management activities, we recognize not only the results of the asset management activities that we perform on behalf of our clients, but also in respect of our own capital. We do this in order to present our results and margins on a consistent

and more meaningful basis. For capital invested by us in established funds, we report the related fees on the same terms as our clients. For the balance of our capital that is invested directly in similar assets, we attribute cash flows by applying a percentage fee to the estimated value of the operations. While this attribution is currently an internal allocation, we intend to provide co-investors the opportunity to participate in many of these assets over time, which will replace this attribution with cash flows from third parties and provide us with additional capital to expand our operating platforms in the process.

We use operating cash flow as a key measure of our financial performance. This is a non-GAAP measure and differs from net income, and may differ from definitions of operating cash flow used by other companies. We define operating cash flow as net income prior to such items as depreciation and amortization, future income tax expense and certain non-cash items that in our view are not reflective of the underlying operations.

We present invested capital and operating cash flows on a “total” basis, which is similar to our consolidated financial statements and a “net” basis. Net invested capital and net operating cash flows represent our pro rata interest in the underlying net assets and cash flows. They are, with the exception of the operations of Brookfield Properties Corporation, presented on a deconsolidated basis meaning that assets are presented net of associated liabilities and non-controlling interests. Similarly, cash flows are represented net of carrying charges associated with related liabilities and cash flow attributable to related non-controlling interests. Net invested capital and net operating cash flows, in our view, represent a more consistently comparable basis of presentation than our consolidated financial statements which include our operations under various methods, including equity accounting, proportional consolidation and full consolidation.

We provide reconciliations between this basis of presentation in the MD&A and our consolidated financial statements. In particular, we reconcile operating cash flow and net income on page 30. The tables on pages 72 and 73 provide a reconciliation between our consolidated financial statements and basis of presentation used herein.

Unless the context indicates otherwise, references in this MD&A to the “Corporation” refer to Brookfield Asset Management Inc., and references to “Brookfield” or “the company” refer to the Corporation and its direct and indirect subsidiaries and consolidated entities. All financial data included in the MD&A has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and specified non-GAAP measures unless otherwise noted. All figures are presented in U.S. dollars, unless otherwise noted.



Brian D. Lawson
Managing Partner and Chief Financial Officer
February 7, 2008



Sachin G. Shah
Senior Vice President, Finance

PART 2 – PERFORMANCE REVIEW

SUMMARY

In this section we review our performance during 2007, our financial position at year end and our outlook for 2008. Further details on our operations and financial position are contained within Part 5 – Description of Operating Platforms beginning on page 48.

Operating cash flow totalled \$1.9 billion for the year compared with \$1.8 billion in 2006 and \$0.9 billion in 2005. This represents an increase of 6% over 2006 and is more than double the cash flows reported in 2005. Excluding the impact of realization gains, operating cash flows increased by 46% over the comparable 2006 results.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2007	2006	2005
Operating cash flow			
– total	\$ 1,907	\$ 1,801	\$ 908
– per share ¹	3.11	2.95	1.46
– prior to realization gains	1,736	1,191	908

¹ Adjust to reflect three-for-two stock split

We continued to make progress in expanding our asset management activities and associated income through the acquisition of additional assets and expansion into new geographic regions. This has resulted in increases in both assets and capital under management, a higher level of annualized base fee revenues and increases in the amount of accumulated performance returns such as performance fees, carried interest participations and incentive distributions. We recorded improved results across most of our operating platforms, particularly in our property and specialty fund groups, which generated strong investment returns for ourselves and our clients. We also experienced strong performance within our private equity and financial asset portfolios, which more than offset the impact of lower water levels on our power generation facilities as well as the impact of weakness in the U.S. housing markets. The increase in 2006 operating cash flow from the 2005 results reflected a higher level of realization gains, expansion of our operating platform through acquisitions and the impact of above average water flows on our power generation business.

Realization gains contributed \$171 million during 2007 compared with \$610 million in 2006. Realization gains are gains or losses that arise on transactions involving long-term assets and liabilities, such as a disposition or change in ownership. We do not include gains or losses that relate to shorter-term items such as financial assets or assets held in opportunity or restructuring funds, because these are a regular part of ongoing activities. The timing of realization gains is, due to their nature, difficult to predict, however, they do reflect a portion of the increase in the underlying value of our operations and represent an important part of our long-term returns.

The following table presents net income for the past three years determined in accordance with Canadian GAAP. We do not utilize net income as a key metric in assessing the performance of our business because, in our view, it contains measures that may distort the ongoing performance and intrinsic value of the underlying operations. Nevertheless we recognize the importance of net income as a key measure for many users and provide a full discussion of our net income and a reconciliation to operating cash flow.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2007	2006	2005
Net income			
– total	\$ 787	\$ 1,170	\$ 1,662
– per share ¹	1.24	1.90	2.72
– prior to realization gains and accounting change	941	624	562

¹ Adjust to reflect three-for-two stock split

Net income prior to realization gains and a change in accounting policy was \$941 million compared with \$624 million last year and \$562 million in 2005. The increase in each of 2007 and 2006 over prior years reflects increases in operating cash flow noted above, offset by depreciation on recently acquired assets. We reconcile net income to operating cash flow on page 30.

Realization gains included in net income totalled \$177 million in 2007, representing the \$171 million of net gains included in operating cash flows as noted above and a \$6 million recovery of non-cash accounting tax provisions net of minority interests. Realization gains included in net income during 2006 totalled \$546 million, and differs from the \$610 million of gains included in operating cash flow due to non-cash tax provisions net of minority interest totalling \$64 million. Realization gains in 2005 represented an after-tax gain of \$1.1 billion on the sale of a large legacy investment.

The change in accounting policy resulted in an accrued gain of \$331 million on an investment sold during the year being recorded directly in opening retained earnings as opposed to net income due to prescribed changes in accounting guidelines.

We measure our performance against two specific criteria which are set out in the following table together with our annual performance over the past five years:

FOR THE YEARS ENDED DECEMBER 31	Long-term Objective	Five-Year Results	Annual Results				
			2007	2006	2005	2004	2003
Operating cash flow and gains per share ¹			\$ 3.11	\$ 2.95	\$ 1.46	\$ 1.03	\$ 0.95
Annual growth	12%	35%	5%	102%	41%	8%	35%
Cash return on book equity per share	20%	25%	30%	34%	21%	19%	18%

¹ Adjust to reflect three-for-two stock split

Annual cash flow growth in 2007 was below our long-term objective, however this is largely due to the particularly strong results and higher level of realization gains recorded in 2006. Annualized growth over the last five years was 35%. We achieved a 30% cash return on equity during 2007 and a 25% average return over the past five years.

The results for the five years ending in 2007 and the year ended 2006, respectively, exceed our long-term expectations. Accordingly, shareholders should not expect us to generate this rate of growth on an ongoing basis.

Segmented Operating Results

The following table distinguishes our operating cash flows between the operating returns on our invested capital and the returns from our asset management activities:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007			2006		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Operating platforms	\$ 695	\$ 1,479	\$ 2,174	\$ 483	\$ 1,165	\$ 1,648
Cash and financial assets	—	695	695	—	396	396
Realization gains	—	158	158	—	610	610
	695	2,332	3,027	483	2,171	2,654
Unallocated costs	(264)	(488)	(752)	(192)	(414)	(606)
	431	1,844	2,275	291	1,757	2,048
Co-investor interests	(65)	(303)	(368)	(54)	(193)	(247)
	\$ 366	\$ 1,541	\$ 1,907	\$ 237	\$ 1,564	\$ 1,801

Our asset management activities generated \$366 million of operating cash flow during 2007 compared with \$237 million during 2006. These results include base management fees and performance returns from existing funds, as well as fees attributed to assets that we manage on our own behalf that are not yet held through funds. The increase is due to a higher level of capital deployed compared to 2006.

Our operating platforms contributed \$1.5 billion of operating cash flow prior to realization gains and unallocated costs, representing an increase of 27% over 2006, due to continued growth and strong performance in a number of our operations. These results are net of fees charged in respect of asset management activities. We discuss these results in greater detail in the Operating Platforms Section beginning on page 16.

Investment income generated from our financial assets and other activities increased to \$695 million reflecting a higher level of investment gains over the prior year. Realization gains were significantly higher in 2006, more than offsetting the positive variance in investment income, as we realized gains on the monetizations of a number of our long-term assets during that year in the process of establishing new funds and other activities.

The increase in unallocated costs reflects the expansion in our operating platforms as well as an increased level of activity devoted to the development of new operating platforms and the expansion of our asset management capabilities, as well as a modest increase in interest costs.

Co-investor interests are comprised principally of the cash flows attributable to minority shareholders of Brookfield Properties Corporation as all other cash flows are shown net of the associated co-investor interests as explained under Basis of Presentation.

Overview of Asset Management Results

The following table summarizes asset management income and fees generated for the past two years. “Total” represents fee income generated by the assets and capital under management on a 100% basis, including amounts attributed to the capital we have invested in established funds with co-investors as well as assets that are held directly by Brookfield, whereas “Third Party” amounts represent only amounts earned by us from assets and capital managed on behalf of clients (i.e. it excludes operating cash flow generated on our own capital, which is eliminated in preparing our financial statements in accordance with GAAP).

The following table sets out the key components of revenues from core asset management activities:

	<i>Total</i>		<i>Third Party</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
<i>FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)</i>				
Base management fees	\$ 349	\$ 290	\$ 104	\$ 68
Performance returns	12	5	8	3
Transaction fees	116	33	103	31
Property services	184	139	166	139
Investment banking	34	16	34	16
	695	483	415	257
Direct operating costs	(264)	(192)	—	—
Co-investor interests in consolidated operations	(65)	(54)	—	—
	\$ 366	\$ 237	\$ 415	\$ 257

Base management fees are a key measure in assessing the growth of our business. They increased during 2007 as a result of new funds and increases in the amount of capital under management. As at December 31, 2007, annualized base management fees on existing funds and assets under management totalled \$160 million (2006 – \$100 million), of which \$120 million (2006 – \$75 million) relates to client capital.

Base management fees include the fees of \$104 million (2006 – \$68 million) earned from third-party clients, \$33 million (2006 – \$13 million) from the capital that we have invested in existing funds and \$212 million (2006 – \$209 million) attributed to assets that are not held in existing funds.

Transaction fees include a substantial fee earned in the first quarter of 2007 in connection with our efforts to establish a North American retail property platform and an associated capital commitment. Transaction fees also include investment fees earned in respect of financing activities and include commitment fees, work fees and exit fees.

Property services fees include property and facilities management, leasing and project management and a range of real estate services. The increase reflects a higher level of activity within our facilities management operations. We provide specialized investment banking services in North America and Brazil. These groups increased fees during the year through the expansion of their operating base and by concluding a number of successful mandates.

The level of performance returns recorded in our results continues to be modest because they tend to materialize later in the life cycle of a fund and because we have elected to follow accounting guidelines that defer recognition in our financial statements. The following table includes performance returns on established funds that we believe have accumulated during the year, but are not included in our reported results. As our funds mature, we expect to be able to recognize an increasing portion of these accumulated fees.

	<i>Total</i>		<i>Third Party</i>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
<i>FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)</i>				
Net performance returns accumulated during the year	\$ 272	\$ 100	\$ 92	\$ 57
Less: returns reported in financial results	(12)	(5)	(8)	(3)
Unrecognized performance returns accumulated during the year	\$ 260	\$ 95	\$ 84	\$ 54

The increase in third-party accumulated performance returns, net of direct expenses, that has not been reflected in operating cash flows represents \$0.14 per share and \$0.09 per share, respectively, during each of 2007 and 2006.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Total		Third Party	
	2007	2006	2007	2006
Accumulated returns, beginning of year	\$ 95	\$ —	\$ 54	\$ —
Accumulated during the year	260	95	84	54
Total accumulated performance returns	\$ 355	\$ 95	\$ 138	\$ 54

We estimate that approximately \$29 million of direct expenses will arise on the realization of the returns that have accumulated to date (2006 – \$11 million). The average period of time over which these accumulated returns may be realized is six years, based on the terms of the relevant contracts. We expect that the ultimate receipt of these amounts will not result in any meaningful cash taxes.

Assets Under Management and Invested Capital

The following table presents the book values of total assets under management at the end of December 31, 2007 and December 31, 2006, including our interests and those of our co-investors, capital commitments by our co-investors, and Brookfield's invested capital measured in terms of consolidated assets and net invested capital.

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments ¹		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested	
	2007	2006	2007	2006	2007	2006	2007	2006
Operating platforms								
Commercial properties	\$ 30,750	\$ 21,114	\$ 2,898	\$ 2,317	\$ 25,315	\$ 17,231	\$ 4,803	\$ 3,773
Power generation	6,802	5,390	—	—	6,802	5,390	1,425	1,368
Infrastructure	6,755	4,333	1,192	1,171	4,435	4,333	1,645	864
Development and other properties	9,081	4,913	359	116	9,081	4,913	3,541	1,783
Specialty funds	7,487	7,867	3,547	2,118	2,736	1,797	1,137	1,182
Advisory services	26,237	20,460	26,237	20,460	—	—	—	—
	87,112	64,077	34,233	26,182	48,369	33,664	12,551	8,970
Private equity investments	3,851	3,450	—	—	3,851	3,450	1,336	1,404
Cash and financial assets	1,367	1,673	—	—	1,367	1,673	867	1,149
Other assets	2,010	1,921	—	—	2,010	1,921	2,010	1,921
	\$ 94,340	\$ 71,121	\$ 34,233	\$ 26,182	\$ 55,597	\$ 40,708	\$ 16,764	\$ 13,444

¹ Includes incremental co-investment capital

Assets under management and invested capital were impacted by three significant transactions during 2007. The acquisition of Multiplex increased total assets under management within our operating platforms by \$5.7 billion. This included \$2.5 billion of assets in property funds managed by the company and \$3.2 billion of directly held property assets. Our net invested capital in Multiplex, net of debt, is approximately \$2 billion.

We also acquired \$1.9 billion of private timberlands in the U.S. Pacific Northwest for a net investment of approximately \$670 million. This resulted in increased assets under management and net invested capital within our infrastructure operations. Consolidated infrastructure assets were relatively unchanged as the addition of the timberlands was offset when we commenced accounting for our Chilean transmission operations on an equity accounted basis.

Within our advisory group, assets under management and co-investor commitments both increased by approximately \$6 billion, largely from the acquisition of a Chicago-based real estate securities manager.

Finally, the increase in the value of the Canadian dollar, the British pound and the Brazilian *real* against the U.S. dollar increased the carrying values of most of the assets denominated in these currencies.

Changes in the net invested capital by us in our operations over the past two years are shown in the following table:

PERIODS ENDING DECEMBER 31 (MILLIONS)	Change in Brookfield's Net Invested Capital		
	2006/2007	2007	2006
Operating platforms			
Commercial properties	\$ 1,742	\$ 1,030	\$ 712
Power generation	228	57	171
Infrastructure	1,299	781	518
Development and other properties	2,421	1,758	663
Specialty funds	638	(45)	683
Total operating platforms	6,328	3,581	2,747
Private equity investments	43	(68)	111
Cash and financial assets	(1,263)	(282)	(981)
Other assets	219	89	130
	5,327	3,320	2,007
Net invested capital — beginning of period	11,437	13,444	11,437
— end of period	\$ 16,764	\$ 16,764	\$ 13,444

Net capital invested in our operating platforms increased by \$6.3 billion, mostly in our property and infrastructure operations. Capital invested in cash and financial assets declined as we monetized a number of investments to capture value appreciation and fund the expansion of our operating base.

OPERATING PLATFORMS

In this section, we review the results of our principal operating platforms. Further details on our activities can be found in Part 5 – Description of Operating Platforms beginning on page 48.

The following table presents our operating cash flows for the past two years on a segmented basis. The results are classified by operating platforms and separated between the cash flows attributable to our asset management activities and those generated from the capital invested by us in our operating platforms. The cash flows in this section are presented on a net basis (i.e. after deducting associated interest expense and co-investor interests) unless otherwise noted.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2007			2006		
	2007	2006	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Asset management income	\$ 415	\$ 257						
Operating platforms								
Commercial properties	1,566	1,023	\$ 351	\$ 483	\$ 834	\$ 277	\$ 434	\$ 711
Power generation	611	620	68	193	261	62	275	337
Infrastructure	318	206	36	76	112	14	61	75
Development and other properties	412	466	24	279	303	22	225	247
Specialty funds	381	229	143	323	466	56	150	206
Advisory services	—	—	73	—	73	52	—	52
Private equity investments	225	82	—	125	125	—	20	20
Cash and financial assets	702	413	—	695	695	—	396	396
Realization gains	231	633	—	158	158	—	610	610
	4,861	3,929	695	2,332	3,027	483	2,171	2,654
Unallocated expenses								
Financing	(1,786)	(1,185)	—	(302)	(302)	—	(286)	(286)
Operating costs	(464)	(333)	(264)	(180)	(444)	(192)	(124)	(316)
Current income taxes	(68)	(142)	—	(6)	(6)	—	(4)	(4)
Co-investor interests in consolidated operations	(636)	(468)	(65)	(303)	(368)	(54)	(193)	(247)
	\$ 1,907	\$ 1,801	\$ 366	\$ 1,541	\$ 1,907	\$ 237	\$ 1,564	\$ 1,801

Commercial Properties

The following table summarizes the net operating cash flows contributed by our commercial property operations.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2007			2006		
	2007	2006	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Office properties	\$ 1,518	\$ 985	\$ —	\$ 610	\$ 610	\$ —	\$ 536	\$ 536
Retail properties	48	38	—	19	19	—	19	19
	1,566	1,023	—	629	629	—	555	555
Asset management and property services ¹	—	—	351	(146)	205	277	(121)	156
	\$ 1,566	\$ 1,023	\$ 351	\$ 483	\$ 834	\$ 277	\$ 434	\$ 711

¹ Prior to operating costs

Property operations contributed net operating cash flow of \$834 million in 2007 compared to \$711 million in 2006. Operations contributed \$629 million in 2007, modestly higher than 2006. Asset management activities contributed higher levels of operating cash flow during 2007 due to the establishment of new funds during 2006 and 2007, and increases in invested capital as a result of acquisitions.

The following table summarizes assets under management and invested capital in our commercial property operations:

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
					Consolidated		Net Invested Capital	
	2007	2006	2007	2006	2007	2006	2007	2006
Office properties	\$ 29,052	\$ 20,314	\$ 2,298	\$ 1,717	\$ 23,617	\$ 17,016	\$ 4,700	\$ 3,745
Retail properties	1,698	800	600	600	1,698	215	103	28
	\$ 30,750	\$ 21,114	\$ 2,898	\$ 2,317	\$ 25,315	\$ 17,231	\$ 4,803	\$ 3,773

Assets under management, co-investor commitments and invested capital in our commercial office properties all increased with the Multiplex acquisition as discussed earlier. In addition, carrying values increased due to currency appreciation on Canadian properties and the purchase of minority interests in our two flagship Boston properties for approximately \$500 million, bringing our interest in these properties to 100%. Net invested capital increased by \$955 million, which represents the net capital invested by us in Multiplex's office property operations offset by the proceeds from refinancing existing properties. We completed a number of acquisitions in our retail property fund, including that of a large portfolio at the end of 2007, which positions us as one of the largest retail mall owners in Brazil.

Office Properties

Our commercial office portfolios contributed total operating cash flow of \$1.5 billion during 2007 compared to \$1.0 billion in 2006. After deducting interest expenses and the interests of co-investors in these operations, the net operating cash flow was \$610 million compared to \$536 million in 2006. The following table shows the sources of operating cash flow by geographic region:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flow			
	Total		Net	
	2007	2006	2007	2006
North America	\$ 1,416	\$ 857	\$ 1,416	\$ 857
Australasia	62	—	62	—
Europe	40	128	40	128
	1,518	985	1,518	985
Interest expense	—	—	(812)	(442)
Co-investors' interests	—	—	(96)	(7)
	\$ 1,518	\$ 985	\$ 610	\$ 536

Total operating cash flow increased by \$533 million or 54% over 2006 due primarily to the acquisition of a large commercial office portfolio in late 2006. The acquisition was partially funded with property-specific debt and co-investor capital, which contributed towards the \$459 million increase in carrying charges and co-investor interests. After taking these items into consideration, net operating cash flows increased by \$74 million or 14%.

The following table sets out the variances in operating cash flows:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	Variance
Same properties	\$ 735	\$ 696	\$ 39
Acquired properties	628	149	479
Dividend from Canary Wharf	—	87	(87)
Disposition gains	145	44	101
Other	10	9	1
Total operating cash flow	1,518	985	533
Interest expense and co-investor interests	(908)	(449)	(459)
Net operating cash flow	\$ 610	\$ 536	\$ 74

We achieved growth in same property operating cash flow of \$39 million or 6% in 2007, due to new leasing in favourable market conditions. We leased 8.8 million square feet in our North American portfolio during 2007 at an average net rent of \$30 per square foot, replacing leases that averaged \$21 per square foot. Average in-place net rents across the portfolio have increased to \$24 from \$21 at the end of last year. Leasing fundamentals have improved in most of our markets with particular strength in Calgary and New York as well as favourable currency appreciation. We continue to manage our portfolios and tenant relationships on a proactive basis, which can lead to opportunities to re-lease space for increased yields and gains.

Property acquisitions were responsible for most of the increase in operating cash flows, which is to be expected given the stable nature of our long-term lease portfolio and the high credit quality of our tenants. The increase was \$79 million after taking incremental borrowing costs into consideration. We acquired a major portfolio in the United States in late 2006 which increased total operating cash flows by \$408 million (2006 – \$75 million) and net operating cash flows by \$57 million (2006 – \$18 million) after deducting interest expenses and co-investor interests. The acquisition of Multiplex in October 2007 contributed \$62 million of total operating cash flow and \$9 million of net operating cash flow.

Borrowing costs and co-investor share of net operating cash flows increased by \$459 million over 2006, of which \$294 million related to the U.S. portfolio and \$53 million to the Multiplex portfolio. Borrowing costs associated with existing properties increased as a result of refinancing underlevered properties at attractive yields which reduced net operating cash flow but improved return on capital.

Retail

The acquisition of properties within our retail fund resulted in increases in assets under management, consolidated assets and net invested capital. Co-investor commitments remained unchanged during the year, and the fund is now virtually fully invested.

Total operating cash flows increased to \$48 million in 2007 compared to \$38 million in 2006. The increase reflects a disposition gain in 2007 of \$8 million and the impact of acquisitions and higher sales within existing properties. Net operating cash flow was unchanged at \$19 million as the increase in total operating cash flows was offset by integration costs and the reduction in our interest in these properties from 100% to 25% upon their transfer into our retail fund.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flow			
	Total		Net	
	2007	2006	2007	2006
Retail properties ¹	\$ 48	\$ 38	\$ 48	\$ 25
Interest expense	—	—	(6)	(4)
Cash taxes and other expenses	—	—	(10)	—
Co-investors' interests	—	—	(13)	(2)
	\$ 48	\$ 38	\$ 19	\$ 19

¹ The Brascan Brasil Real Estate Partners fund was established in the third quarter of 2006

We received proceeds of \$251 million in 2006 and recorded a gain of \$79 million. The fund completed a major acquisition at the end of 2007 of a 1.7 million square foot portfolio of high quality properties. As a result, the fund is now fully invested and is expected to generate increased cash flows.

Net operating cash flows reflect interest costs on property-specific debt as well as the interests of our co-investors, who have owned 75% of the fund since the fourth quarter of 2006 and accordingly reduced our share of net operating income in 2007.

Asset Management – Commercial Properties

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007			2006		
	Total	Operations	Third Party	Total	Operations	Third Party
Asset management	\$ 185	\$ (146)	\$ 39	\$ 138	\$ (121)	\$ 17
Property services	166	—	166	139	—	139
	\$ 351	\$ (146)	\$ 205	\$ 277	\$ (121)	\$ 156

Asset management fees from third-party clients increased by \$22 million to \$39 million in 2007. Fees attributed to our investment in these operations increased by \$25 million to \$146 million, a 21% increase, reflecting the higher level of capital that we have invested in established funds and directly held assets. Property services fees increased with a higher level of activity.

Power Generation

The following table summarizes the net operating cash flow generated by our power generating operations during 2007 and 2006:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007			2006		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Operations	\$ —	\$ 261	\$ 261	\$ —	\$ 337	\$ 337
Asset management	68	(68)	—	62	(62)	—
	\$ 68	\$ 193	\$ 261	\$ 62	\$ 275	\$ 337

The contribution from operations declined by \$76 million from \$337 million in 2006 to \$261 million in 2007. This reflected a decline in net operating income from our hydroelectric facilities due to lower water levels as well as increased carrying charges.

We increased installed capacity during the year by 117 megawatts through the addition of 18 facilities with expected annual generation of 500 gigawatt hours. We acquired five facilities in North America with installed capacity of 28 megawatts at a cost of \$67 million. We added 13 facilities in Brazil through acquisitions and development at a total cost of \$188 million. In addition, we have six hydroelectric facilities under construction at year end that will expand our capacity by a further 145 megawatts at a total projected cost of \$352 million.

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested	
	2007	2006	2007	2006	2007	2006	2007	2006
Hydroelectric generation	\$ 4,299	\$ 3,756	\$ —	\$ —	\$ 4,299	\$ 3,756	\$ 4,299	\$ 3,756
Wind, pumped storage and cogeneration	602	493	—	—	602	493	602	493
Development	236	60	—	—	236	60	236	60
	5,137	4,309	—	—	5,137	4,309	5,137	4,309
Cash and financial assets	784	618			784	618	784	618
Working capital	881	463			881	463	2	44
Property-specific and subsidiary debt							(4,285)	(3,388)
Co-investor interests							(213)	(215)
	\$ 6,802	\$ 5,390	\$ —	\$ —	\$ 6,802	\$ 5,390	\$ 1,425	\$ 1,368

The book value of total assets under management and consolidated assets increased by \$1.4 billion to \$6.8 billion from \$5.4 billion at the end of last year due primarily to currency appreciation as well as higher levels of working capital and the acquisition of facilities in North America (\$67 million) and Brazil (\$188 million). Net invested capital increased by a smaller amount due to the offsetting impact of currency appreciation on non-U.S. debt and because much of the acquisition cost was funded through project financings on the acquired assets and by financings arranged on existing assets. The increase in operating cash flows over the past

number of years has increased the value of our existing assets enabling us to arrange additional project financing while continuing to maintain a conservative investment grade capitalization.

We believe the intrinsic value of our power assets is much higher than the book value because the assets have either been acquired at attractive prices or held for many years and therefore depreciated for accounting purposes which, in our view, is inconsistent with the nature of hydroelectric generating assets. We have also been successful in acquiring, developing and upgrading many of our facilities on an attractive basis and higher fossil fuel prices have resulted in significantly expanded operating margins for hydroelectric facilities, which have very low operating costs.

The following table summarizes the total and net operating cash flows contributed by our power generating operations during the past two years:

	<i>Total</i>		<i>Operating Cash Flow</i>		
	<i>2007</i>	<i>2006</i>	<i>Net</i>	<i>2006</i>	<i>Variance</i>
<i>FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)</i>					
Hydroelectric generation					
North America					
United States	\$ 292	\$ 318	\$ 292	\$ 318	\$ (26)
Canada	171	221	171	221	(50)
Brazil	68	41	68	41	27
Total hydroelectric generation	531	580	531	580	(49)
Wind energy	33	5	33	5	28
Co-generation and pumped storage	47	35	47	35	12
Total other generation	80	40	80	40	40
Total operating cash flows	611	620	611	620	(9)
Other expenses			(7)	(2)	(5)
Interest expenses			(289)	(235)	(54)
Non-controlling interests			(54)	(46)	(8)
Operating cash flow	\$ 611	\$ 620	\$ 261	\$ 337	\$ (76)

Total operating cash flows were \$611 million in 2007 compared to \$620 million in 2006. These results are impacted principally by realized prices and the level of generation which are discussed in the following sections. Net operating cash flows, which reflect interest expenses and co-investor interests, were \$261 million in 2007, a decline from \$337 million in 2006. Interest expense increased by \$54 million reflecting financings completed since the first quarter of 2006, as well as the impact of currency fluctuations on non-U.S. financings.

Realized Prices and Operating Margins

Realized prices from our hydro portfolio increased by 6% over 2006 levels to \$71 per megawatt hour and largely exceeded market prices due to our long-standing strategy to sell much of our power under long-term power sales agreements or financial contracts. Spot electricity prices during the year were generally in line with those of 2006; however, the shorter-term financial contracts under which power was sold were at higher prices. We also generated a higher proportion of our power in higher priced regions than in 2006. Our ability to capture peak pricing and other energy products such as capacity payments also contributes to higher realized prices. The following table illustrates revenues and operating costs for our hydroelectric facilities:

	<i>2007</i>				<i>2006</i>			
	<i>Actual Production</i>	<i>Realized Revenues</i>	<i>Operating Costs</i>	<i>Operating Cash Flows</i>	<i>Actual Production</i>	<i>Realized Revenues</i>	<i>Operating Costs</i>	<i>Operating Cash Flows</i>
<i>FOR THE YEARS ENDED DECEMBER 31 (GWH AND \$ MILLIONS)</i>								
Ontario	1,852	\$ 144	\$ 47	\$ 97	2,059	\$ 150	\$ 39	\$ 111
Quebec	1,407	83	24	59	2,032	118	24	94
New England	1,489	77	30	47	1,438	82	27	55
New York	3,357	210	76	134	3,857	229	69	160
Other	2,786	261	67	194	2,362	211	51	160
Total	10,891	\$ 775	\$ 244	\$ 531	11,748	\$ 790	\$ 210	\$ 580
Per MWh		\$ 71	\$ 22	\$ 49		\$ 67	\$ 18	\$ 49

The increase in operating costs relates to lower power generation at existing facilities where the cost structure is more fixed in nature, such as our New York operations, the addition of generation capacity in higher cost regions, timing of major maintenance expenditures and the impact of a higher Canadian dollar on our Canadian operations.

The contribution from our non-hydro facilities is set forth in the following table. Cash flows increased due to the addition of our wind energy project and the inclusion of our 50%-owned pumped storage facility on a fully consolidated basis.

FOR THE YEARS ENDED DECEMBER 31 (GWH AND \$ MILLIONS)	2007				2006			
	Actual Production	Realized Revenues	Operating Costs	Operating Cash Flows	Actual Production	Realized Revenues	Operating Costs	Operating Cash Flows
Co-generation and pumped storage	1,493	\$ 147	\$ 100	\$ 47	1,168	\$ 100	\$ 65	\$ 35
Wind energy	478	41	8	33	100	7	2	5
Total	1,971	\$ 188	\$ 108	\$ 80	1,268	\$ 107	\$ 67	\$ 40
Per MWh		\$ 95	\$ 55	\$ 40		\$ 84	\$ 53	\$ 31

Generation

Our facilities produced 12,862 gigawatt hours of electricity during 2007, compared with 13,016 gigawatt hours during 2006 and 10,930 gigawatts hours in 2005. We produced 1,684 fewer gigawatt hours from existing hydroelectric capacity owned throughout 2007 and 2006 (i.e. "same store" basis) due to lower water flows; however, this was partially offset by the contribution of 827 gigawatt hours from hydroelectric facilities acquired or developed during 2006 and 2007. Hydroelectric generation was 10% below expected long-term averages for the portfolio as a whole and 7% below 2006 levels. Our reservoirs have been maintained at normal levels for this time of year and, as a result, we should be able to operate our facilities at long-term average levels during 2008, assuming normal water conditions prevail. Our wind facilities, which started operations in the fourth quarter of last year, generated 478 gigawatt hours, slightly lower than our expected long-term average.

The following table summarizes generation over the past three years:

FOR THE YEARS ENDED DECEMBER 31 (GIGAWATT HOURS)	Long-Term Average	Actual Production			Variance to		
		2007	2006	2005	Long Term Average	2006	2005
Existing capacity	10,680	9,547	11,231	9,822	(1,133)	(1,684)	(275)
Acquisitions – during 2006	1,185	1,118	517	—	(67)	601	1,118
Acquisitions – during 2007	250	226	—	—	(24)	226	226
Total hydroelectric operations	12,115	10,891	11,748	9,822	(1,224)	(857)	1,069
Wind energy	534	478	100	—	(56)	378	478
Co-generation and pump storage	1,168	1,493	1,168	1,108	325	325	385
Total generation	13,817	12,862	13,016	10,930	(955)	(154)	1,932

The contribution from our pumped-storage, co-generation and wind facilities increased by \$40 million, reflecting a full year of operation for our northern Ontario wind energy system and a higher contribution from pumped-storage operations.

The \$62 million increase in carrying charges and co-investor interests is due principally to interest expense on debt incurred to acquire and develop new facilities as well as currency appreciation on interest paid on non-U.S. debt. We have invested in our operating base over the past two years, increasing our installed capacity over this period by 15% to 3,891 megawatts and our annual generating capacity by 18% to 13,817 gigawatt hours.

Asset Management – Power Generation

Asset management cash flow is determined by applying a fixed percentage fee to our estimated value of the equity capital invested in these operations. This is an internal allocation that is intended to be consistent with comparable asset management fees incurred elsewhere in our operations.

Infrastructure

Our infrastructure operations consist of timber and electrical transmission operations in the United States, Canada, Chile and Brazil that are owned through a number of managed funds and through direct interests. The net operating cash flows contributed by these operations are summarized in the following table:

	2007			2006		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
FOR THE YEAR ENDED DECEMBER 31 (MILLIONS)						
Timberlands	\$ —	\$ 40	\$ 40	\$ —	\$ 32	\$ 32
Transmission	—	62	62	—	37	37
	—	102	102	—	69	69
Asset management	36	(26)	10	14	(8)	6
	\$ 36	\$ 76	\$ 112	\$ 14	\$ 61	\$ 75

The principal change in the financial position of our infrastructure operations was the acquisition of the U.S. Pacific Northwest timberlands as noted in the following table:

	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested	
AS AT DECEMBER 31 (MILLIONS)					2007	2006	2007	2006
Timberlands	\$ 3,675	\$ 1,190	\$ 315	\$ 340	\$ 3,675	\$ 1,190	\$ 1,025	\$ 315
Transmission	3,080	3,143	877	831	760	3,143	620	549
	\$ 6,755	\$ 4,333	\$ 1,192	\$ 1,171	\$ 4,435	\$ 4,333	\$ 1,645	\$ 864

Co-investor commitments represent capital committed by clients to our western Canadian and eastern North American timber funds and the Chilean transmission operations. We commenced accounting for the Chilean transmission operations on an equity basis, as opposed to full consolidation, following a change in the capitalization of the ownership structure which reduced our consolidated assets. Our economic interest was not impacted.

In January 2008 we transferred a number of our ownership interests to Brookfield Infrastructure Partners, a specialty issuer listed on the New York Stock Exchange. We will own 40% of and manage Brookfield Infrastructure pursuant to a long-term agreement. The remaining 60% of Brookfield Infrastructure was distributed to existing Brookfield shareholders. Brookfield Infrastructure will be our primary acquisition vehicle for infrastructure businesses. The establishment of Brookfield Infrastructure is intended to provide investors with what is, in our opinion, a relatively unique and attractive opportunity to invest directly in the infrastructure asset class through a publicly listed security. This also expands the amount of committed capital that we manage and should provide an additional source of capital to fund continued growth in this sector.

Timber

Timber operations contributed \$40 million during 2007 compared with \$32 million in 2006. The increased contribution during 2007 reflects improved performance by our coastal British Columbia operations, which met our operating targets notwithstanding an industry strike that adversely impacted results in the second half of the year.

	Total		Operating Cash Flow		
	2007	2006	Net	2007	2006
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)					
Timberlands	\$ 158	\$ 87	\$ 158	\$ 87	\$ 71
Interest expense			(85)	(29)	(56)
Co-investors' interests			(33)	(26)	(7)
	\$ 158	\$ 87	\$ 40	\$ 32	\$ 8

Total operating cash flow from our western North American operations increased substantially due to the acquisition of timberlands in the U.S. Pacific Northwest in April of 2007. The associated debt financing also resulted in higher interest costs, which had an offsetting impact on net operating cash flow. As a result, net contribution from the U.S. Pacific Northwest operations, which were acquired in the second quarter of 2007, was minimal after deducting associated interest costs. The slowdown in the U.S.

homebuilding industry resulted in lower demand and prices for premium species such as high quality Douglas-fir. We responded by exploiting the flexibility inherent in timber management which allows us to defer harvesting until prices recover and instead increased harvest levels of whitewood species where margins, although lower than Douglas-fir, held up better.

We increased our harvesting activities in the first half of the year due to the possibility of the strike, which provided us with surplus inventory to work with. Pricing was also better than expected. The operating results compared favourably with the 2006 results, which had been adversely impacted by a prolonged fire season, and adverse weather conditions in the second half of that year.

The following table summarizes the operating results from our timber operations:

FOR THE YEARS ENDED DECEMBER 31 (\$ MILLIONS)	2007			2006		
	Sales (m ³)	Revenue	Harvest (m ³)	Sales (m ³)	Revenue	Harvest (m ³)
Western North America						
Douglas-fir	2,092,200	\$ 191	2,004,400	1,235,800	\$ 120	1,209,000
Whitewood	1,317,800	87	1,232,200	835,900	47	652,000
Other	353,200	51	353,500	241,600	26	233,000
	3,763,200	329	3,590,100	2,313,300	193	2,094,000
Other	1,920,300	89	1,912,000	1,758,600	78	1,724,700
	5,683,500	\$ 418	5,502,100	4,071,900	\$ 271	3,818,700

We sold 5.7 million cubic metres of timber during 2007 compared to 4.1 millions cubic metres during 2006. The U.S. Pacific Northwest operations contributed 1.4 million cubic metres, which represents most of the increase.

Transmission

Transmission operations contributed \$62 million of operating cash flow, net of carrying charges and co-investor interests, compared with \$37 million during 2006 as shown in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flow				
	Total		Net		
	2007	2006	2007	2006	Variance
Transmission facilities and investments					
Chile	\$ 114	\$ 91			\$ 23
North America	31	28			3
Brazil	15	—			15
	160	119	\$ 160	\$ 119	41
Other expenses			(4)	(8)	4
Interest expense			(65)	(55)	(10)
	160	119	91	56	35
Co-investors' interests			(29)	(19)	(10)
	\$ 160	\$ 119	\$ 62	\$ 37	\$ 25

The increase is due almost entirely to acquisitions of a transmission system in Chile in June 2006 and interests in five Brazilian transmission systems in August 2006. These operations performed in line with expectations, as did our northern Ontario transmission and distribution operations.

The Chilean and Ontario transmission operations performed in line with expectations during the year. In addition, we reported our share of the results of the Brazilian systems, which were acquired at the end of the third quarter of 2006. Net operating income within the Chilean operations prior to interest expense was \$208 million in 2007, compared to \$98 million in 2006.

Effective June 30, 2007, we began accounting for our investment in our Chilean operations using the equity method as a result of changes in the ownership structure, notwithstanding that our economic interest is unchanged. The net contribution to operating cash flow from these operations, after deducting interest costs and co-investor interests, was \$24 million during 2007, compared to \$13 million during our six months of ownership in 2006.

Asset Management – Infrastructure

Asset management activities contributed \$10 million of revenues from third parties during 2007, compared to \$6 million recorded in 2006. The increase is due to a full year contribution from fees associated with our Chilean transmission operations. Total asset management revenues, which include fees earned on our interests in established funds and attributed to directly held interests, increased to \$36 million in 2007 from \$14 million in 2006 due to the expansion of our timber and transmission interests during 2007 and 2006.

Development and Other Properties

Development and other properties include our opportunity invested funds, residential operations, properties under development and properties held for development.

	2007			2006		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)						
Opportunity investments	\$ 2	\$ 38	\$ 40	\$ 1	\$ 14	\$ 15
Residential	—	260	260	—	231	231
Under development and held for development	—	3	3	—	1	1
	2	301	303	1	246	247
Asset management	22	(22)	—	21	(21)	—
	\$ 24	\$ 279	\$ 303	\$ 22	\$ 225	\$ 247

Assets under management and invested capital approximately doubled during the year, as shown in the following table, largely due to the acquisition of Multiplex:

	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated 2007	Consolidated 2006	Net Invested Capital 2007	Net Invested Capital 2006
AS AT DECEMBER 31 (MILLIONS)								
Opportunity investments	\$ 1,571	\$ 1,086	\$ 159	\$ 116	\$ 1,571	\$ 1,086	\$ 225	\$ 132
Residential	2,909	2,403	200	—	2,909	2,403	450	484
Under development	3,400	658	—	—	3,400	658	1,696	418
Held for development	1,201	766	—	—	1,201	766	1,170	749
	\$ 9,081	\$ 4,913	\$ 359	\$ 116	\$ 9,081	\$ 4,913	\$ 3,541	\$ 1,783

Assets under management and consolidated assets in our opportunity investments and residential operations both increased by approximately \$500 million. Our first opportunity fund was fully invested during the year following a number of acquisitions. Balances in our residential operations increased due to currency appreciation, the continued expansion of our western Canadian operations and higher than normal inventory levels within our U.S. operations. We formed a \$400 million joint venture between our U.S. homebuilding unit and an institutional investor to invest in residential land in the United States which represents the co-investor commitments in our residential operations. We believe the timing of this fund will enable us to acquire land positions at favourable values due to current weak market conditions.

The amount of capital invested in properties under development increased by \$2.7 billion due mainly to the acquisition of Multiplex, which has \$2.3 billion of projects under way. These projects consist of over 70 properties that will contain more than 20 million square feet of leaseable commercial property space and approximately 18,000 residential lots, homes and units. Multiplex has been an active developer of properties in Australasia and Europe for many years. We also continue the construction and redevelopment of several properties in North America.

The carrying values of properties held for development increased by \$421 million during the year due to continued investment into Alberta residential land to replenish our land bank in the face of strong growth in this market as well as the acquisition of additional agricultural land in Brazil to support our expanding business of contracting sugar cane production to ethanol producers. The increase in carrying values also reflects currency appreciation on our Canadian and Brazilian properties.

Opportunity Investments

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flow			
	Total		Net	
	2007	2006	2007	2006
Net operating income	\$ 67	\$ 42	\$ 67	\$ 42
Disposition gains	70	7	28	7
Interest expense	—	—	(54)	(30)
Co-investors' interests	—	—	(3)	(5)
	\$ 137	\$ 49	\$ 38	\$ 14

Total operating cash flow increased to \$137 million from \$49 million due to disposition gains as well as an increased contribution from portfolio operations, although the increase in the contribution from operations is largely offset by increased interest expenses. Due to the focus on value enhancement and the relative short hold period for properties, we expect that returns will come more from disposition gains as opposed to net rental income, relative to results from our core commercial office portfolios. Our opportunistic investment activities contributed an increase of \$24 million over 2006 due primarily to disposition gains. Our first fund is fully invested and is continuing to sell properties that have been successfully repositioned while we continue to invest the capital committed to our second fund.

Residential

We benefitted from the diversification of our residential operations as the impact of the slowdown in the U.S. was offset by continued growth in our Canadian and Brazilian operations. Our Canadian operations, which are concentrated in Alberta, continued to benefit from strong growth in this energy-based economy as well as the stronger currency which increased their contribution to \$237 million from \$144 million, offsetting the decline in the contribution from our U.S. operations. Our operations in Brazil performed well during 2007.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flow			
	Total		Net	
	2007	2006	2007	2006
Residential properties	\$ 375	\$ 416	\$ 375	\$ 416
Impairment charge – U.S. operations	(103)	—	(103)	—
Interest expense ¹			(18)	(23)
Cash taxes			18	(93)
Co-investors' interests			(12)	(69)
	\$ 272	\$ 416	\$ 260	\$ 231

¹ Portion of interest expensed through cost of sales

Net operating cash flow increased between 2007 and 2006 as record results in Canada more than offset a slowdown in our U.S. operations.

Canada

We continue to benefit from strong demand for housing in Canada, particularly in Alberta where we hold a 29% market share in the important Calgary market, with year-to-date results more than 50% higher than 2006. The contribution increased by more than 50%, although 49% of this increase accrues to our co-investors in Brookfield Properties on both a total and net basis. Most of the land holdings were purchased in the mid-1990s or earlier, resulting in particularly strong margins due to continued strong energy investment in Calgary, although the high level of activity is creating some upward pressure on building costs. Operating margins during 2007 were 34% compared to 31% for 2006.

Based on the current market environment, we expect another strong year in 2008 although likely not as strong as the exceptional results in 2007. We own approximately 82,900 lots in these operations of which approximately 6,400 lots were under active development at year end and 76,500 lots are included in development assets because of the length of time that will likely pass before they are actively developed.

United States

Our U.S. operations contributed \$46 million of cash flow before interest, taxes and non-controlling interests during 2007 as demand for new homes slowed and margins narrowed, compared to \$236 million during 2006. In addition, these operations recorded an impairment charge of \$103 million on higher cost land inventory positions. The net operating loss from this unit, after deducting interest, taxes and non-controlling interests was \$21 million, compared with a contribution of \$76 million during 2006. The gross margin from housing sales was approximately 17% compared with 26% last year. We closed 839 units during the year (2006 – 1,181) at an average selling price of \$662,000 (2006 – \$679,000).

We do not expect the current supply and demand imbalance in these markets to be worked through in a meaningful way during 2008. Net new orders during 2007, which will be recognized in earnings as the transactions close, were 735 units, compared to 960 units achieved in 2006. Backlog at the end of 2007 was 155 units (2006 – 259 units). We own or control 25,400 lots through direct ownership, options and joint ventures.

Brazil

We own substantial density rights that will provide the basis for continued growth in our key markets of Rio de Janeiro and São Paulo, and continued to add to these rights during the year.

Under Development and Held for Development

Properties that are under development and held for development do not contribute meaningful cash flow during the development process as costs are typically capitalized and revenues are applied against these costs.

Specialty Funds

Specialty investment funds, which include our bridge lending, restructuring and real estate finance generated net operating cash flow of \$466 million during 2007, more than double the operating results during 2006.

	2007			2006		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)						
Operations						
Bridge lending	\$ —	\$ 70	\$ 70	\$ —	\$ 65	\$ 65
Restructuring	—	247	247	—	82	82
Real estate finance	—	24	24	—	17	17
	—	341	341	—	164	164
Asset management	143	(18)	125	56	(14)	42
	\$ 143	\$ 323	\$ 466	\$ 56	\$ 150	\$ 206

The following table summarizes the assets and capital in our specialty funds:

	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
					Consolidated Assets		Net Invested	
AS AT DECEMBER 31 (MILLIONS)	2007	2006	2007	2006	2007	2006	2007	2006
Bridge lending	\$ 1,187	\$ 1,452	\$ 1,510	\$ 470	\$ 488	\$ 637	\$ 488	\$ 622
Restructuring	1,538	977	753	652	1,538	977	361	377
Real estate finance	4,637	5,438	1,225	937	685	183	263	183
Real estate services	125	—	59	59	25	—	25	—
	\$ 7,487	\$ 7,867	\$ 3,547	\$ 2,118	\$ 2,736	\$ 1,797	\$ 1,137	\$ 1,182

A number of our bridge loans were repaid during the year, resulting in a lower level of assets under management, consolidated assets and net invested capital. During 2007 we increased co-investor capital committed to our second restructuring fund by \$140 million and closed C\$935 million in commitments to a junior and senior bridge loan fund, including \$240 million in commitments from Brookfield, and our second real estate finance fund, with \$450 million in total commitments including \$202 million from Brookfield. The increase in assets under management and consolidated assets in our restructuring operations reflects new investments that are accounted for on a fully consolidated basis. Net invested capital was relatively unchanged as the capital invested in these new restructuring initiatives was offset by the recovery of capital from realized investments.

Bridge Lending

The contribution from bridge lending operations increased by 8% over 2006 due to higher average outstanding loan balances and commitment fees, together with higher interest rates over much of the year. Operating cash flows, which represent the return on our capital and do not reflect asset management fees, totalled \$70 million during 2007 compared to \$65 million during 2006. The average level of invested capital over the full year, at \$613 million, was relatively consistent with 2006. Associated yields were also relatively consistent year over year.

Restructuring

The following table summarizes the results from our restructuring operations:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flow			
	Total		Net	
	2007	2006	2007	2006
Operating cash flow	\$ 54	\$ 88	\$ 54	\$ 88
Disposition gain – Stelco	231	—	231	—
Settlement gain – Western Forest	—	59	—	59
	285	147	285	147
Other expenses	—	—	(4)	(3)
Interest expense	—	—	(20)	(13)
Non-controlling interests	—	—	(14)	(49)
	\$ 285	\$ 147	\$ 247	\$ 82

In our restructuring operations, we successfully concluded our involvement with Stelco, with an offer by U.S. Steel to acquire 100% of the company. Our share of the proceeds was approximately \$274 million, giving rise to a disposition gain of \$231 million. The favourable outcome should also contribute towards meaningful performance income from our carried interest in the fund. The 2006 results included a \$59 million net contribution from a western Canadian based lumber producer following the settlement of a dispute between the U.S. and Canada over the export by Canadian producers of softwood lumber. Net operating cash flows excluding these items were \$54 million in 2007 compared to \$23 million during 2006. The increase reflects a higher level of investor capital and improved performance by our investments.

Real Estate Finance

The real estate finance group increased the level of invested assets by originating a number of high quality investment opportunities resulting in a greater contribution to operating cash flows. We expect to record increased cash flows, assets under management and investment returns from our second real estate finance fund during 2008. These activities contributed \$24 million of net operating cash flow during 2007 as shown in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Cash Flows			
	Total		Net	
	2007	2006	2007	2006
Real estate finance investments, net of debt	\$ 68	\$ 42	\$ 66	\$ 42
Less: co-investor interests	(47)	(28)	(47)	(28)
Real estate finance fund	21	14	19	14
Securities – directly held	2	2	2	2
Financial assets – Mortgage REIT	3	1	3	1
	\$ 26	\$ 17	\$ 24	\$ 17

The portfolio continues to perform in line with our expectations and we expect to receive full payment of interest and principal over the remaining term of our investments.

Asset Management – Specialty Funds

Asset management activities within our specialty funds operations contributed \$125 million of third-party income during 2007, up substantially over 2006. A large portion of the increase is due to transaction fees arising from our efforts to establish a major U.S. retail fund by way of an acquisition and associated financing fees. The 2007 results also reflect a higher level of base management fees arising from the follow-on funds in each sector of this business.

Advisory Services

We manage equity and fixed income securities and provide investment banking services all with a particular focus on the property and infrastructure sectors. The results of these activities are presented in the following table:

	2007			2006		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)						
Real estate and fixed income securities	\$ 39	\$ —	\$ 39	\$ 36	\$ —	\$ 36
Investment banking	34	—	34	16	—	16
	\$ 73	\$ —	\$ 73	\$ 52	\$ —	\$ 52

The management of real estate and fixed income securities produced revenues of \$39 million, which consist largely of base management fees. Management fees increased over 2006 levels due to growth in assets under management from an average level of \$21 billion during 2006 to \$23 billion during 2007.

Our real estate investment banking and advisory group contributed \$34 million of fees during 2007. The group advised on transactions totalling \$9.3 billion in value during the year, and secured a number of prominent mandates.

The following table summarizes assets under management within our advisory activities. We typically do not invest our own capital in these strategies as the assets under management tend to be securities as opposed to physical assets.

	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested	
AS AT DECEMBER 31 (MILLIONS)					2007	2006	2007	2006
Real estate and fixed income securities								
Fixed income	\$ 20,210	\$ 19,711	\$ 20,210	\$ 19,711	\$ —	\$ —	\$ —	\$ —
Equity	6,027	749	6,027	749	—	—	—	—
	\$ 26,237	\$ 20,460	\$ 26,237	\$ 20,460	\$ —	\$ —	\$ —	\$ —

Assets and capital commitments increased during the year due primarily to the acquisition of a real estate and infrastructure equities manager with \$6 billion of securities under management during the fourth quarter of 2007.

Private Equity Investments

The net operating cash flow generated by our private equity investments increased to \$125 million from \$20 million in 2006. We also recorded increased returns from our insurance operations, following the impact of storm-related losses in the first half of 2006.

	Operating Cash Flow			
	Total		Net	
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	2007	2006
Forest products	\$ 17	\$ 2	\$ —	\$ (25)
Infrastructure	6	5	6	5
Business operations	196	73	117	36
Property	6	2	2	4
	\$ 225	\$ 82	\$ 125	\$ 20

Business operations include our insurance activities, which contributed improved results. These operations had been adversely impacted by storm-related losses in the first half of 2006. We are exploring a variety of options to surface the value of our insurance businesses, which could result in a reduced ownership interest in the future.

We began consolidating the results of Fraser Papers during the third quarter of 2007 following an increase in our ownership interest to 56%. Cash flow in the table above reflects our proportionate interest in Fraser Papers' cash flows. Total operating cash outflow was \$15 million, and represented a net outflow of \$22 million after taking into consideration debt and minority interests. In connection with Fraser Papers' January 2008 equity rights offering, we increased our equity interest to 71% of the outstanding common shares.

Consolidated assets increased to \$3.9 billion at the end of 2007 compared to \$3.5 billion at the end of 2006 due to the consolidation of our investments in Fraser Papers and Banco Brascán for accounting purposes following the increase in our interests in the companies to more than 50%. The incremental amount invested in each case was modest and accordingly our net invested capital remained relatively unchanged at \$1.3 billion.

Cash and Financial Assets

Income from our cash and financial assets increased to \$695 million from \$396 million. The 2007 results include a gain of \$378 million on the monetization of an exchangeable debenture during 2007. We sold a number of common share investments during 2007, realizing meaningful gains in the process, which enabled us to report favourable returns on our invested capital in addition to the exchangeable debenture gain. These returns exceed our expectations and shareholders should not expect us to repeat this performance with any degree of certainty.

Operating cash flow includes a net gain of \$378 million from the sales of our holdings of exchangeable debentures during the year. This consists of two components: an amount of \$331 million which represents the accrued gain on the debentures up to December 31, 2006; and \$47 million of income representing the change in value between December 31, 2006 and the time of sale. Under the accounting transitional rules for Financial Instruments, the \$331 million portion of the gain has been recorded directly into retained earnings. We have included this amount in operating cash flow to ensure that the full gain is recognized in our operating track record. The exchangeable debentures are the only financial instruments we hold that gave rise to a significant adjustment of this nature.

Consolidated cash and financial assets decreased to \$1.4 billion during 2007 due to the sale of exchangeable debentures and common shares to capture value appreciation and to fund acquisitions during the year. Net invested capital reflects broker deposit liabilities and a small number of borrowed securities that have been sold short.

As part of our ongoing risk management and value creation activities, we establish market positions using total return swaps and credit derivatives. As at December 31, 2007, we maintain common equity positions with a notional value of \$70 million through total return swaps. We also bought protection against widening credit spreads through credit default swaps with a total notional value of \$2.4 billion, which have a limited downside and benefit from increases in credit spreads and defaults of the underlying debt. We recorded gains of \$129 million during 2007 on these credit default swaps.

Financing Costs

Financing costs include interest expense on corporate borrowings, certain subsidiary borrowings and capital securities as set out in the following table.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	Variance
Corporate borrowings	\$ 146	\$ 126	\$ 20
Subsidiary borrowings	66	64	2
Capital securities	90	96	(6)
	\$ 302	\$ 286	\$ 16

Interest on corporate borrowings increased during the year due to a higher level of average borrowings that were incurred in the course of expanding our operating base.

Operating Costs

Operating costs relate to our asset management and corporate activities.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	Variance
Asset management			
Asset management activities	\$ 111	\$ 69	\$ 42
Property services	153	123	30
	264	192	72
Corporate and other costs	180	124	56
	\$ 444	\$ 316	\$ 128

Operating costs include those of Brookfield Properties, and reflect the costs of our asset management activities as well as costs which are not directly attributable to specific business units. Corporate and asset management costs increased from \$193 million in 2006 to \$291 million in 2007 on a net basis, due to the continued expansion of our business and increased level of activity, in particular costs associated with the integration of a major property portfolio, a number of major corporate and asset management initiatives and the expanded resources requirements.

We have continued to invest in our business as we grow, which has resulted in higher operating costs, and also incurred a number of transaction and other costs related to growth initiatives. We believe this investment will enable us to expand our business without a commensurate increase in costs, thereby resulting in expanded margins.

Co-investor Interests in Consolidated Operations

Co-investor interests relate primarily to the 49% minority equity interest held by others in our North American property subsidiary, Brookfield Properties Corporation.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	Variance
Asset management	\$ 65	\$ 54	\$ 11
Operating returns	303	193	110
	\$ 368	\$ 247	\$ 121

The increase in operating returns reflects the increase in operating cash flows from our Canadian residential property business, which is owned through Brookfield Properties, as well as continued growth in the returns from our North American office property portfolios.

NET INCOME

Net income was \$787 million in 2007, compared to \$1,170 million in 2006. The decline reflects the lower level of realization gains in 2007. Furthermore, net income excludes \$331 million of the gains on sales of the exchangeable debentures that were recorded in retained earnings due to a prescribed accounting change. These items more than offset the increase in operating cash flow from our ongoing operations. Net income is also reduced by depreciation and amortization with respect to assets purchased since the latter portion of 2006. In our view, these assets will generate increasing cash flows over an extended period of time and require sustaining capital expenditures well below the amount of depreciation and amortization being recorded.

The following table reconciles net income and operating cash flow:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Operating cash flow and gains	\$ 1,907	\$ 1,801
Less: dividends from equity accounted investments	(21)	(66)
dividends from Canary Wharf Group	—	(87)
exchangeable debenture gain	(331)	—
	1,555	1,648
Non-cash items		
Depreciation and amortization	(1,034)	(600)
Equity accounted loss from investments	(72)	(36)
Provisions and other	(112)	57
Future income taxes	(88)	(203)
Non-controlling interests	538	304
Net income	\$ 787	\$ 1,170

Depreciation and amortization prior to non-controlling interests increased due to the acquisition of additional assets in a number of segments during 2006 and 2007. Depreciation and amortization for each principal operating segment is summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Commercial properties	\$ 572	\$ 294
Power generation	164	124
Infrastructure	138	68
Development and other properties	65	36
Specialty funds and private equity investments	89	71
Other	6	7
	\$ 1,034	\$ 600

In particular, the U.S. core office portfolio and the Pacific Northwest timberlands contributed \$323 million of depreciation in aggregate, towards the overall increase of \$434 million from 2006.

We recorded net equity accounted losses of \$72 million during the year from private equity investments, including Norbord, Fraser Papers and Stelco. Norbord and Fraser Papers faced a weak price environment for their principal products, in addition to higher input costs. We increased our interest in Fraser Papers to 56% during the third quarter of 2007 and began to consolidate our interest at that time, and sold our interest in Stelco during the fourth quarter of 2007 for a \$229 million gain which reflects the cash gain of \$231 million adjusted to reflect non-cash tax provisions.

The following table summarizes earnings from our equity accounted investments for the past two years:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Norbord	\$ (17)	\$ 37
Fraser Papers	(23)	(62)
Stelco	(32)	(11)
	\$ (72)	\$ (36)

Provisions and other, which largely represent revaluation items, contributed a loss of \$112 million in 2007 compared with an income of \$57 million in 2006, and are summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Norbord exchangeable debentures	\$ (9)	\$ 59
Interest rate contracts	(64)	7
Power contracts	(63)	—
Stelco recovery of equity accounted losses	43	—
Other	(19)	(9)
	\$ (112)	\$ 57

Revaluation items are non-cash accounting adjustments that we are required to record under GAAP to reflect changes in value of contractual arrangements that we do not believe are appropriately included in operating cash flow. Items being revalued include debentures issued by us that are exchangeable into 20 million Norbord common shares, which are revalued based on changes in the Norbord share price during the period. We hold the 20 million shares into which the debentures are exchangeable, but are not permitted to mark the investment to market.

Revaluation items also include the impact of revaluing fixed rate financial contracts that we maintain in order to provide an economic hedge against the impact of possible higher interest rates on the value of our long duration interest sensitive assets. The U.S. 10-year treasury rate moved from 4.70% to 4.02% between December 31, 2006 and December 31, 2007, which led to a \$64 million decline in the value of these contracts, however we believe that this is offset by a corresponding impact on the value of the assets being hedged. Accounting rules require that we revalue these contracts each period even if the corresponding assets are not revalued.

In our power operations, we enter into long-term contracts to provide generation capacity, and are required to record changes in the value of these contracts through net income whereas we are not permitted to record the corresponding increase in the value of the capacity that we have pre-sold.

Our future income tax provision was lower than in 2006, due principally to the inclusion in that year of charges related to a reduction in income tax rates that lowered the value of our tax pools. Future income taxes in the first and third quarters of 2007 included a reversal of an income tax liability associated with our U.S. homebuilding operations following the receipt of a final assessment from income tax authorities in respect of a prior tax year.

REALIZATION GAINS

The following table summarizes major realization items included in operating results:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Platform	Cash Flow From Operations		Net Income	
		2007	2006	2007	2006
Exchange seats sale	Private equity	\$ 204	\$ —	\$ 204	\$ —
Banco Brascán joint venture gain	Private equity	27	—	27	—
Core office properties – debt breakage	Property – office	(27)	—	(27)	—
Residential Brazil IPO	Property – residential	—	269	—	269
Sale of Accor joint venture interest	Private equity	—	149	—	149
Brookfield Properties dilution gain	Property – office	—	110	—	110
Fund formation gains	Property – retail / Infrastructure	—	105	—	105
Less: income taxes and non-controlling interest		(33)	(23)	(27)	(87)
		\$ 171	\$ 610	\$ 177	\$ 546

Major realization items in 2007 included gains of \$204 million from the sale of exchange seats and joint-venture interests within our Brazilian financial operation. Realization items during 2006 included gains of \$269 million on the formation of our publicly listed Brazil residential properties subsidiary, and \$105 million on the formation of our Brazilian retail property fund and our eastern timber fund. We also recorded gains of \$149 million on the sale of our interests in a joint venture with the Accor Group of France and a \$110 million gain on the partial monetization of our North American core office property business. These items were offset by cash taxes and non-controlling interests of \$33 million and \$23 million during 2007 and 2006, respectively.

The impact of items of this nature on net income, in addition to the foregoing, also reflected non-cash income tax provisions recorded for accounting purposes.

CAPITALIZATION AND LIQUIDITY

The strength of our capital structure and the liquidity that we maintain enables us to achieve a low cost of capital for our shareholders and at the same time provides us with the flexibility to react quickly to potential investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Our capitalization is comprised largely of long-term financings and permanent equity. We believe this is the most appropriate method of financing our long-term assets, and the high quality of the assets and the associated cash flows enable us to raise long-term financing in a cost effective manner. We prudently finance our operations with debt and other forms of leverage that match the profile of the business and without any recourse to the Corporation. The leverage employed is reflective of the liquidity and duration of the assets and operations being financed and varies from fund to fund and operation to operation. Our policy is to not guarantee the obligations of any fund or operating entity other than our equity commitment except in very limited circumstances. Funds also have the ability to raise additional capital through asset sales or debt financings, from their stakeholders, including us, from the public capital markets or through private issuances.

To ensure we are able to react to investment opportunities quickly and on a value basis, we typically maintain a high level of liquidity at the corporate level. Our primary sources of liquidity consist of our cash and financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities. These totalled \$2.0 billion at the corporate level at the end of 2007, compared to \$2.1 billion at December 31, 2006. Furthermore, we endeavour to structure our invested capital in a manner that enables future monetization of our investments as desired.

We generate substantial liquidity within our operations on an ongoing basis through our free cash flow, which varies between \$1.5 billion to \$2.0 billion on an annual basis, as well as from the ongoing turnover in assets with shorter investment horizons and periodic monetization of our longer dated assets through the sale of co-investor participations, divestitures and refinancings.

Accordingly, we consider ourselves to have the necessary liquidity to both manage our financial commitments and to capitalize on opportunities to invest capital at attractive returns. Nevertheless, we are cognizant of the current instability in the capital markets and continue to allocate capital in a prudent manner.

The following table presents Brookfield's capitalization using book values on a fully consolidated and net invested basis together with the associated cash flows:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Cost of Capital ¹ 2007	Book Value				Operating Cash Flow ²			
		Consolidated		Net Invested Capital		Total		Net	
		2007	2006	2007	2006	2007	2006	2007	2006
Corporate borrowings	7%	\$ 2,048	\$ 1,507	\$ 2,048	\$ 1,507	\$ 146	\$ 126	\$ 146	\$ 126
Non-recourse borrowings									
Property-specific mortgages	7%	21,644	17,148	—	—	1,226	751	—	—
Subsidiary borrowings ³	7%	7,463	4,153	711	668	324	212	66	64
Other liabilities	9%	11,102	6,497	3,148	1,771	532	475	450	320
Capital securities	6%	1,570	1,585	1,570	1,585	90	96	90	96
Non-controlling interest in net assets	20%	4,256	3,734	1,773	1,829	636	468	368	247
Shareholders' equity									
Preferred equity	5%	870	689	870	689	44	35	44	35
Common equity	20%	6,644	5,395	6,644	5,395	1,863	1,766	1,863	1,766
	9.5%	\$ 55,597	\$ 40,708	\$ 16,764	\$ 13,444	\$ 4,861	\$ 3,929	\$ 3,027	\$ 2,654

¹ Based on operating cash flows as a percentage of average book value

² Interest expense in the case of borrowings. Attributable operating cash flows in the case of minority and equity interests, including cash distributions. Current taxes and operating expenses in the case of accounts payable and other liabilities

³ Net amounts represent subsidiary obligations guaranteed by the Corporation or issued by corporate subsidiaries

Our consolidated capitalization, which includes 100% of the obligations of partially owned consolidated entities, increased by \$14.9 billion during the year. The increase reflects additional property-specific mortgage debt on acquired assets and expanded financing on existing properties, as well as additional working capital associated with acquired operations.

Our capitalization on a net invested capital basis increased by \$3.3 billion. This basis excludes property-specific borrowings and other financial obligations that have no recourse to the Corporation. The book value of our common equity increased \$1.2 billion to \$6.6 billion due to the accumulation of undistributed net earnings and unrealized gains on securities. Corporate borrowings increased by \$541 million due mainly to the issuance of 10-year bonds during the year.

The market value of our common equity capitalization was \$22 billion as at December 31, 2007, compared to \$20 billion at the end of 2006.

Deconsolidated Capitalization

As noted above, consolidated capitalization includes 100% of the debt within consolidated entities, even though in most cases we only own a portion of the entity and therefore our pro-rata interest in this debt is much lower. Accordingly, we believe that the level of debt on this basis is relevant only in relation to the associated consolidated assets, as opposed to our equity. We focus primarily on our deconsolidated capitalization in assessing financial leverage.

The table on the following page presents our deconsolidated capitalization, i.e. excluding the capitalization of Brookfield Properties and other consolidated entities. Our deconsolidated debt to capitalization levels remain well within our target of 20% to 30% on a book value basis and, in our opinion, are very conservative on a market value basis at 10%.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Capitalization Market Value ¹		Brookfield Invested Capital		Operating Cash Flow			
	2007	2006	2007	2006	Underlying		Remitted	
					2007	2006	2007	2006
Corporate borrowings	\$ 2,048	\$ 1,507	\$ 2,048	\$ 1,507	\$ 146	\$ 126	\$ 146	\$ 126
Subsidiary borrowings ²	711	668	711	668	66	64	66	64
Other liabilities	1,401	983	1,401	983	329	234	329	234
Capital securities	517	663	517	663	32	44	32	44
Non-controlling interests	9	69	9	69	2	1	2	1
Shareholders' equity								
Preferred equity	870	689	870	689	44	35	44	35
Common equity	22,262	19,947	6,644	5,395	1,863	1,766	1,661	1,535
Total capitalization / cash flows	\$ 27,818	\$ 24,526	\$ 12,200	\$ 9,974	\$ 2,482	\$ 2,270	\$ 2,280	\$ 2,039
Debt to total capitalization ³	10%	9%	23%	22%				
Interest coverage ⁴					12x	12x	11x	11x
Fixed charge coverage ⁵					9x	8x	8x	8x

¹ Common equity values based on period end market prices

² Guaranteed by the Corporation or issued by corporate subsidiaries

³ Corporate and subsidiary borrowings as a percentage of total capitalization

⁴ Total cash flows divided by interest on corporate and subsidiary borrowings

⁵ Total cash flows divided by interest on corporate and subsidiary borrowings and distributions on capital securities and preferred equity

⁶ Excludes the capitalization of Brookfield Properties Corporation

Corporate Borrowings

Our corporate borrowings have an average term of 11 years and more than 50% of the maturities extend beyond 2012. We hold cash, financial assets and have committed undrawn bank facilities which do not mature until 2011 that are available to fund shorter-term maturities if we determine that this approach results in a lower cost of capital.

YEARS ENDED DECEMBER 31 (MILLIONS)	Average	2008	2009	2010	2011	2012	Beyond	Total
	Term							
Commercial paper and bank borrowings	2	\$ 117	\$ 17	\$ 17	\$ 16	\$ —	\$ —	\$ 167
Publicly traded term debt	11	299	—	199	—	346	1,037	1,881
Total	11	\$ 416	\$ 17	\$ 216	\$ 16	\$ 346	\$ 1,037	\$ 2,048
Percentage of total		20%	1%	10%	1%	17%	51%	100%

Property-specific and Subsidiary Borrowings

Property-specific financings and subsidiary borrowings have no recourse to the Corporation except for a limited number of exceptions, and are typically secured only by the specific assets or operations being financed. In particular, subsidiary borrowings include \$711 million (2006 – \$668 million) of financial obligations that are either guaranteed by the Corporation or are issued by corporate subsidiaries. Carrying charges incurred in connection with these obligations totalled \$66 million during 2007 (2006 – \$64 million). The maturities are well diversified and have an average term of seven years and four years, respectively, as illustrated in the following table:

YEARS ENDED DECEMBER 31 (MILLIONS)	Average	2008	2009	2010	2011	2012	Beyond	Total
	Term							
Property-specific borrowings	7	\$ 4,336	\$ 2,357	\$ 554	\$ 4,807	\$ 1,152	\$ 8,438	\$ 21,644
Subsidiary borrowings	4	1,872	2,803	530	253	86	1,919	7,463

We have two financings of note that mature in the next two years. The first is a \$1.2 billion loan secured by the U.S. Pacific Northwest timberlands acquired during the first half of 2007. This loan is due in October 2008 and is in the process of being refinanced on a long-term basis. The second is a \$1.6 billion loan secured by our Multiplex operations, which we acquired during 2007. This loan does not mature until March 2009 and represents a loan-to-value of less than 60%. We plan to repay a portion of this loan with asset sales and refinance the balance on a traditional long-term financing basis during 2008 and early 2009.

Shareholders' Equity

Preferred equity consists of perpetual preferred shares that represent an attractive form of leverage for common shareholders. During the year we issued C\$200 million of perpetual preferred shares with a coupon of 4.75%.

The book value of our common equity increased by 23% during 2007 and by 26% over the past three years as illustrated in the following table:

AS AT DECEMBER 31 (MILLIONS)	2007	2006	2005
Common equity – book value	\$ 6,644	\$ 5,395	\$ 4,514
Common equity – market value	22,262	19,947	13,870

The market value of our common equity increased to \$22.3 billion at the end of 2007, representing an increase of \$8.4 billion over the past two years, and a rate of 31% over the past three years.

OUTLOOK

The fundamentals in most of our businesses remain positive.

Within our asset management activities, we continue to seek to expand our distribution capabilities, our client base and the amount of capital committed to us which should increase the capital available to invest and lead to growth in asset management income and assets under management. This is an area of particular emphasis for us in 2008.

The investment market has become less competitive and acquisition prices have declined due in large part to reduced availability of low-cost capital for many investors. We are well capitalized with access to liquidity from our own balance sheet as well as our clients, financial partners and capital markets. We believe the breadth of our operating platform and our disciplined approach to investing should enable us to continue to invest capital on a favourable basis.

In our office property sector, the leasing markets in which we operate improved measurably during most of 2007, with the most significant improvements taking place in New York and Calgary. While fundamentals remain favourable for well located high quality properties such as ours, economic weakness in North America will affect demand by users of office space over the medium term. As a result, rental rates are expected to stabilize and possibly decline in some markets, and any significant slowdown in the economy could have a further dampening effect on the office markets. We were able to increase the average lease rate in our portfolio during the past year, and our strong tenant lease profile, low vacancies and rental rates that in most properties are substantially below current market rates, give us a high level of confidence that we can achieve our operating targets in 2008. A general lack of development, especially in central business districts, has also created stability from a supply perspective.

Residential markets remain mixed in our core markets. The current supply/demand imbalance in U.S. markets has reduced operating margins and must be worked through before we will see margin improvements and growth. Our Alberta operations have benefitted greatly from the continued expansion of activity in the oil industry. Most of the land holdings were purchased in the mid-1990s or earlier and as a result have an embedded cost advantage today. This has led to particularly strong margins, although the high level of activity is creating some upward pressures on building costs, production delays due to labor shortages and, most recently, supply concerns as a result of an increase in resale and standing inventory.

Our power operations experienced lower water levels during 2007 following above average conditions in 2006. Market prices were relatively unchanged year over year, however, our strategy of locking in future prices through contractual arrangements and our ability to deliver power at peak price intervals enabled us to achieve higher realized prices than in 2006. We are well positioned to achieve our hydrology targets in 2008 based on current storage levels if normal hydrology conditions prevail. If this occurs, we should achieve higher generation levels based on the expansion in our operating base. We have nearly 80% of our power sales fixed for the next two years at favourable prices. Accordingly, we expect to record higher operating cash flows during 2008.

We continue to expand our specialty funds operations by committing additional resources and launching new funds. We will focus on maintaining a high level of invested capital, and deploy the capital from new funds, which should lead to continued growth. We expect the current difficulties in credit markets will lead to a greater number of opportunities for our restructuring operations and more attractive pricing for our bridge and real estate finance groups.

Within our infrastructure operations, we expect our transmission operations to provide returns consistent with those recorded in 2007. We expect our timber operations to experience lower demand and pricing due to weakness in the U.S. homebuilding sector, although we intend to mitigate this by adjusting our harvest plan to preserve value and by increasing exports to Asia. The net contribution from our existing infrastructure operations will be reduced in 2008 due to the ownership interests in these operations that are now held by unitholders in Brookfield Infrastructure Partners.

The increase in the value of various currencies against the U.S. dollar is expected to have a positive impact on the contribution from our operations that are denominated in these other currencies, notably the Canadian dollar, the Brazilian real and the Australian dollar. The recent reductions in interest rates in most economies has a beneficial impact on our results, although most of our cash flows are fixed rate in nature.

There are many factors that could impact our performance in 2008, both positively and negatively. And while we expect to demonstrate continued growth during 2008, our 2006 and 2007 reported results may be unrealistic comparative measures due to the significant realization and other gains recorded during each year. It is for that reason, amongst others, that we measure our growth over the long term as opposed to quarter-over-quarter or year-over-year. We describe the material aspects of our business environment and risks on Part 4 of this MD&A.

We will continue to manage our business with the objective of reducing the impact of short-term market fluctuations through the use of long-term revenue contracts and long-term financings, among other measures. This approach to business provides us with confidence that we will meet our ongoing performance objectives with respect to cash flow growth and value creation.

PART 3 – BUSINESS STRATEGY

In this section we discuss our business strategy and our capabilities as they relate to our ability to execute our strategy. We also describe the key performance factors that are necessary to successfully implement this strategy and key financial measures that are indicative of our progress. We also explain the terminology that is used throughout this section and our rationale for selecting the key financial measures that we use to assess our business.

OUR STRATEGY

We are a global asset management company focused on property, power and infrastructure assets. Our goal is to establish Brookfield as a global asset manager of choice for investment clients who wish to benefit from the ownership of these types of assets. We have spent many years building high quality operating platforms that enable us to acquire, finance and optimize the value of assets for our own benefit, and for our clients whose capital we manage.

We believe that the best way to create long-term shareholder value is to generate increasing operating cash flows, measured on a per share basis, over a very long period of time. Accordingly, we concentrate on high quality long-life assets that generate sustainable cash flows, require minimal sustaining capital expenditures and tend to appreciate in value over time. Often these assets will benefit from some form of barrier to entry due to regulatory, physical or cost structure factors. Consistent with this focus, we own and operate large portfolios of core office properties, hydroelectric power generating stations, private timberlands and regulated transmission systems that, in our opinion, share these common characteristics. These assets represent important components of the infrastructure that supports the global economy.

We believe the demand from institutional investors to own assets of this nature is increasing as they seek to earn increasing yields to meet their investment objectives. These assets, in our view, they represent attractive alternatives to traditional fixed income investments, providing in many cases a “real return” that increases over time, relatively low volatility and strong capital protection. There is a substantial supply of investment opportunities in the form of existing assets as well as the need for continued development in an ever expanding global economy. At the same time there are relatively few global organizations focused on managing assets of this nature as a primary focus on their strategy.

Our strategy for growth is centered around expanding our assets under management, which should lead to increased fee revenues and opportunities to earn performance returns. We plan to achieve this within our existing operating platforms, through geographic expansion beyond our current focus in North America, South America, Europe and Australia, and by developing and acquiring platforms to operate new asset classes that demonstrate characteristics that are similar to our existing assets. We also plan to achieve growth by expanding our distribution capabilities to access a broader range of investment partners, thereby increasing our access to capital. This increased capital, when coupled with new investment opportunities, should increase our assets under management and the associated income as well as direct investment returns, thereby increasing shareholder value.

OUR CAPABILITIES

We believe that we have the necessary capabilities to execute our business strategy and achieve our performance targets. We focus on disciplined and active hands-on management of assets and capital. We strive for excellence and quality in each of our core operating platforms in the belief that this approach will produce superior returns over the long term.

We endeavour to operate as a value investor and follow a disciplined investment approach. Our management team has considerable capabilities in investment analysis, mergers and acquisitions, divestitures and corporate finance that enable us to acquire assets for value, finance them effectively, and to ultimately realize value created during our ownership.

Our operating platforms and depth of experience in managing these assets differentiate us from some competitors that have shorter investment horizons and more of a financial focus. Over time we have established a number of high quality operating platforms that are fully integrated into our organization. This has required considerable investment in building the management teams and the necessary resources; however, we believe these platforms enable us to optimize the cash returns and values of the assets that we manage.

We have established strong relationships with a number of leading institutions and believe we are well positioned to expand our sources of co-investment capital and clients. In order to expand our assets under management, we are investing in our distribution capabilities to encourage existing and potential clients to commit capital to our investment strategies. We are devoting expanded resources to these activities, and our efforts continue to be assisted by strong investment performance.

The diversification within our operations allows us to offer a broad range of products and investment strategies to our clients. We believe this is of considerable value to investors with large amounts of capital to deploy. In addition, our commitment to transparency and governance as a well capitalized public company listed on major North American and European stock exchanges better positions us as a strong long-term partner for our clients.

Finally, our commitment to invest considerable capital alongside our investors creates a strong alignment of interest between us and our investment partners and also differentiates us from many of our competitors. Accordingly, our strategy calls for us to maintain considerable surplus financial resources relative to other managers. This capital also supports our ability to commit to investment opportunities in anticipation of future syndications.

KEY PERFORMANCE FACTORS

Our ability to increase our operating cash flows is impacted by our ability to generate attractive returns on the capital invested on behalf of ourselves and our clients, and our ability to expand the magnitude of the capital that we manage on behalf of our clients. These two criteria are linked, in that the quality of our investment returns will encourage clients to commit capital to us, and our access to this capital will enable us to pursue a broader range of investment opportunities.

Investment returns are influenced by a number of factors that are specific to each asset and industry segment. There are however, four key activities that we focus on across the organization.

- Acquire assets “for value” meaning that the projected cash flows and value appreciation of the asset represent an attractive risk-adjusted return to ourselves and our co-investors.
- Optimize the cash returns and value of the asset on an ongoing basis. In most cases, this is the responsibility of one of our operating platforms, and is evidenced by the return on asset metrics and operating margins.
- Finance assets effectively, using a prudent amount of leverage. We believe this is very important in maximizing the net returns to investors from property and infrastructure assets, given the lower return on assets compared to a number of other businesses. Fortunately, these assets are well suited to support a relatively high level of investment grade secured debt given the predictability of the cash flows and tendency of these assets to retain substantial value throughout economic cycles. This is reflected in our return on net capital deployed, our overall return on capital and our cost of capital.
- Have the ability to realize the maximum value of assets through a direct or indirect sale or monetization of the assets. Many of our assets tend to appreciate in value over time and accordingly they may be held for very long periods of time. As a result, this “back-end” appreciation may not be recognized until there is a specific transaction.

Expanding our client relationships is impacted not only by our investment returns, as discussed above, but also by the quality of our distribution capabilities and by maintaining a high level of ongoing client service. This involves transparent and timely communication of results, ongoing engagement responsiveness to client objectives and generation of attractive investment opportunities.

FINANCIAL MEASURES

The long-term rate of growth of operating cash flow on a per share basis is our key performance measure. We also measure the cash return on equity, which demonstrates how effective we are at deploying the capital with which we have been entrusted by shareholders. Our current targets are 12% and 20%, respectively. We revisit these targets periodically in light of the current operating environment to ensure that they are realistic and can be achieved without exposing the organization to inappropriate risk.

The amount of co-investor capital commitments is also an important measure. One of our most important objectives is to significantly expand the amount of capital committed to us by our clients because this provides us with capital to expand our business and also entitles us to earn asset management income based on our ability to successfully invest this capital. “Third Party” asset management income is an important measure in that it is indicative of the cash flow generated from our asset management activities, which is an important source of growth in our operating cash flows.

Operating Cash Flow

We utilize operating cash flow (defined below under Terminology) as a key operating metric as opposed to net income, principally because operating cash flow does not include certain items that we believe can distort operations results, such as depreciation and amortization expense, and future income tax expense.

Depreciation as prescribed by GAAP, for example, implies these assets decline in value on a pre-determined basis over time, whereas we believe that the value of most of our assets, as long as regular sustaining capital expenditures are made, will typically increase over time. This increase in value will inevitably vary based on a number of market and other conditions that cannot be determined in advance, and may sometimes be negative in a particular period. Future income tax expense, in our case, is derived primarily from changes in the magnitude and quality of our tax losses and the differences between the tax values and book values of our assets, as opposed to current cash liabilities. Brookfield has access to significant tax shields as a result of the nature of our asset base, and we do not expect to incur any meaningful cash tax liability in the near future from ongoing operations.

Our operating cash flow is derived from two principal activities: asset management and operations. Our clients compensate us for asset management activities that we perform in respect of the capital and assets that we manage on their behalf. We also invest our own capital in most of the assets and capital that we manage for our clients, and accordingly participate in the operating cash flow produced by these assets and businesses and the associated value appreciation. Accordingly, we distinguish operating cash flows between those attributable to our asset management activities and those that represent investment returns from the capital deployed in established funds and directly held assets. Asset management activities include strategic oversight, investment analysis, capital allocation activities such as acquisitions, divestitures and financing, and the provision of specific services such as investment banking, facilities management and leasing.

Asset Management Income

Asset management income consists of base management fees, transaction fees and performance returns as well as additional property and investment banking services. The management agreements which govern these earnings vary from fund to fund. For example, base fees may be calculated based on net asset value, capital commitments, invested equity or total capital as defined in each agreement. Base management fees, therefore, represent stable long-term cash flows because they are paid over the life of a fund and contribute to income from the inception of the fund.

Our entitlement to performance returns is typically based on results over a prescribed measurement period, and any payments to us prior to the end of the period may be required to be returned if they exceed the actual amount determined at the end of the period (i.e. “clawed back”). We do not accrue any performance returns until such time as there is sufficient certainty that the amount recorded will not be impacted by future events, and therefore no longer subject to a clawback, even if such amounts are paid to us. Performance returns, by their nature, will tend to be more difficult to predict than base management fees. We believe, however, that the high quality and lower volatility of most of our assets should result in performance returns that are more stable than those recorded in respect of higher volatility investments.

Asset management income includes the fees that we receive from established funds, which will include fees in respect of the capital provided by our clients, which we refer to as “Third Party” fees, as well as any capital that we have invested in the funds. We also attribute fees to capital that is invested directly in assets that are not held in funds. This is an internal allocation that we establish by applying a fixed percentage fee to the estimated value of the operations.

We believe that it is important to consider the fees attributable to our capital in assessing the contribution from our different activities because it increases comparability and avoids distorting margins. This is particularly important as we continue to have a disproportionate amount of our own capital invested relative to client capital. For example, we incur expenses in providing asset management services in respect of all of our assets under management, including our own. If we were to eliminate the fees earned on our own capital, whether it is invested in established funds or directly owned assets, then we would be recognizing only a portion of the fees but all of the expenses. This results in distorted operating margins.

OPERATING ENVIRONMENT

Our operating performance is impacted by various factors that are specific to each of our operations as well as the specific sectors and geographic locations in which we operate. We are also impacted by macro-economic factors such as economic growth, changes in currency, inflation and interest rates, regulatory requirements and initiatives, and litigation and claims that arise in the normal course of business.

Our strategy is to invest in high quality long-life assets which generate sustainable streams of cash flow. While high quality assets may initially generate lower returns on capital, we believe that the sustainability and future growth of their cash flows is more

assured over the long term, and as a result, warrant higher valuation levels. We also believe that the high quality of our asset base protects the company against future uncertainty and enables us to invest with confidence when opportunities arise.

We discuss the risks associated with our business in detail in Part 4 – Business Environment and Risks beginning on page 41.

TERMINOLOGY

Operating Cash Flow

We define operating cash flow as net income prior to items such as depreciation and amortization, future income tax expense and certain non-cash items that in our view are not reflective of the actual underlying operations. Operating cash flow is a non-GAAP measure, and may differ from definitions of operating cash flow used by other companies. It is provided to investors as a consistent measurement tool which we believe assists in analysis of the company, in addition to other traditional measures, which we also provide. We recognize the importance of net income as a GAAP measure to investors and provide a full reconciliation between these measures.

“Total operating cash flow” represents the revenues less directly attributable operating costs.

“Net operating cash flow” represents the cash flow that is attributable to our net invested capital and is equal to total operating cash flow less financing costs associated with related liabilities and the interest of other investors in the operations.

Assets Under Management

Assets under management include assets managed by us on behalf of our clients, as well as our own assets. We invest capital alongside our clients in many of our funds, and we continue to own a number of assets that we acquired prior to the formation of our asset management operations and are therefore not part of any fund. Assets under management include the assets reflected in our consolidated financial statements and, as a result, are based on book values that may differ materially from current market values, particularly in the case of long-life assets that we have owned for many years as well as capital commitments that have not yet been drawn. Our calculation of assets under management may differ from that employed by other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers.

Co-investor Commitments

Co-investor commitments represent capital that has been committed to us to invest on behalf of the client. We typically earn base management fees on this capital from the time that the commitment to the fund is effective, during the period of time until the capital is invested (commonly referred to as the investment period) until such time as the investments are monetized and the capital returned to the client. Committed capital includes invested capital and commitments that have not yet been invested. Uninvested commitments represent capital available to us to invest and form part of our overall liquidity for these purposes.

Invested Capital

Invested capital represents the capital that Brookfield has invested through funds and directly. Consolidated assets represent the capital on a similar basis as our consolidated balance sheets. Net invested capital is presented on a de-consolidated basis, with the exception of Brookfield Properties, meaning that the assets are presented net of associated liabilities and non-controlling interests. We believe that net invested capital represents the most consistent basis of presentation and is how we assess the capital invested in our business. The consolidated basis is less meaningful, in our opinion, because certain of our operations and managed funds are consolidated and others are not.

Return on Invested Capital

We define cash return on capital as the operating cash flow per share as a percentage of the average book value per common share during the period, and for an individual operation as the operating cash flow as a percentage of the net invested capital. The numerator in calculating return on invested capital is our operating cash flow and the denominator is the average net book value over the measurement period.

PART 4 – BUSINESS ENVIRONMENT AND RISKS

The following is a review of certain risks that could adversely impact our financial condition, results of operation and the value of our common shares. Additional risks and uncertainties not previously known to the Corporation, or that the Corporation currently deems immaterial may also impact our operations and financial results.

GENERAL RISKS

We are exposed to the local, regional, national and international economic conditions and other events and occurrences that affect the markets in which we own assets and operate businesses. In general, a decline in economic conditions will result in downward pressure on our operating margins and asset values. We believe that the long life nature of our assets and, in many cases, the long-term nature of revenue contracts mitigates this risk to some degree.

Each segment of our business is subject to competition in varying degrees. This can result in downward pressure on revenues which can, in turn, reduce operating margins and thereby reduce operating cash flows and investment returns. In addition, competition could result in scarcity of inputs which can impact certain of our businesses through higher costs. We believe that the high quality and low operating costs of many of our assets and businesses provides some measure of protection in this regard.

A number of our long-life assets are interest rate sensitive: an increase in long-term interest rates will, absent all else, tend to decrease the value of the assets. We mitigate this risk in part by financing assets with long-term fixed rate debt, which will typically decrease in value as rates increase. In addition, we believe that many conditions that lead to higher interest rates, such as inflation, can also give rise to higher revenues which will, absent all else, tend to increase values.

The trading price of our common shares in the open market cannot be predicted. The trading price could fluctuate significantly in response to factors such as: variations in our quarterly or annual operating results and financial condition; changes in government regulations affecting our business; the announcement of significant events by our competitors; market conditions and events specific to the industries in which we operate; changes in general economic conditions; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections; the depth and liquidity of the market for our common shares; investor perception of our business and industry; investment restrictions; and our dividend policy. In addition, securities markets have experienced significant price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the trading price of our common shares.

EXECUTION OF STRATEGY

Our strategy for building shareholder value is to acquire or develop high quality assets and businesses that generate sustainable and increasing cash flows on behalf of ourselves and co-investors, with the objective of achieving higher returns on invested capital and increasing asset management fees over the long term.

We consider effective capital allocation to be one of the most important components to achieving long-term investment success. As a result, we apply a rigorous approach towards the allocation of capital among our operations. Capital is invested only when the expected returns exceed pre-determined thresholds, taking into consideration both the degree and magnitude of the relative risks and upside potential and, if appropriate, strategic considerations in the establishment of new business activities.

The successful execution of a value investment strategy requires careful timing and business judgment, as well as the resources to complete asset purchases and restructure them as required, notwithstanding difficulties experienced in a particular industry. Our diversified business base, liquidity and the sustainability of our cash flows provide important elements of strength.

We endeavour to maintain an appropriate level of liquidity in order to invest on a value basis when attractive opportunities arise. Our approach to business entails adding assets to our existing businesses when the competition for assets is lowest, either due to depressed economic conditions or when concerns exist relating to a particular industry. However, there is no certainty that we will be able to acquire or develop additional high quality assets at attractive prices to supplement our growth. Conversely, overly favourable economic conditions can limit the number of attractive investment opportunities and thereby restrict our ability to increase assets under management and the related income streams. Competition from other well-capitalized investors may significantly increase the purchase price or prevent us from completing an acquisition. We may be unable to finance acquisitions on favourable terms, or newly acquired assets and businesses may fail to perform as expected. We may underestimate the costs necessary to bring an acquisition up to standards established for its intended market position or may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

We develop property and power generation assets. In doing so, we must comply with extensive and complex regulations affecting the development process. These regulations impose on us additional costs and delays, which may adversely affect our business and results of operations. In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. We must comply with local, state and federal laws and regulations concerning the protection of health and the environment, including laws and regulations with respect to hazardous or toxic substances. These environmental laws and regulations sometimes result in delays, which cause us to incur additional costs, or severely restrict development activity in environmentally sensitive regions or areas.

Our ability to successfully expand our asset management business is dependent on our reputation with our current and potential investment partners. We believe that our track record and recent investments, as well as adherence to operating principles that emphasize a constructive management culture, will enable us to continue to develop productive relationships with institutional investors. However, competition for institutional capital, particularly in the asset classes on which we focus, is intense. Although we seek to differentiate ourselves there is no assurance that we will be successful in doing so and this competition may reduce the margins of our asset management business and may decrease the extent of institutional investor involvement in our activities.

Our executive and other senior officers have a significant role in our success. Our ability to retain our management group or attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets. The conduct of our business and the execution of our growth strategy rely heavily on teamwork. Co-operation amongst our operations and our team-oriented management structure are essential to responding promptly to opportunities and challenges as they arise. We believe that our hiring and compensation practices encourage retention and teamwork.

We participate in joint ventures, partnerships, co-tenancies and funds affecting many of our assets and businesses. Investments in partnerships, joint ventures, co-tenancies or other entities may involve risks not present were a third party not involved, including the possibility that our partners, co-tenants or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, our partners, co-venturers or co-tenants might at any time have economic or other business interests or goals. In addition, we do not have sole control of certain major decisions relating to these assets and businesses, including: decisions relating to the sale of the assets and businesses; refinancing; timing and amount of distributions of cash from such entities to the Corporation; and capital expenditures.

Some of our management arrangements permit our partners to terminate the management agreement in limited circumstances relating to enforcement of the managers' obligations. In addition, the sale or transfer of interests in some of our entities is subject to rights of first refusal or first offer and some agreements provide for buy-sell or similar arrangements. Such rights may be triggered at a time when we may not want to sell but may be forced to do so because we may not have the financial resources at that time to purchase the other party's interest. Such rights may also inhibit our ability to sell our interest in an entity within our desired time frame or on any other desired basis.

FINANCIAL AND LIQUIDITY RISKS

We employ debt and other forms of leverage in the ordinary course of our business in order to enhance returns to shareholders and our co-investors. We attempt to match the profile of the leverage to the associated assets and accordingly fund shorter duration floating rate assets with shorter term floating rate debt and fund long-term fixed rate and equity like assets with long-term fixed rate and equity capital. Most of the debt within our business has recourse only to the assets or subsidiary being financed and has no recourse to the Corporation.

Accordingly, we are subject to the risks associated with debt financing. These risks, including the following, may adversely affect our financial condition and results of operations: our cash flow may be insufficient to meet required payments of principal and interest; payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses; we may not be able to refinance indebtedness on our assets at maturity due to company and market factors including: the estimated cash flow of our assets; the value of our assets; liquidity in the debt markets; financial, competitive, business and other factors, including factors beyond our control; and if refinanced, the terms of a refinancing may not be as favourable as the original terms of the related indebtedness. We structure our financings to mitigate these risks through the use of long-term debt and by diversifying our maturities over an extended period of time. We also strive to maintain adequate liquidity to refinance obligations.

The terms of our various credit agreements and other indebtedness require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios and maintaining insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance our indebtedness on acceptable terms, or at all, we may need to dispose of one or more of our assets upon disadvantageous terms, prevailing interest rates or other factors at the time of refinancing could increase our interest expense, and if we pledge assets to secure payment of indebtedness and are unable to make required payments, the creditor could foreclose upon such asset or appoint a receiver to receive an assignment of the associated cash flows.

A large proportion of our capital is invested in physical assets such as office properties, hydroelectric power generating facilities and transmission systems which can be hard to sell, especially if local market conditions are poor. Such liquidity could limit our ability to vary our portfolio or assets promptly in response to changing economic or investment conditions. Additionally, financial or operating difficulties of other owners resulting in distress sales could depress asset values in the markets in which we operate in times of illiquidity. These restrictions could reduce our ability to respond to changes in the performance of our investments and market conditions and could adversely affect our financial condition and results of operations.

We periodically enter into agreements that commit us to acquire assets or securities. In some cases we may enter into such agreements with the expectation that we will syndicate or assign all or a portion of our commitment to other investors prior to, at the same time as, or subsequent to the anticipated closing. We may be unable to complete this syndication or assignment which may increase the amount of capital that we are required to invest. These activities can have an adverse impact on our liquidity which may reduce our ability to pursue further acquisitions or meet other financial commitments.

We enter into financing commitments in the normal course of business and, as a result, may be required to fund these. Although we do not typically do so, we from time to time guarantee the obligations of funds or other entities that we manage and/or invest in. If we are unable to fulfill any of these commitments this could result in damages being pursued against us or a loss of opportunity through default of contracts that are otherwise to our benefit.

Our business is impacted by changes in currency rates, interest rates, commodity prices and other financial exposures. As a general policy, we endeavour to maintain balanced positions, although unmatched positions may be taken from time to time within pre-determined limits. The company's risk management and derivative financial instruments are more fully described in the notes to our Consolidated Financial Statements. We selectively utilize financial instruments to manage these exposures.

We have pursued and intend to continue to pursue growth opportunities in international markets and often invest in countries where the U.S. dollar is not the notional currency. As a result, we are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant depreciation in the value of the foreign currency of one or more countries where we have a significant investment may have a material adverse effect on our results of operations and financial position. Although we attempt to maintain a hedged position with respect to the carrying value of net assets denominated in currencies other than the U.S. dollar, this is not always possible or economical to do. Even if we do so, the carrying value may not equal the economic value, meaning that any difference may not be hedged. In addition, the company receives certain cash flows that are denominated in foreign currencies that are not hedged. We mitigate adverse effects by borrowing under debt agreements denominated in foreign currencies and through the use of financial contracts, however, there can be no assurance that those attempts to mitigate foreign currency risk will be successful.

We typically finance assets that generate predictable long-term cash flows with long-term fixed rate debt in order to provide stability in cash flows and protect returns in the event of changes in interest rates. We also make use of fixed rate preferred equity financing as well as financial contracts to provide additional protection in this regard. Similarly, we typically finance shorter term floating rate assets with floating rate debt. Historically, the company and our subsidiaries have tended to maintain a net floating rate liability position because we believe that this results in lower financing costs over the long term although in recent years we have maintained a net floating rate asset position given our view on interest rates.

As at December 31, 2007, our net floating rate liability position was \$0.2 billion (2006 – asset of \$0.9 billion). As a result, a 10 basis point increase in interest rates would increase operating cash flow by \$16 million, or \$0.03 per share. Our fixed-rate obligations at year end include a notional amount of \$1.6 billion (2006 – \$1.1 billion) which we are required to record at market value and any

changes in value recorded as current income, with the result that a 10 basis point increase in long-term interest rates will result in a corresponding increase in income of \$13 million before tax or \$0.02 per share and vice versa, based on our year end positions. It is important for shareholders to keep in mind that these interest rate related revaluation gains or losses are offset by corresponding changes in values of the assets and cash flow streams that they relate to, which are not reflected in current income.

We selectively utilize credit default swaps and equity derivatives to hedge financial positions and may establish unhedged positions from time to time. These instruments are typically utilized as an alternative to purchasing or selling the underlying security when they are more effective from a capital employment perspective.

COMMERCIAL OFFICE PROPERTIES

Our strategy is to invest in high quality commercial office properties as defined by the physical characteristics of the assets and, more importantly, the certainty of receiving rental payments from large corporate tenants which these properties attract. Nonetheless, we remain exposed to certain risks inherent in the core office property business.

Core office property investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in markets in which we operate), the attractiveness of the properties to tenants, competition from other landlords and our ability to provide adequate maintenance at an economical cost.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. Our core office properties are subject to mortgages which require substantial debt service payments. If we become unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. We believe the stability and long-term nature of our contractual revenues is an effective mitigant to these risks.

Our core office properties generate a relatively stable source of income from contractual tenant rent payments. We endeavour to stagger our lease expiry profile so that we are not faced with a disproportionate amount of space expiring in any one year. Continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. While we believe the outlook for commercial office rents is positive for both 2008 and in the longer term, it is possible that rental rates could decline or that renewals may not be achieved. The company is, however, substantially protected against short-term market conditions, since most of our leases are long-term in nature. A protracted disruption in the economy, such as the onset of a severe recession, could place downward pressure over time on overall occupancy levels and net effective rents.

RESIDENTIAL PROPERTIES

In our residential land development and homebuilding operations, markets have been favourable over most of the past seven years. Our operations are concentrated in high growth areas which we believe have positive long-term demographic and economic conditions. Despite this, over the past 18 months the U.S. market has seen extremely negative market sentiment towards housing and has similarly affected our operations in the U.S.

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic conditions, such as consumer confidence, employment levels, availability of financing for homebuyers and interest rates. Competition from rental properties and used homes may depress prices and reduce margins for the sale of new homes. Homebuilders are also subject to risks related to the availability and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. Our residential property operations may be particularly affected by changes in local market conditions in California, Virginia, Alberta and Brazil where we derive a large proportion of our residential property revenue. During 2007, we recorded approximately \$100 million of charges against our U.S. revenues to reflect changing conditions.

Many of our customers finance their home acquisitions through lenders providing mortgage financing. Mortgage rates have recently been at or near their lowest levels in many years. Despite this, and given that dramatic issues being experienced in the sub-prime markets in the U.S. and by many lenders, it has become more difficult for borrowers to procure mortgages.

Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing, which in the U.S. has resulted in reduced demand for new homes. As a result, rising mortgage rates could adversely affect our ability to sell new homes and the price at which we can sell them.

POWER GENERATING OPERATIONS

Our strategy is to own primarily hydroelectric generating facilities, which have operating costs significantly below that of most competing forms of generation. As a result, there is a high level of assurance that we will be able to deliver power on a profitable basis. In addition, we sell most of our generation pursuant to contracts that protect us from variations in future prices. Nonetheless, we are subject to certain risks, the most significant of which are hydrology and price, but also include changes in regulation, risk of increased maintenance costs, dam failure and other disruptions.

The revenues generated by our power facilities are proportional to the amount of electricity generated, which is dependent upon available water flows. Although annual deviations from long-term average water flows can be significant, we strive to mitigate this risk by increasing the geographic diversification of our facilities which assists in balancing the impact of generation fluctuations in any one geographic region.

Demand for electricity varies with economic activity. An economic slowdown could have an adverse impact on prices. In addition, oversupply in our markets may result from excess generating capacity. Pricing risk is mitigated through fixed-price contracts and forward sales of electricity. Future pricing levels are dependent on economic and supply conditions and the terms on which contracts are renewed. A portion of our power generation revenue is tied, either directly or indirectly, to the spot market price for electricity. Electricity price volatility could have a significant effect on our business, operating results, financial condition or prospects.

There is a risk of equipment failure due to, among other things, wear and tear, latent defect, design error or operator error which could adversely affect revenues and cash flows. Although the power systems have operated in accordance with expectations, there can be no assurance that they will continue to do so. In the future, our generation assets may require significant capital expenditures and operations could be exposed to unexpected increases in costs such as labour, water rents and taxes. Nevertheless, this risk is substantially mitigated by the proven nature of hydroelectric technology, the design of the plants, capital programs, adherence to prudent maintenance programs, comprehensive insurance and significant operational flexibility as a result of having generating units which can operate independently.

The operation of hydroelectric generating facilities and associated sales of electricity are regulated to varying degrees in most regions. Changes in regulation can affect the quantity of generation and the manner in which we produce it.

The occurrence of dam failures at any of our hydroelectric generating stations could result in a loss of generating capacity and repairing such failures could require us to incur significant expenditures of capital and other resources. Such failures could result in us being exposed to liability for damages. There can be no assurance that our dam safety program will be able to detect potential dam failures prior to occurrence or eliminate all adverse consequences in the event of failure. Upgrading all dams to enable them to withstand all events could require us to incur significant expenditures of capital and other resources.

The occurrence of a significant event which disrupts the ability of our generation assets to produce or sell power for an extended period, including events which preclude existing customers from purchasing electricity, could have a material negative impact on the business. Our generation assets could be exposed to effects of severe weather conditions, natural disasters and potentially catastrophic events such as a major accident or incident at our generation facilities. In addition, many of our generation assets are located in remote areas which makes access for repair of damage difficult.

TIMBERLANDS

The financial performance of our timberland operations depends on the state of the lumber and pulp and paper industries. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, profits and cash flows for lumber mills who are important customers to us. Depressed commodity prices of lumber, pulp or paper or market irregularities may cause mill operators to temporarily or permanently shut down their mills if their product prices fall to a level where mill operation would be uneconomic. Any of these circumstances could significantly reduce the prices that we realize for our timber and the amount of timber that such operators purchase from us.

Weather conditions, timber growth cycles, access limitations, aboriginal claims and regulatory requirements associated with forestry practices, sale of logs and environmental matters, may restrict our harvesting, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and other natural and man-made disasters. Although management believes it follows best practices with regard to forest sustainability and general forest management, there can be no assurance that our forest management planning, including silviculture, will have the intended result of ensuring that our asset base appreciates in value over time. If management's estimates of merchantable inventory are incorrect, harvesting levels on our timberlands may result in depletion of our timber assets.

TRANSMISSION INFRASTRUCTURE

Our transmission operations are subject to regulation. The regulated rates are designed to recover allowed costs, including debt financing costs, and permit earning a specified rate of return on assets or equity. Any changes in the rate structure for the transmission assets or any reallocation or redetermination of allowed costs relating to the transmission assets, could have a material adverse effect on our transmission revenues and operating margins.

SPECIALTY INVESTMENT FUNDS

Our specialty funds operations are focused on the ownership and management of securities and businesses that are supported by underlying tangible assets and cash flows. The principal risks in this business are potential loss of invested capital as well as insufficient investment or fee income to cover operating expenses and cost of capital.

Unfavourable economic conditions could have a significant impact on the value and liquidity of our investments and the level of investment income. Since most of our investments are in our areas of expertise and given that we strive to maintain adequate supplemental liquidity at all times, we are well positioned to assume ownership of and operate most of the assets and businesses that we finance. Furthermore, if this situation does arise, we typically acquire the assets at a discount to the underwritten value, which protects us from loss.

OTHER RISKS

As an owner and manager of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. These laws could hold us liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in our properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect our ability to sell our real estate or to borrow using real estate as collateral, and could potentially result in claims or other proceedings against us. We are not aware of any material non-compliance with environmental laws at any of our properties. We are also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with any of our properties or any material investigations or actions by environmental regulatory authorities in connection with any of our properties or any material pending threatened claims relating to environmental conditions at our properties. We have made and will continue to make the necessary capital expenditure for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on our business, financial condition or results of operation.

The ownership and operation of our assets carry varying degrees of inherent risk of liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to contravention of health, safety and environmental laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future laws or amendments enacted) and the requirements of licenses, permits and other approvals will remain material to our business. We have incurred and will continue to incur significant capital and operating expenditures

to comply with health, safety and environmental laws and to obtain and comply with licenses, permits and other approvals and to assess and manage its potential liability exposure. Nevertheless, from time to time it is possible that we may be unsuccessful in obtaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of, health, safety and environmental laws, licenses, permits or other approvals could have a significant impact on operations and/or result in additional material expenditures. As a consequence, no assurance can be given that additional environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to its business and operations.

Our core office portfolio is concentrated in large metropolitan areas, some of which have been or may be perceived to be subject to terrorist attacks. Furthermore, many of our properties consist of high-rise buildings, which may also be subject to this actual or perceived threat, which could be heightened in the event that the United States continues to engage in armed conflict. This could have an adverse effect on our ability to lease office space in our portfolio. Each of these factors could have an adverse impact on our operating results and cash flows. Our core office property operations have insurance covering certain acts of terrorism for up to \$500 million of damage and business interruption costs. We continue to seek additional coverage equal to the full replacement cost of our assets; however, until this type of coverage becomes commercially available on a reasonably economic basis, any damage or business interruption costs as a result of uninsured acts of terrorism could result in a material cost to the company.

We carry various insurance coverages that provide comprehensive protection for first party and third party losses to our properties. These coverages contain policy specifications, limits and deductibles customarily carried for similar properties. We also self-insure a portion of certain of these risks. We believe all of our properties are adequately insured.

There are certain types of risks (generally of a catastrophic nature such as war or environmental contamination such as toxic mold) which are either uninsurable or not economically insurable. Should any uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our assets or operations, and would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

In the normal course of our operations, we become involved in various legal actions, typically involving claims relating to personal injuries, property damage, property taxes, land rights and contract disputes. We endeavour to maintain adequate provisions for outstanding or pending claims. The final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on our financial position or results of our operations in a particular quarter or fiscal year. We believe that we are not currently involved in any litigation, claims or proceedings in which an adverse outcome would have a material adverse effect on our consolidated financial position or results.

Ongoing changes to the physical climate in which we operate may have an impact on our business. In particular, changes in weather patterns may impact hydrology levels thereby influencing generation levels and power generation levels. Climate change may also give rise to changes in regulations and consumer sentiment that could impact other areas of our business.

The U.S. Investment Company Act of 1940 (the "Act") requires the registration of any company which holds itself out to the public as being engaged primarily in the business of investing, reinvesting or trading in securities. In addition, the Act may also require the registration of a company that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and which owns or proposes to acquire investment securities with a value of more than 40% of the company's assets on an unconsolidated basis. We are not currently an investment company in accordance with the Act and we believe we can continue to arrange our business operations in ways so as to avoid becoming an investment company within the meaning of the Act. If we were required to register as an investment company under the Act, we would, among other things, be restricted from engaging in certain businesses and issuing certain securities. In addition, certain of our contracts may become void.

There are many other laws and governmental regulations that apply to us, our assets and businesses. Changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur. Further, economic and political factors, including civil unrest, governmental changes and restrictions on the ability to transfer capital across borders in the United States, but primarily in the foreign countries in which we have invested, can have a major impact on us as a global company.

A portion of the workforce in our operations is unionized and if we are unable to negotiate acceptable contracts with any of our unions as existing agreements expire, we could experience a significant disruption of the affected operations, higher ongoing labour costs and restriction of its ability to maximize the efficiency of its operations, which could have an adverse effect on our operations and financial results.

PART 5 – DESCRIPTION OF OPERATING PLATFORMS

In this section we provide supplemental information on each of our principal operating platforms as well as our private equity investments.

COMMERCIAL PROPERTIES

We own and operate commercial office and retail properties on behalf of ourselves and our co-investors in North America, South America, Europe, Australia and the Middle East.

Office Properties

We own and manage one of the highest quality commercial office portfolios in the world and focus on major financial, energy and government centre cities in North America, Australasia and Europe. Our strategy is to concentrate our operations in high growth, supply-constrained markets that have high barriers to entry and attractive tenant bases. Our goal is to maintain a meaningful presence in each of our primary markets so as to build on the strength of our tenant relationships.

Our North American operations are conducted through a 51%-owned subsidiary, Brookfield Properties, and our primary markets are New York, Boston, Houston, Los Angeles, Washington D.C., Toronto, Calgary and Ottawa. These operations include directly owned properties as well as those contained within our U.S. and Canadian core office funds.

Our European operations are principally located in London, U.K. where we own an interest in 17 high quality commercial properties comprising 8.5 million square feet of rentable area and a further 5.4 million square feet of development density. The properties are located in the Canary Wharf Estate, one of the leading core office developments in Europe. We hold a direct 100% ownership interest in the 550,000 square foot 20 Canada Square property and an indirect interest in the balance of the portfolio through our 15% ownership interest in privately-owned Canary Wharf Group.

We acquired a high quality portfolio in Australia and New Zealand in late 2007 through our acquisition of Multiplex, consisting of 24 commercial properties containing 6.2 million square feet of net leasable area.

Office property assets under management totalled \$29 billion at the end of 2007, of which \$17 billion are held directly and \$12 billion are held through seven funds with aggregate capital commitments of \$3.7 billion.

Portfolio Activity

The following table sets out the assets and capital in our commercial property operations at the end of 2007 and 2006. Our property assets are recorded at depreciated book value, which in most cases are significantly below recent market values. In particular, the consolidated carrying value of our North American properties is approximately \$272 per square foot, significantly less than the estimated replacement cost of these assets.

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested Capital	
	2007	2006	2007	2006	2007	2006	2007	2006
North America								
United States	\$ 14,348	\$ 14,304	\$ 1,025	\$ 1,069	\$ 13,593	\$ 13,189	\$ 13,593	\$ 13,189
Canada	4,541	4,392	650	648	2,391	2,209	2,391	2,209
	18,889	18,696	1,675	1,717	15,984	15,398	15,984	15,398
United Kingdom	796	765	—	—	796	765	787	747
Australasia	5,728	—	623	—	3,198	—	3,198	—
Total properties	25,413	19,461	2,298	1,717	19,978	16,163	19,969	16,145
Other assets	3,639	853	—	—	3,639	853	3,639	853
Other liabilities							(2,275)	(919)
Property-specific mortgages							(16,183)	(11,811)
Co-investors' capital							(450)	(523)
	\$ 29,052	\$ 20,314	\$ 2,298	\$ 1,717	\$ 23,617	\$ 17,016	\$ 4,700	\$ 3,745

Our total portfolio occupancy rate at the end of 2007 was 96% across our portfolios worldwide compared to 95% at December 31, 2006 as set forth in the following table:

	2007			2006		
	Total Area	Owned Interest	Percentage Leased	Total Area	Owned Interest	Percentage Leased
<i>AS AT DECEMBER 31 (THOUSANDS)</i>						
Core North American markets						
United States	46,703	42,477	94%	46,080	40,794	94%
Canada	19,827	10,131	99%	23,067	11,252	98%
Other North American	6,648	5,958	95%	6,648	5,958	93%
United Kingdom	8,500	2,173	97%	8,500	2,173	94%
Australasia	8,463	6,185	99%	—	—	—
Total ¹	90,141	66,924	96%	84,295	60,177	95%

¹ Excludes development sites

As at December 31, 2007, the average term of our in-place leases in North America was seven years and annual expiries average 7.1% over the next five years. The U.S. portfolio acquired in late 2006 had a shorter lease maturity than the balance of our portfolio, which we will seek to extend as we re-lease the properties.

Leasing fundamentals in London also continued to improve, bringing total occupancy across the portfolio to more than 97%, with an average unexpired lease term of approximately 20 years. Nearly 80% of the tenant rating profile is A+ or better.

Property-specific mortgages and other debt secured by our commercial property interests includes \$1.6 billion of debt associated with the Multiplex acquisition in 2007 and \$2.7 billion of assumed debt. The loan to value for the Multiplex acquisition debt and assumed debt represents a relatively conservative loan to value of less than 65%.

During the year we refinanced a number of properties in Europe and North America. This included the refinancing of One Liberty Plaza through the issuance of \$850 million, 6.1% mortgage debt, replacing \$400 million of existing debt. This enabled us to monetize a portion of the value created in this property in recent years and enhance our return on capital. Core office property debt at December 31, 2007 had an average interest rate of 7% and an average term to maturity of seven years. The co-investors' capital represents the 38% interest of our partners in the U.S. Core Office fund.

Other assets include rents receivable and working capital balances as well as a portion of the purchase price of property that has been attributed to items such as above-market leases and tenant relationships. Similarly, other liabilities include \$1 billion in respect of items such as below-market tenant and land leases.

Retail Properties

We operate the Brascan Brasil Real Estate Partners fund which was formed in late 2006 and has \$800 million of committed capital (Brookfield's share – 25%). We completed a number of acquisitions which enabled us to fully invest the fund with \$1.7 billion of total assets within 18 months from inception and establishes us as one of the largest owners of retail centres in Brazil. The fund's portfolio now consists of interests in 15 shopping centres and associated office space totalling 4.7 million square feet of net leasable area, located primarily in Rio de Janeiro and São Paulo.

	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
					Consolidated Assets		Net Invested Capital	
AS AT DECEMBER 31 (MILLIONS)	2007	2006	2007	2006	2007	2006	2007	2006
Retail properties	\$ 1,698	\$ 800	\$ 600	\$ 600	\$ 1,698	\$ 215	\$ 827	\$ 207
Borrowings							(462)	(105)
Co-investors' capital							(262)	(74)
Net investment	\$ 1,698	\$ 800	\$ 600	\$ 600	\$ 1,698	\$ 215	\$ 103	\$ 28

The book value of retail properties includes total and net working capital balances of \$209 million (2006 – \$46 million) and \$54 million (2006 – \$38 million), respectively as well as \$716 million representing a portion of the portfolio purchase price. Borrowings also include \$265 million of debt incurred by the fund to finance the purchase of the initial portfolio assets, which is guaranteed by the obligations of ourselves and our partners to subscribe for capital in the fund up to the level of the committed amounts.

POWER GENERATING OPERATIONS

We own one of the largest privately owned hydroelectric power generating portfolios in the world. We are currently exploring alternatives to establish an externally managed entity through which we can share the ownership of these assets with others on a fee-bearing basis.

Our power generating operations are predominantly hydroelectric facilities located on river systems in the U.S., Canada and Brazil. As at December 31, 2007, we owned and managed 160 power generating stations with a combined generating capacity of approximately 3,900 megawatts. Our facilities produced approximately 13,000 gigawatt hours of electricity in 2007. All but four of our existing stations are hydroelectric facilities located on river systems in seven geographic regions, specifically Ontario, Quebec, British Columbia, New York, New England, Louisiana and southern Brazil. This geographic distribution provides diversification of water flows to minimize the overall impact of fluctuating hydrology. Our storage reservoirs contain sufficient water to produce approximately 20% of our total annual generation and provide partial protection against short-term changes in water supply. The reservoirs also enable us to optimize selling prices by generating and selling power during higher-priced peak periods. We also own and operate two natural gas-fired plants, a pumped storage facility and a 189-megawatt wind energy project that we operate under a 20-year fixed price power sales agreement.

Financial Position

Total assets in the segment increased to \$6.8 billion from \$5.4 billion at the end of last year due to the acquisition and development of power facilities as well as the impact of increases in the carrying value of non-U.S. assets as a result of currency fluctuation. Financings completed during the year enabled us to maintain the net capital invested in this segment at approximately \$1.4 billion.

	Capacity		Assets Under Management		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated		Net	
AS AT DECEMBER 31 (MILLIONS)					2007	2006	2007	2006
Hydroelectric generation	(MW)							
Ontario	897	897	\$ 1,269	\$ 1,094	\$ 1,269	\$ 1,094	\$ 1,269	\$ 1,094
Quebec	277	277	434	371	434	371	434	371
British Columbia	134	127	172	133	172	133	172	133
New England	240	240	397	400	397	400	397	400
New York and other northeast markets	852	832	1,046	1,016	1,046	1,016	1,046	1,016
Louisiana	192	192	459	478	459	478	459	478
Brazil	295	205	522	264	522	264	522	264
Total hydroelectric generation	2,887	2,770	4,299	3,756	4,299	3,756	4,299	3,756
Wind energy	189	189	369	327	369	327	369	327
Co-generation and pumped storage	815	815	233	166	233	166	233	166
Development projects	—	—	236	60	236	60	236	60
Total power generation	3,891	3,774	5,137	4,309	5,137	4,309	5,137	4,309
Cash, financial assets, accounts receivable and other			1,665	1,081	1,665	1,081	1,665	1,081
Accounts payable and other liabilities			—	—	—	—	(879)	(419)
Property-specific and subsidiary debt			—	—	—	—	(4,285)	(3,388)
Non-controlling interests in net assets			—	—	—	—	(213)	(215)
	3,891	3,774	\$ 6,802	\$ 5,390	\$ 6,802	\$ 5,390	\$ 1,425	\$ 1,368

Property-specific debt totalled \$3.5 billion at December 31, 2007 and corporate unsecured notes issued by our power generating operations totalled \$0.8 billion. Property-specific debt has an average interest rate of 7% and an average term of 13 years and is all investment grade quality. The corporate unsecured notes bear interest at an average rate of 5%, have an average term of 9 years and are rated BBB by S&P and BBB (high) by DBRS and BBB by Fitch.

Contract Profile

Approximately 77% of our projected 2008 and 2009 generation is currently subject to long-term bilateral power sales agreements or shorter-term financial contracts. The remaining generation is sold into wholesale electricity markets. Our long-term sales contracts, which cover approximately 53% of total generation during this period, have an average term of 13 years and the counterparties are

almost exclusively customers with long-standing favourable credit histories or investment grade ratings. The financial contracts typically have a term of less than three years.

The following table sets out the profile of our contracts over the next five years from our existing facilities, assuming long-term average hydrology:

	<i>Years ended December 31</i>				
	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>
Generation (GWh)					
Contracted					
Power sales agreements	7,874	6,497	6,465	6,004	5,934
Financial contracts	3,169	3,376	287	—	—
Uncontracted	2,732	3,364	6,467	7,221	7,284
	13,775	13,237	13,219	13,225	13,218
Contracted generation					
% of total	80	75	51	45	45
Revenue (\$millions)	797	741	530	495	496
Price (\$/MWh)	72	75	78	83	84

The increase in the average selling price for contracted power from \$72 per megawatt hour (MWh) to \$84 per MWh over the next five years reflects contractual step-ups in long duration contracts with attractive locked-in prices and the expiry of lower priced contracts during the period. In addition, a number of contracts for our non-U.S. facilities have benefitted from favourable currency appreciation.

INFRASTRUCTURE

Our infrastructure activities are currently concentrated in the timber and electricity transmission sectors, however we are actively reviewing a number of opportunities to expand into new sectors that provide similar investment characteristics. These operations are owned directly and through entities that we manage.

Timberlands

We manage 2.5 million acres of high quality private timberlands with an aggregate book value of \$3 billion. We manage a listed specialty issuer that operates in eastern North America and a private fund named Island Timberlands that operates on the west coast of Canada. These funds have aggregate equity capital of \$594 million, of which our share is \$278 million. We also own direct interests in \$2 billion of timberlands in the Pacific Northwest and Brazil. We recently announced the formation of a \$250 million Brazil timber fund.

In January 2008 we transferred 30% of our Pacific Northwest operations and a 37.5% interest in Island Timberlands to Brookfield Infrastructure.

Operating Results

	<i>Operating Cash Flow</i>			
	<i>Total</i>		<i>Net</i>	
<i>FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)</i>	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
Timber				
Western North America				
Timberlands	\$ 123	\$ 59		
Higher and better use lands	7	6		
Eastern North America	20	18		
Brazil	8	4		
Timberlands	158	87	\$ 158	\$ 87
Interest expense			(85)	(29)
Non-controlling interests in net assets			(33)	(26)
	\$ 158	\$ 87	\$ 40	\$ 32

Portfolio Activity and Financial Position

AS AT DECEMBER 31 (\$MILLIONS)	Acres	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
		2007	2006	2007	2006	Consolidated Assets		Net Invested	
		2007	2006	2007	2006	2007	2006	2007	2006
Timber									
Western North America									
Timberlands	1,186,650	\$ 2,603	\$ 777	\$ 243	\$ 240	\$ 2,603	\$ 777	\$ 2,603	\$ 777
Higher and better use lands	32,865	105	111	—	—	105	111	105	111
Eastern North America	1,076,000	185	189	72	100	185	189	185	189
Brazil	180,000	66	45	—	—	66	45	66	45
	2,475,515	2,959	1,122	315	340	2,959	1,122	2,959	1,122
Other assets, net		716	68	—	—	716	68	74	18
		3,675	1,190	315	340	3,675	1,190	3,033	1,140
Property-specific and other borrowings								(1,691)	(485)
Co-investors' capital								(317)	(340)
		\$ 3,675	\$ 1,190	\$ 315	\$ 340	\$ 3,675	\$ 1,190	\$ 1,025	\$ 315

We acquired Longview Fibre Company, which owns 588,000 acres of high quality timberlands located in the U.S. Pacific Northwest during the second quarter of 2007. Total invested capital includes the purchase cost of the timberlands of \$1.9 billion, together with goodwill and working capital totalling \$2.6 billion. We recorded a future tax obligation of \$593 million relating to the difference between the amount paid by us for the company and the tax basis of the underlying assets. The inclusion of this liability in the net book value of the acquired business gave rise to goodwill of \$593 million. We expect that we will be able to reorganize the ownership structure of the business over time such that we can extinguish the tax liability without any material cash outlay. Net invested capital includes the net capital invested by us in Longview's timber operations after taking into consideration debt raised to finance the acquisition and the future tax liabilities and subsequent asset sales.

As at December 31, 2007, borrowings included approximately \$1.2 billion associated with the Longview acquisition that is secured by the underlying timber assets in North America. The Longview debt consists of an 18-month bridge facility that is in the process of being refinanced with a long-term fixed rate financing secured by the associated timberlands. Our western Canadian timberlands secure investment grade borrowings of approximately \$410 million, which have an average interest rate of 6%, and an average term to maturity of 16 years. The balance of the borrowings consists of debt secured by the eastern Canadian timber assets and working capital facilities.

Non-controlling interests represent the interests of co-investors in our two North American funds. We currently own 50% of our western Canadian fund and 45% of Acadian.

Transmission

Our electricity transmission operations consist of the largest transmission system in Chile, a smaller system in northern Ontario and interests in transmission lines in Brazil. We own 28% of the Chilean operations and provide management advisory services to our investment partners on a fee-for-service basis, 100% of the northern Ontario operations and an effective 20% interest in the Brazil operations.

We transferred our northern Ontario and Brazil interests to Brookfield Infrastructure, as well as a 17% interest in the Chilean operations. We believe the regulated rate base nature of these assets provides for attractive reliable long-term returns and we will endeavour to expand our operations in this asset class.

Portfolio Activity and Financial Position

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital		Consolidated Assets		Net Invested Capital	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Transmission facilities and investments										
Chile	\$ 2,650	\$ 2,525	\$ 877	\$ 831	\$ 330	\$ 2,525	\$ 330	\$ 2,525	\$ 330	\$ 2,525
North America	193	146			193	146	193	146	193	146
Brazil	205	157			205	157	205	157	205	157
	3,048	2,828			728	2,828	728	2,828	728	2,828
Other assets	32	315			32	315	32	315	32	315
	3,080	3,143			760	3,143	760	3,143	760	3,143
Other liabilities									(26)	(267)
Project-specific financing and other borrowings									(114)	(1,496)
									620	1,380
Co-investors' capital									—	(831)
	\$ 3,080	\$ 3,143	\$ 877	\$ 831	\$ 760	\$ 3,143	\$ 620	\$ 549		

Net invested capital was relatively unchanged during the year, although consolidated assets declined as we no longer consolidate the assets and liabilities of our Chilean operations. These operations are financed with property-specific financing borrowings totalling \$1.5 billion that have an average interest rate of 6%, an average term to maturity of 11 years and are predominantly investment grade.

DEVELOPMENT AND OTHER PROPERTIES

Opportunity Investments

We operate niche real estate opportunity funds with \$417 million of committed capital (Brookfield's share – \$258 million).

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital		Consolidated Assets		Net Invested Capital	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Commercial properties	\$ 1,571	\$ 1,086	\$ 159	\$ 116	\$ 1,571	\$ 1,086	\$ 1,280	\$ 1,055	\$ 1,280	\$ 1,055
Property-specific mortgages							(934)	(820)	(934)	(820)
Co-investors' capital							(121)	(103)	(121)	(103)
	\$ 1,571	\$ 1,086	\$ 159	\$ 116	\$ 1,571	\$ 1,086	\$ 225	\$ 132	\$ 225	\$ 132

Total property assets within the fund were approximately \$1.6 billion at year end, an increase of \$0.5 billion from the end of 2006, due to the completion of a major portfolio acquisition. The portfolio consists of approximately 124 properties, predominantly office properties in a number of cities across North America as well as smaller investments in industrial, student housing, multi-family, and other property asset classes. The book value of commercial properties increased due to acquisitions during the year, offset in part by property sales. Our net invested capital at December 31, 2007 included a \$42 million bridge loan to the fund (2006 – \$23 million), and \$52 million of direct capital in addition to our base commitment that was provided to fund acquisitions.

Residential Properties

We conduct residential property operations in Canada, the United States and Brazil through public subsidiaries in which we hold the following interests: Canada – 51%; United States – 58%; Brazil – 60%. We recently formed a land joint venture with \$400 million of committed capital from a U.S. institution and ourselves that we will manage.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Assets Under Management	Invested Capital				Operating Cash Flow			
		Total		Net		Total		Net	
	2007	2007	2006	2007	2006	2007	2006	2007	2006
United States	\$ 1,384	\$ 1,384	\$ 1,355	\$ 1,224	\$ 1,142	\$ 46	\$ 236		
Canada	516	516	305	516	305	237	144		
Brazil	1,009	1,009	743	612	567	92	36		
	2,909	2,909	2,403	2,352	2,014	375	416	\$ 375	\$ 416
Impairment charge – U.S.						(103)	—	(103)	—
Borrowings / interest ¹				(1,363)	(1,126)			(18)	(23)
Cash taxes								18	(93)
Non-controlling interest in net assets				(539)	(404)			(12)	(69)
				450	484	272	416	260	231
Realization gain				—	—		269	—	269
Net investment / operating cash flow	\$ 2,909	\$ 2,909	\$ 2,403	\$ 450	\$ 484	\$ 272	\$ 685	\$ 260	\$ 500

¹ Portion of interest expressed through cost of sales

Total assets, which include property assets as well as inventory, cash and cash equivalents and other working capital balances, have increased since 2006 due to the impact of currency appreciation on our capital in Canada and Brazil, and as new capital was invested to match sales growth in Canada. Subsidiary borrowings consist primarily of construction financings which are repaid with the proceeds from sales of building lots, single-family houses and condominiums and is generally renewed on a rolling basis as new construction commences.

Under Development

Properties under development include both active development projects as well as properties that we are redeveloping to enhance their value.

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Brookfield Invested Capital			
	2007	2006	Consolidated Assets		Net Invested Capital	
	2007	2006	2007	2006	2007	2006
Commercial properties						
North America	\$ 965	\$ 551	\$ 965	\$ 551	\$ 965	\$ 551
Australia and United Kingdom	2,072	—	2,072	—	2,072	—
Brazil	162	107	162	107	162	107
Residential lots						
Australia	201	—	201	—	201	—
Property-specific financing	—	—	—	—	(1,704)	(240)
	\$ 3,400	\$ 658	\$ 3,400	\$ 658	\$ 1,696	\$ 418

In addition to the properties listed above, we have been actively developing a number of hydroelectric power facilities in Brazil and North America, as well as wind generation facilities in Canada, which are described further under Power Generation Operations.

Current development initiatives in North America are focused on the construction of a 1.1 million square foot premier office property on the Bay Adelaide Centre site located in Toronto's downtown financial district, representing a book value of \$416 million (2006 – \$251 million), the redevelopment of the 1.3 million square foot Four Allen Center in Houston carried at \$198 million (2006 – \$139 million) and properties in Washington, D.C.

We significantly expanded our development activities with the acquisition of Multiplex which has 70 commercial projects underway that will contain over 20 million square feet and approximately 18,000 residential lots, homes and units. We also own our proportionate share of the approximate 5.4 million square feet of commercial space development density at Canary Wharf in London of which 1.3 million is currently under active development.

Property-specific financing includes debt secured by Bay Adelaide Centre and Four Allen Cedar in North America as well as debt associated with developments in Australia and the United Kingdom that was assumed on the acquisition of Multiplex.

Held for Development

We acquire land or long-term rights on land, seek entitlements to construct, and then either sell the project once it has been improved or build the project ourselves. We typically hold these projects directly, given that they do not generate current cash flow, until the project is completed, at which time it can be transferred to an existing fund portfolio or sold outright. Accordingly, we do not typically record ongoing cash flow in respect of properties held for development and the associated development costs are capitalized until this event occurs, at which time any disposition gain or loss is realized.

AS AT DECEMBER 31 (MILLIONS)	Brookfield Invested Capital			
	Consolidated Assets		Net Invested Capital	
	2007	2006	2007	2006
Commercial office properties				
Ninth Avenue, New York	\$ 207	\$ 184	\$ 207	\$ 184
Residential lots				
Canada and Brazil	804	516	804	516
Rural development				
Brazil	190	66	159	49
	\$ 1,201	\$ 766	\$ 1,170	\$ 749

Commercial Office Properties

We own well-positioned land at Ninth Avenue between 31st Street and 33rd Street in New York city. We intend to commence construction of the necessary infrastructure to enable the subsequent construction of 5.4 million square feet of commercial office space once the necessary pre-leasing has occurred.

Residential Development Properties

Residential development properties include land, both owned and optioned, which is in the process of being converted to residential lots, but not expected to enter the homebuilding process for more than three years. We utilize options to control lots for future years in our higher land cost markets in order to reduce risk. To that end, we hold options on approximately 12,300 lots which are located predominantly in California and Virginia. We invested additional capital into development land in Alberta as a result of the significant increase in activity in this market.

Rural Development Properties

We own approximately 372,000 acres of prime rural development land in the States of São Paulo, Minas Gerais and Mato Grosso, having acquired a number of new properties in 2007. These properties are being used for agricultural purposes, including the harvest of sugar cane for its use in the production of ethanol as a gasoline substitute. We also hold 33,300 acres of potentially higher and better use land adjacent to our western North American timberlands, which we intend to convert into residential and other purpose land over time, and are included within our timberlands segment.

SPECIALTY FUNDS

We conduct bridge lending, restructuring and real estate finance activities. Although our primary industry focus is on property, power and long-life infrastructure assets, our mandates within our bridge finance and restructuring funds include other industries which have tangible assets and cash flows, and particularly where we have expertise as a result of previous investment experience. As at December 31, 2007 we managed nine funds with total committed capital of \$5 billion and total assets under management of \$7 billion.

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested	
	2007	2006	2007	2006	2007	2006	2007	2006
Bridge lending	\$ 1,187	\$ 1,452	\$ 1,510	\$ 470	\$ 488	\$ 637	\$ 488	\$ 622
Restructuring	1,538	977	753	652	1,538	977	361	377
Real estate finance	4,637	5,438	1,225	937	685	183	263	183
Real estate services	125	—	59	59	25	—	25	—
	\$ 7,487	\$ 7,867	\$ 3,547	\$ 2,118	\$ 2,736	\$ 1,797	\$ 1,137	\$ 1,182

Bridge Lending

We operate three bridge lending funds. Our first fund has commitments of \$1.2 billion at the end of the year, of which \$0.9 billion is funded and will mature through 2011. We have \$0.6 billion committed to these funds. We have raised C\$935 million in commitments and pledges for our two follow-on funds, consisting of a senior and junior fund, and includes a C\$240 million commitment from Brookfield. We have advanced \$105 million of loans within the new funds thus far.

We had total assets under management of \$1.2 billion at year end, down from \$1.5 billion at the end of 2006. The level of committed capital to our funds from clients increased to \$1.5 billion at year end due to the formation of new funds during the year. Our net invested capital was \$488 million, down from \$622 million at the end of 2006. The decline in invested capital occurred primarily during the fourth quarter of 2007 as a result of a number of maturities.

Our portfolio at year end was comprised of 16 loans, and our largest single exposure at that date was \$105 million. Our share of the portfolio has an average term of 20 months excluding extension privileges and generates an average yield of 14% based on interest rate levels at year end.

Restructuring

We operate two restructuring funds. Our first fund, Tricap Restructuring Fund ("Tricap I") completed its investment period last year and we continue to manage and harvest the remaining invested capital of \$432 million. We also completed an additional capital raise for Tricap Partners II ("Tricap II"), which now has \$842 million of committed capital. The capital committed by us to both funds totals \$521 million, including co-investment capital invested by us in Tricap I.

Our two principal investments in Tricap I are Western Forest Products and Concert Industries. Western Forest Products experienced a difficult year due in part to a major industry strike which has since been resolved. Concert Industries, a leading producer of air-laid woven fabric, continues to perform well and we continue to make progress expanding its revenue and operating base.

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	2007	2006	2007	2006	Consolidated Assets		Net Invested	
	2007	2006	2007	2006	2007	2006	2007	2006
Property, plant and equipment	\$ 615	\$ 453			\$ 615	\$ 453	\$ 615	\$ 453
Securities	115	29			115	29	115	29
Loans receivable	51	23			51	23	51	23
Other assets	757	472			757	472	757	472
	1,538	977			1,538	977	1,538	977
Other liabilities							(433)	(235)
Subsidiary debt							(293)	(175)
Non-controlling interests							(451)	(190)
	\$ 1,538	\$ 977	\$ 753	\$ 652	\$ 1,538	\$ 977	\$ 361	\$ 377

Our net invested capital in restructuring opportunities at year end was \$361 million, relatively unchanged from the end of 2006.

Real Estate Finance

We operate three real estate finance funds with total committed capital of approximately \$1.6 billion, of which our share is approximately \$400 million. Our first private fund, the \$600 million Brookfield Real Estate Finance Partners (BREF I) recently completed its investment period and we completed a \$450 million capital raise for our second fund (BREF II). We also manage a public mortgage REIT that is listed on the NYSE and has raised \$565 million of equity capital.

During 2007, BREF I acquired investments with an aggregate principal balance of approximately \$1.1 billion and concluded its investment period. During 2007, BREF II commenced its investment period and completed investments with an aggregate principal balance of approximately \$460 million. The portfolio continues to perform in line with expectations notwithstanding difficult credit markets.

ADVISORY SERVICES

We manage fixed income and real estate securities and provide investment banking services, all with a particular focus on property and infrastructure.

We manage \$26.2 billion of fixed income and equity securities on an advisory basis for a large number of institutional and individual investors. The largest proportion of these assets is managed by our New York-based Brookfield Hyperion Group, which specializes in real estate fixed income securities. We acquired Chicago-based K.G. Redding Inc., (now known as Brookfield Redding), in late 2007. Brookfield Redding has a well established record as a leading real estate equity securities manager with a wide variety of clients throughout North America and Australasia. Brookfield Soundvest, based in Ottawa, Canada, manages fixed income and equity securities on behalf of a number of Canadian institutional investors.

AS AT DECEMBER 31 (MILLIONS)	Assets Under Management	
	2007	2006
Brookfield Hyperion	\$ 20,210	\$ 19,711
Brookfield Redding	5,325	—
Brookfield Soundvest	702	749
	\$ 26,237	\$ 20,460

Our investment banking services are provided by teams located in Canada and Brazil.

PRIVATE EQUITY INVESTMENTS

We own a number of investments which will be sold once value has been maximized, integrated into our core operations or used to seed new funds. Although not core to our broader strategy, we expect to continue to make new investments of this nature and dispose of more mature assets.

AS AT DECEMBER 31 (MILLIONS)	Location	Interest	Assets Under Management 2007	Brookfield Invested Capital			
				Consolidated		Net	
				2007	2006	2007	2006
Forest products							
Norbord Inc.	North America / UK	27%	\$ 180	\$ 180	\$ 178	\$ 19	\$ 26
Fraser Papers Inc.	North America	56%	477	477	141	109	141
Privately held	North America	100%	162	162	140	113	95
Infrastructure							
Coal lands	Alberta	100%	85	85	73	85	73
Business services							
Insurance	Various	80-100%	2,513	2,513	2,357	661	593
Banco Brascan, S.A.	Rio de Janeiro	—	—	—	75	—	75
Privately held	Various	100%	229	229	369	223	278
Publicly listed	Canada	60%	52	52	51	26	23
Property							
Privately held	Brazil	Various	153	153	66	100	100
Net investment			\$ 3,851	\$ 3,851	\$ 3,450	\$ 1,336	\$ 1,404

We account for our non-controlled public investments where we exercise significant influence, such as Norbord, using the equity method, and include dividends received from these investments in operating cash flow and our proportional share of their earnings in net income. We consolidate the results of our majority owned private companies and accordingly include our proportional share of their results in the operating cash flow shown above.

Forest Products

We control 41% and own a net beneficial interest in approximately 27% or 40 million shares of Norbord Inc. ("Norbord"). Net invested capital reflects debentures issued by us that are exchangeable into 20 million Norbord shares and which are recorded at the market value of the Norbord shares. Our net investment had a market value of approximately \$319 million at year end.

Privately held forest products operations include paper and pulp operations that we acquired out of bankruptcy in April 2003 in connection with the purchase of power generation operations.

Infrastructure

We own the coal rights under approximately 475,000 acres of freehold lands in central Alberta. These lands supply approximately 11% of Alberta's coal-fired power generation through the production of approximately 13 million tonnes of coal annually. Royalties from this production generate \$6 million of operating cash flow and provide a stable source of income as they are free of crown royalties. In addition, we own a 3.5% net profit interest in 75 million tonnes of proven reserves, and 35 million tonnes of potential reserves of high quality metallurgical coal in British Columbia.

Business Services

Our insurance operations are conducted through 80%-owned Imagine Insurance, a specialty reinsurance business which operates internationally; Hermitage Insurance, a property and casualty insurer which operates principally in the northeast United States; and Trisura, a surety company based in Toronto. We manage the securities portfolios of these companies, which total \$1.6 billion and consist primarily of highly rated government and corporate bonds, through our public securities operations. Imagine is rated A- and A- (excellent) by Fitch and AM Best, respectively and Hermitage is rated B++ (good) by AM Best. We continue to explore a variety of options to surface the value of our insurance business, which could result in a reduced ownership interest in the future.

We acquired control of Banco Brascan during the year and have integrated the book values associated with their investment banking, lending and capital markets activities with our corresponding activities.

CASH AND FINANCIAL ASSETS

We hold a substantial amount of financial assets, cash and equivalents that represent liquid capital to fund operating activities and investment initiatives. We reduced our holdings during the year to capture value appreciation in the face of increasingly volatile markets and to fund operating activities.

AS AT DECEMBER 31 (MILLIONS)	Assets Under Management	Brookfield Invested Capital			
	2007	Total 2007	2006	Net 2007	2006
Financial assets					
Government bonds	\$ 420	\$ 420	\$ 57	\$ 420	\$ 57
Corporate bonds – Exchangeable debentures	—	—	375	—	375
– Other	286	286	199	286	199
Fixed income	22	22	16	22	16
High yield bonds	112	112	137	112	137
Preferred shares	40	40	26	40	26
Common shares – Multiplex	—	—	44	—	44
– Other	51	51	504	51	504
Loans receivable	76	76	10	76	10
Total financial assets	1,007	1,007	1,368	1,007	1,368
Cash and cash equivalents	360	360	305	360	305
Deposits and other liabilities	—	—	—	(500)	(524)
Net investment	\$ 1,367	\$ 1,367	\$ 1,673	\$ 867	\$ 1,149

During 2007, we adopted new accounting guidelines related to financial instruments under which our financial assets, other than equity accounted investments and most loans receivable, are carried at fair values. The December 31, 2006 balances are shown at original cost other than designated trading portfolios that are carried at market.

As part of our ongoing risk management and value creation activities, we also establish market positions using total return swaps and credit derivatives. As at December 31, 2007, we maintain common equity positions with a notional value of \$70 million through total return swaps. We also bought protection against spread widening through credit default swaps with a total notional value of \$2.4 billion, which have a limited downside and benefit from increases in credit spreads and defaults of the underlying debt.

Deposit and other liabilities include broker deposit liabilities associated with our securities portfolio and borrowed securities sold short with a value of \$39 million at December 31, 2007.

PART 6 – CAPITAL RESOURCES AND LIQUIDITY

The following sections describe our capitalization and liquidity profile on both a consolidated and deconsolidated basis. The strength of our capital structure and the liquidity that we maintain enables us to achieve a low cost of capital for our shareholders and at the same time provides us with the flexibility to react quickly to potential investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Our primary sources of liquidity consist of our cash and financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities. These total \$2.0 billion at December 31, 2007, compared with \$2.1 billion as at December 31, 2006. Furthermore, we endeavour to structure our invested capital in a manner that enables future monetization of our investments as desired.

CAPITALIZATION

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Cost of Capital ¹ 2007	Book Value				Operating Cash Flow ²			
		Consolidated		Net Invested Capital		Total		Net	
		2007	2006	2007	2006	2007	2006	2007	2006
Corporate borrowings	7%	\$ 2,048	\$ 1,507	\$ 2,048	\$ 1,507	\$ 146	\$ 126	\$ 146	\$ 126
Non-recourse borrowings									
Property-specific mortgages	7%	21,644	17,148	—	—	1,226	751	—	—
Subsidiary borrowings ³	7%	7,463	4,153	711	668	324	212	66	64
Other liabilities	9%	11,102	6,497	3,148	1,771	532	475	450	320
Capital securities	6%	1,570	1,585	1,570	1,585	90	96	90	96
Non-controlling interest in net assets	20%	4,256	3,734	1,773	1,829	636	468	368	247
Shareholders' equity									
Preferred equity	5%	870	689	870	689	44	35	44	35
Common equity	20%	6,644	5,395	6,644	5,395	1,863	1,766	1,863	1,766
	9.5%	\$ 55,597	\$ 40,708	\$ 16,764	\$ 13,444	\$ 4,861	\$ 3,929	\$ 3,027	\$ 2,654

¹ Based on operating cash flows as a percentage of average book value

² Interest expense in the case of borrowings. Attributable operating cash flows in the case of minority and equity interests, including cash distributions. Current taxes and operating expenses in the case of accounts payable and other liabilities

³ Net amounts represent subsidiary obligations guaranteed by the Corporation or issued by corporate subsidiaries

Our overall weighted average cash cost of capital, using a 20% return objective for our common equity, is 9.5%, unchanged from 2006. This reflects the low cost of non-participating perpetual preferred equity issued over a number of years, as well as the low cost of term debt, capital securities and non-recourse investment grade financings, achievable due to the high quality of our core office properties and power generating plants.

Corporate Borrowings

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Cost of Capital ¹		Book Value				Operating Cash Flow ²			
	2007	2006	Total		Net		Total		Net	
			2007	2006	2007	2006	2007	2006	2007	2006
Commercial paper and bank borrowings	6%	5%	\$ 167	\$ —	\$ 167	\$ —	\$ 26	\$ 11	\$ 26	\$ 11
Publicly traded term debt	7%	7%	1,881	1,463	1,881	1,463	118	113	118	113
Privately held term debt ³	—	6%	—	44	—	44	2	2	2	2
	7%	7%	\$ 2,048	\$ 1,507	\$ 2,048	\$ 1,507	\$ 146	\$ 126	\$ 146	\$ 126

¹ As a percentage of average book value of debt

² Interest expense

³ \$44 million is secured by coal assets included in Investments

The average interest rate on our corporate borrowings was 7% at year end, similar to 2006, and the average term was 11 years (2006 – 11 years).

The Corporation has \$1,395 million of committed corporate four-year revolving term credit facilities which are utilized principally as back-up credit lines to support commercial paper issuance. At December 31, 2007, \$167 million of these facilities were drawn, and approximately \$63 million (2006 – \$43 million) of the facilities were utilized for letters of credit issued to support various business initiatives.

Non-Recourse Borrowings

As part of our financing strategy, we raise the majority of our debt capital in the form of asset-specific mortgages or subsidiary obligations. With limited exceptions, these obligations have no recourse to the Corporation.

The nature of these borrowings is discussed within the Operating Platforms section as part of the relevant business unit reviews.

Property-Specific Borrowings

Where appropriate, we finance our operating assets with long-term non-recourse borrowings that have no recourse to the Corporation or our operating entities, such as property-specific mortgages and project financings.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Average Term	Cost of Capital ¹		Brookfield Invested Capital				Operating Cash Flow ²			
				Total		Net		Total		Net	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Commercial properties	6	7%	7%	\$ 16,360	\$ 12,470	\$ —	\$ —	\$ 834	\$ 465	\$ —	\$ —
Power generation	13	7%	8%	3,488	2,704	—	—	248	206	—	—
Infrastructure	6	7%	6%	1,796	1,974	—	—	144	80	—	—
	7	7%	7%	\$ 21,644	\$ 17,148	\$ —	\$ —	\$ 1,226	\$ 751	\$ —	\$ —

¹ As a percentage of average book value

² Interest expense

Commercial property debt includes \$2.8 billion of mortgage financing assumed with our acquisition of Multiplex which has no recourse to the Corporation. The remaining increase relates principally to our North American office property operations and reflects financings for new and existing properties, including a new 10-year \$850 million mortgage on One Liberty Plaza in downtown Manhattan that replaced an existing \$400 million mortgage at lower rates. The increase also reflects the impact of currency fluctuations on non-U.S. debt.

Property-specific financings within our power operations increased by approximately \$800 million due to a \$330 million financing secured by hydroelectric facilities in New York State and currency appreciation on financings securing facilities in Brazil and Canada.

During the year, we completed a \$1.2 billion financing within our infrastructure operations to fund the acquisition of our Pacific Northwest timberland operations. The debt is secured by these operations and has no recourse to the Corporation. We are in the process of refinancing this debt with long-term fixed rate financing. Consolidated debt declined by a similar amount as we no longer consolidate our Chilean transmission operations beginning June 30, 2007.

Other Debt of Subsidiaries

These borrowings are largely corporate debt of subsidiaries, issued by way of corporate bonds, bank credit facilities, commercial paper and other financial obligations of subsidiaries.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Average Term	Cost of Capital ¹		Brookfield Invested Capital				Operating Cash Flow ²			
				Total		Net		Total		Net	
		2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Subsidiary borrowings											
Properties	2	7%	7%	\$ 3,806	\$ 1,111	\$ —	\$ —	\$ 55	\$ 37	\$ —	\$ —
Power generation	9	5%	5%	797	684	—	—	41	29	—	—
Private equity investments	2	7%	5%	1,387	298	—	—	79	44	—	—
Corporate subsidiaries	7	10%	10%	711	668	711	668	66	64	66	64
Co-investor capital											
Properties	6	10%	11%	762	803	—	—	55	12	—	—
Infrastructure	—	—	9%	—	589	—	—	28	26	—	—
	4	7%	7%	\$ 7,463	\$ 4,153	\$ 711	\$ 668	\$ 324	\$ 212	\$ 66	\$ 64

¹ As a percentage of average book value

² Interest expense

Properties debt includes \$1.6 billion of debt incurred to complete the Multiplex acquisition as well as \$0.4 billion of debt within that company that has no recourse to the Corporation.

Infrastructure debt at December 31, 2006 related to our Chilean transmission operations, which are no longer consolidated into our financial results.

Private equity investments' debt increased due to the consolidation of Fraser Papers and Banco Brascan during 2007.

Other debt of subsidiaries include C\$127 million retractable preferred shares issued by corporate subsidiaries that are fully integrated into our ownership structure as well as financial obligations that are guaranteed by the Corporation. The company does not typically guarantee the debts of subsidiaries, with the principal exception being a guarantee of subsidiary debt due in 2015 which was originally issued in 1990, and was assumed by the Corporation upon amalgamating with the original guarantor.

Capital Securities

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Average Term	Cost of Capital ¹		Brookfield Invested Capital				Operating Cash Flow ²			
		2007	2006	Total 2007	2006	Net 2007	2006	Total 2007	2006	Net 2007	2006
Corporate preferred shares	7	6%	6%	\$ 517	\$ 663	\$ 517	\$ 663	\$ 32	\$ 44	\$ 32	\$ 44
Subsidiary preferred shares	7	6%	6%	1,053	922	1,053	922	58	52	58	52
	7	6%	6%	\$ 1,570	\$ 1,585	\$ 1,570	\$ 1,585	\$ 90	\$ 96	\$ 90	\$ 96

¹ As a percentage of average book value

² Interest expense

Distributions paid on these securities, which are largely denominated in Canadian dollars, are recorded as interest expense, even though all of the issues are preferred shares that are convertible into common equity at our option. The holders of the preferred shares also have the right, after a fixed date, to convert the shares into common equity based on the market price of our common shares at that time and, accordingly, these securities are classified as liabilities for Canadian GAAP purposes.

The average distribution yield on the capital securities at December 31, 2007 was 6% (2006 – 6%) and the average term was 7 years (2006 – 12 years). We have been issuing lower cost perpetual preferred equity with more favourable terms and using the proceeds to redeem certain capital securities. To that end, we redeemed C\$125 million of 8.35% capital securities due 2050 in January 2007 and a further C\$125 million, 8.30% capital securities in July 2007.

Interests of Co-investors in Net Assets

Interests of co-investors in net assets are comprised of two components: participating interests of other shareholders in our operating assets and subsidiary companies, and non-participating preferred equity issued by subsidiaries.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Number of Shares / % Interest 2007	Brookfield Invested Capital				Operating Cash Flow ¹			
		Total		Net		Total		Net	
		2007	2006	2007	2006	2007	2006	2007	2006
Participating interests									
Property									
Brookfield Properties Corporation	198.3 / 49%	\$ 1,622	\$ 1,633	\$ 1,622	\$ 1,633	\$ 361	\$ 243	\$ 361	\$ 243
Brookfield Homes Corporation	11.1 / 42%	245	174	—	—	(16)	69	—	—
Property funds and other	various	843	601	—	—	157	8	—	—
Power generation	various	170	203	—	—	47	42	—	—
Infrastructure									
Timberlands	50% / 55%	314	338	—	—	33	26	—	—
Transmission	—	—	242	—	—	5	(6)	—	—
Other	various	911	347	—	—	42	82	—	—
		4,105	3,538	1,622	1,633	629	464	361	243
Non-participating interests									
		151	196	151	196	7	4	7	4
		\$ 4,256	\$ 3,734	\$ 1,773	\$ 1,829	\$ 636	\$ 468	\$ 368	\$ 247

¹ Represents share of operating cash flows attributable to the interests of the respective shareholders and includes cash distributions

We include Brookfield Properties on a fully consolidated basis in our segmented basis of presentation and accordingly the interests of others in these operations are reflected in both the total and net results. The other entities shown above are presented on a deconsolidated basis in our segmented analysis, and, as a result, the interests of other shareholders are presented in total invested capital and total operating cash flow only. These interests are discussed as appropriate within each of the operating segments. The total operating cash flow attributable to these interests is shown as a deduction in arriving at the net operating cash flow for each respective business unit.

Operating cash flow distributed to other non-controlling shareholders in the form of cash dividends totalled \$169 million (\$110 million on a net basis) in 2007 compared with \$147 million (\$85 million on a net basis) for the same period in 2006. The undistributed cash flows attributable to non-controlling shareholders are retained in the respective operating businesses and are available to expand their operations, reduce indebtedness or repurchase equity.

Preferred Equity

Preferred equity represents perpetual floating rate preferred shares that provide an attractive form of permanent equity leverage to our common shares.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Cost of Capital ¹		Brookfield Invested Capital				Operating Cash Flow ²			
			Total		Net		Total		Net	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Preferred equity	5%	6%	\$ 870	\$ 689	\$ 870	\$ 689	\$ 44	\$ 35	\$ 44	\$ 35

¹ As a percentage of average book value

² Dividends

We issued C\$200 million of 4.75% perpetual preferred shares during the second quarter, in addition to an issue of an equivalent amount and terms in late 2006.

Common Equity

On a diluted basis, Brookfield had 611.0 million common shares outstanding at year end with an aggregate book value of \$6.6 billion or \$11.64 per share. The market capitalization of our common shares on December 31, 2007 was \$22.3 billion or \$35.67 per share. The difference of \$15.7 billion (2006 – \$14.5 billion) reflects in part the appreciation in the value of our assets that is not reflected in our book values due to accounting depreciation and economic appreciation, and acquisitions that were completed at a discount to long-term value.

The number of shares outstanding increased by 0.2 million shares on a diluted basis during 2007. We repurchased 4.9 million common shares under issuer bids at an average price of \$33 per share, issued 3.5 million options in connection with annual compensation awards, and issued 1.8 million common shares in connection with an acquisition.

Brookfield has two classes of common shares outstanding: Class A and Class B. Each class of shares elects one-half of the Corporation's Board of Directors. The Class B shares are held by Partners Ltd., a private company owned by 42 individuals, including a number of the senior executive officers of Brookfield, who also collectively hold direct and indirect beneficial interests in approximately 100 million Class A shares representing an approximate 17% equity interest in the company. Further details on Partners Ltd. can be found in the company's management information circular.

OTHER ASSETS AND LIABILITIES

Other Assets

The following is a summary of other assets:

AS AT DECEMBER 31 (MILLIONS)	Net Invested Capital	
	2007	2006
Accounts receivable	\$ 565	\$ 386
Restricted cash	184	517
Intangible assets	211	130
Prepaid and other assets	788	888
Deferred tax asset	262	—
	\$ 2,010	\$ 1,921

Other assets include working capital balances employed in our business that are not directly attributable to specific operating units. The magnitude of these balances varies somewhat based on seasonal variances. The net balances include \$1,171 million (2006 – \$846 million) associated with Brookfield Properties and \$839 million (2006 – \$1,075 million) associated with the Corporation.

Other Liabilities

AS AT DECEMBER 31 (MILLIONS)	Brookfield Invested Capital			
	Total		Net	
	2007	2006	2007	2006
Accounts payable	\$ 3,659	\$ 1,778	\$ 1,130	\$ 952
Insurance liabilities	1,655	1,619	—	—
Deferred tax liability	1,523	436	1,044	349
Other liabilities	4,265	2,664	974	470
	\$ 11,102	\$ 6,497	\$ 3,148	\$ 1,771

Accounts payable and other liabilities include \$1,398 million associated with Brookfield Properties (2006 – \$616 million). Deferred taxes represent future tax obligations that arise largely due to holding assets whose book value exceeds their value for tax purposes. The increase in these balances on a total basis since year end relate primarily to the difference between our purchase cost of Longview Fibre and the underlying tax basis of the acquired assets. We expect to be able to restructure our ownership of this business so that the accounting liability will not give rise to any material cash outlay.

LIQUIDITY

We attempt to maintain sufficient financial liquidity at all times so that we are able to participate in attractive investment opportunities as they arise, and to also better withstand sudden adverse changes in economic circumstances. Our principal sources of liquidity are financial assets, undrawn committed credit facilities, free cash flow and the turnover of assets on our balance sheet. We structure the ownership of our assets to enhance our ability to monetize their embedded value to provide additional liquidity if necessary.

Our free cash flow represents the operating cash flow retained in the business after operating costs and cash taxes, interest payments, dividend payments to other shareholders of consolidated entities, preferred equity distributions and sustaining capital expenditures. This cash flow is available to pay common share dividends, invest for future growth, reduce borrowings or repurchase equity.

Maturity Profile of Debt Obligations

We endeavour to finance our long-term assets with long-term financing and to diversify our principal repayments over a number of years. Principal repayments on debt obligations due over the next five years and thereafter are as follows:

Corporate Borrowings

YEARS ENDED DECEMBER 31 (MILLIONS)	Average Term	2008	2009	2010	2011	2012	Beyond	Total
Commercial paper and bank borrowings	2	\$ 117	\$ 17	\$ 17	\$ 16	\$ —	\$ —	\$ 167
Publicly traded term debt	11	299	—	199	—	346	1,037	1,881
Total	11	\$ 416	\$ 17	\$ 216	\$ 16	\$ 346	\$ 1,037	\$ 2,048
Percentage of total		20%	1%	10%	1%	17%	51%	100%

Property-Specific Borrowings

YEARS ENDED DECEMBER 31 (MILLIONS)	Average Term	2008	2009	2010	2011	2012	Beyond	Total
Commercial properties	6	\$ 2,950	\$ 1,678	\$ 211	\$ 4,685	\$ 423	\$ 5,479	\$ 15,426
Power generation	13	55	138	161	88	667	2,379	3,488
Infrastructure	6	1,200	42	—	32	—	522	1,796
Development and other properties		131	499	182	2	62	58	934
Total	7	\$ 4,336	\$ 2,357	\$ 554	\$ 4,807	\$ 1,152	\$ 8,438	\$ 21,644
Percentage of total		20%	11%	3%	22%	5%	39%	100%

Other Debt of Subsidiaries

YEARS ENDED DECEMBER 31 (MILLIONS)	Average Term	2008	2009	2010	2011	2012	Beyond	Total
Subsidiary borrowings								
Commercial properties	2	\$ 469	\$ 1,754	\$ —	\$ —	\$ 25	\$ 170	\$ 2,418
Power generation	9	—	448	—	—	—	349	797
Infrastructure	3	4	—	—	4	—	—	8
Development and other properties	2	563	554	121	97	1	53	1,389
Investments	2	836	47	409	25	60	1	1,378
Corporate subsidiaries	7	—	—	—	127	—	584	711
Co-investor capital								
Properties	6	—	—	—	—	—	762	762
Total	4	\$ 1,872	\$ 2,803	\$ 530	\$ 253	\$ 86	\$ 1,919	\$ 7,463
Percentage total		25%	38%	7%	3%	1%	26%	100%

Capital Securities

YEARS ENDED DECEMBER 31 (MILLIONS)	2008 to 2010	2011 to 2013	2014 to 2016	2017 to 2018	Total
Corporate preferred shares and preferred securities	\$ —	\$ 346	\$ —	\$ 171	\$ 517
Subsidiary preferred shares	199	199	655	—	1,053
Total	\$ 199	\$ 545	\$ 655	\$ 171	\$ 1,570
Percentage of total		12%	35%	42%	100%

PART 7 – ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS

The information in this section enables the reader to reconcile this basis of presentation in our consolidated financial statements to that employed elsewhere in our MD&A. We also provide additional information for certain items not covered within that section. The tables presented on pages 72 and 73 provide a detailed reconciliation between our consolidated financial statements and the basis of presentation throughout the balance of this report.

CONSOLIDATED STATEMENTS OF INCOME

The following table summarizes our consolidated statements of net income:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Revenues	\$ 9,343	\$ 6,897
Net operating income	4,509	3,776
Expenses		
Interest	(1,786)	(1,185)
Current income taxes	(68)	(142)
Asset management and other operating costs	(464)	(333)
Non-controlling interests in the foregoing	(636)	(468)
	1,555	1,648
Other items, net of non-controlling interests	(768)	(478)
Net income	\$ 787	\$ 1,170

Revenues

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Commercial properties	\$ 2,331	\$ 1,500
Power generation	960	894
Infrastructure	599	428
Development and other properties	2,169	1,788
Specialty funds	1,246	908
Investment income and other	2,038	1,379
	\$ 9,343	\$ 6,897

Revenues from commercial properties increased due to the expansion of our operations including the acquisition of a major U.S. portfolio in late 2006, which contributed revenues of \$899 million ended December 31, 2007. The increase in power generation revenues reflects higher pricing and increased generating capacity offset by lower water flows. Infrastructure revenues increased due to the acquisition of the Pacific Northwest operations during the second quarter of 2007; and for the first six months of 2007, we consolidated the results of the electricity transmission system in Chile that we acquired in June 2006. Our specialty funds' revenues increased due to the consolidation of revenues from Western Forest Products and Concert Industries and increased yields from loans issued during the year. Similarly, investment income and other includes revenues from operations consolidated during 2007 that were accounted for on the equity method during 2006.

Net Operating Income

Net operating income includes the following items from our consolidated statements of income: fees earned; other operating revenues less direct operating expenses; investment and other income; and realization gains. These items are described for each business unit in the Part 2 – Performance Review beginning on page 12.

The following table reconciles net operating income to the total operating cash flow in the segmented basis of presentation and net operating income:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Platform	2007	2006
Net operating income		\$ 4,509	\$ 3,776
Add: dividends from equity accounted investments	Private Equity	21	66
dividends from Canary Wharf Group	Commercial Properties	—	87
exchangeable debenture gains	Cash and Financial Assets	331	—
Total operating cash flow		\$ 4,861	\$ 3,929

Expenses

The following table reconciles total interest expense to the categories discussed in the Performance Review and Capital Resources and Liquidity sections:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Corporate borrowings	\$ 146	\$ 126
Property-specific mortgages	1,226	751
Subsidiary borrowings	324	212
Capital securities	90	96
	\$ 1,786	\$ 1,185

Corporate interest expense for the year increased due to higher rates as well as increased borrowing levels established to provide for the Multiplex acquisition. Property-specific and subsidiary borrowing expenses aggregated \$1,550 million during the year, compared with \$963 million last year. The increase is due to secured debt on properties acquired in late 2006 and thus far in 2007, the up-financing of our One Liberty Plaza property from \$400 million to \$850 million as well as associated breakage costs. Interest costs also reflect debt associated with the acquisition of the Pacific Northwest timberland operations in April 2007.

The interests of non-controlling parties in net operating income less expenses aggregated \$636 million on a consolidated basis during the year, compared with \$468 million on a similar basis during 2006. The increase was due to a higher level of operating cash flows within existing partially owned operations. The composition of non-controlling interests is detailed in the table on page 62.

Other Items

Other items are summarized in the following table, and include items that are non-cash in nature and not considered by us to form part of our operating cash flow. Accordingly, they are included in the reconciliation between net income and operating cash flow presented on page 30.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Depreciation and amortization	\$ (1,034)	\$ (600)
Equity accounted loss from investments	(72)	(36)
Provisions and other	(112)	57
Future income taxes	(88)	(203)
Non-controlling interests in the foregoing items	538	304
	\$ (768)	\$ (478)

Depreciation and amortization prior to non-controlling interests increased due to the acquisition of additional assets in a number of segments during 2006 and 2007. Depreciation and amortization for each principal operating segment is summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	2005
Commercial properties	\$ 572	\$ 294	\$ 173
Power generation	164	124	104
Infrastructure	138	68	24
Development and other properties	65	36	16
Specialty funds and private equity investments	89	71	51
Other	6	7	6
	\$ 1,034	\$ 600	\$ 374

The increase in depreciation charges during the year includes \$254 million relating to core office properties acquired since late 2006. The infrastructure category includes depreciation and amortization of timberlands and industrial assets acquired upon our purchase of Longview Fibre in the second quarter of 2007, offset by the exclusion of similar charges relating to our Chilean transmission operations as we no longer consolidate these results.

The following table summarizes earnings from our equity accounted investments for the past three years:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	2005
Norbord	\$ (17)	\$ 37	\$ 87
Fraser Papers	(23)	(62)	(13)
Stelco	(32)	(11)	—
Falconbridge	—	—	145
	\$ (72)	\$ (36)	\$ 219

Norbord and Fraser Papers were impacted by low product prices in North America. Fraser Papers also faced higher input costs and incurred additional restructuring charges. We record our share of Stelco's results one quarter in arrears, however because the carrying value to our investment is nominal, we did not record any amount in respect of their second and third quarter results.

Provisions and other, which largely represent revaluation items, contributed a loss of \$112 million in 2007 compared with an income of \$57 million in 2006 and are summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006	2005
Norbord exchangeable debentures	\$ (9)	\$ 59	\$ (10)
Interest rate contracts	(64)	7	(16)
Power contracts	(63)	—	—
Stelco recovery of equity accounted losses	43	—	—
Other	(19)	(9)	(33)
	\$ (112)	\$ 57	\$ (59)

Revaluation items are non-cash accounting adjustments that we are required to record under GAAP to reflect changes in value of contractual arrangements that we do not believe are appropriately included in operating cash flow. Items being revalued include debentures issued by us that are exchangeable into 20 million Norbord common shares, which are revalued based on changes in the Norbord share price during the period. We hold the 20 million shares into which the debentures are exchangeable, but are not permitted to mark the investment to market.

Revaluation items also include the impact of revaluing fixed rate financial contracts that we maintain in order to provide an economic hedge against the impact of possible higher interest rates on the value of our long duration interest sensitive assets. The U.S. 10-year treasury rate moved from 4.70% to 4.02% between December 31, 2006 and December 31, 2007, which led to a \$64 million decline in the value of these contracts, however we believe that this is offset by a corresponding impact on the value of the assets being hedged. Accounting rules require that we revalue these contracts each period even if the corresponding assets are not revalued.

Within our power operations, we enter into long-term contracts to provide generation capacity, and are required to record changes in the value of these contracts through net income whereas we are not permitted to record the corresponding increase in the value of the capacity that we have pre-sold.

We sold our investment in Stelco during the fourth quarter of 2007 for proceeds substantially in excess of our book value and accordingly recovered \$43 million of accumulated equity accounted losses in addition to a disposition gain of \$231 million.

Our future income tax provision was lower than in 2006 on a year-to-date basis, due principally to the inclusion in that year of charges related to a reduction in income tax rates that lowered the value of our tax pools. Future income taxes in the first and third quarters of 2007 included a reversals of an income tax liability associated with our U.S. homebuilding operations totalling \$51 million following the receipt of a final assessment from income tax authorities in respect of a prior tax year.

CONSOLIDATED BALANCE SHEETS

Total assets at book value increased to \$55.6 billion as at December 31, 2007 from \$40.7 billion at the end of 2006.

AS AT DECEMBER 31 (MILLIONS)	Book Value	
	2007	2006
Assets		
Cash and cash equivalents and financial assets	\$ 3,090	\$ 2,869
Investments	1,352	775
Accounts receivable and other	7,327	4,805
Intangible assets	1,773	1,146
Goodwill	1,528	669
Operating assets		
Property, plant and equipment	37,790	28,082
Securities	1,828	1,711
Loans and notes receivable	909	651
	\$ 55,597	\$ 40,708

Investments

Investments represent equity accounted interests in partially owned companies as set forth in the following table, which are discussed further within the relevant business segments in the Description of Operating Platforms.

AS AT DECEMBER 31 (MILLIONS)	Business Segment	% of Investment		Book Value	
		2007	2006	2007	2006
Property lands	Commercial Office	20-25%	—	\$ 382	\$ —
Chile transmission	Transmission	28%	28%	330	—
Brazil transmission	Transmission	7.5-25%	7.5-25%	205	157
Norbord Inc.	Investments	41%	38%	180	178
Real Estate Finance Fund	Specialty Funds	27%	33%	148	139
Fraser Papers Inc.	Investments	56%	49%	—	141
Stelco Inc.	Specialty Funds	—	23%	—	44
Other	Various			107	116
Total				\$ 1,352	\$ 775

We acquired interests in four commercial office funds with our acquisition of Multiplex. We commenced accounting for our 28% interest in the Chilean transmission operations on an equity accounted basis on June 30, 2007 following a change in the ownership structure and consolidated the operations at that time. The Brazil transmission investments consist of interests in transmission concessions ranging from 7.5% to 25% that we account for using the equity method as a result of the significant influence that we exercise. We increased our investment in Norbord to 60.2 million shares through the purchase of 5.8 million shares at a cost of \$42 million. We syndicated a portion of our interest in the Real Estate Finance Fund to an institutional investor during the third quarter. We began accounting for our investment in Fraser Papers on a consolidated basis following the increase in our ownership to 56%. Our investment in Stelco had nominal book value at the end of the third quarter. The purchase of Stelco by U.S. Steel was approved on October 31, 2007. We received \$274 million in proceeds for our investment and recorded a \$231 million pre-tax cash gain.

Accounts Receivable and Other

AS AT DECEMBER 31 (MILLIONS)	Book Value	
	2007	2006
Accounts receivable	\$ 2,892	\$ 1,597
Prepaid expenses and other assets	2,930	1,902
Restricted cash	627	961
Inventory	878	345
	\$ 7,327	\$ 4,805

These balances include amounts receivable by the company in respect of contracted revenues owing but not yet collected, and dividends, interest and fees owing to the company. Prepaid expenses and other assets include amounts accrued to reflect the straight-lining of long-term contracted revenues and capitalized lease values in accordance with accounting guidelines and U.S. intangible assets increased during the year due largely to the acquisition of Multiplex. Restricted cash represents cash balances placed on deposit in connection with financing arrangements and insurance contracts, including the defeasement of long-term property-specific mortgages. The distribution of these assets among our business units is presented in the tables on page 72.

Goodwill

Goodwill represents purchase consideration that is not specifically allocated to the tangible and intangible assets being acquired. The balance as at December 31, 2007 includes \$694 million of goodwill incurred on the acquisition of Multiplex Group during the fourth quarter of 2007 as discussed within the Property Operations segment; and \$593 million of goodwill incurred on the acquisition of Longview Fibre Company during the second quarter of 2007 as discussed within the Infrastructure segment. Goodwill as at December 31, 2006 included an amount of \$483 million that arose from the purchase of a transmission system in Chile during 2006. We commenced equity accounting this investment in June 2007 and accordingly no longer present this amount as goodwill as it is imbedded within the carrying value of the investment.

Property, Plant and Equipment

AS AT DECEMBER 31 (MILLIONS)	Book Value	
	2007	2006
Commercial properties	\$ 20,984	\$ 16,058
Power generation	5,137	4,309
Infrastructure	3,046	2,940
Development and other properties	7,573	4,156
Other plant and equipment	1,050	619
	\$ 37,790	\$ 28,082

The changes in these balances are discussed within each of the relevant business units within the Description of Operating Platforms section. Commercial properties includes, office and retail property assets. Development and other properties include opportunity investments, residential properties, properties under development and properties held for development.

Securities

Securities include \$1.6 billion (2006 – \$1.5 billion) of largely fixed income securities held through our insurance operations, as well as our \$182 million (2006 – \$182 million) common share investment in Canary Wharf Group, which is included in our core office property operations and continues to be carried at historic cost.

Loans and Notes Receivable

Loans and notes receivable consist largely of loans advanced by our bridge lending operations, included in specialty funds.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table summarizes the company's cash flows on a consolidated basis:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Operating activities	\$ 3,397	\$ 984
Financing activities	4,392	8,380
Investing activities	(7,432)	(9,111)
Increase in cash and cash equivalents	\$ 357	\$ 253

Operating Activities

Cash flow from operating activities is reconciled to the operating cash flow measure utilized elsewhere in this report as follows:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Operating cash flow	\$ 1,907	\$ 1,801
Adjust for:		
Net change in working capital balances and other	1,254	(418)
Dividends from Canary Wharf Group	—	(87)
Realization gains	(231)	(633)
Undistributed non-controlling interests in cash flow	467	321
Cash flow from operating activities	\$ 3,397	\$ 984

Operating cash flow is discussed in detail elsewhere in this report. Changes in working capital balances reflect the sale of exchangeable debentures for approximately \$750 million and an increase in accounts payable of \$716 million that represents the amount to be paid in 2008 for the purchase of a retail portfolio completed in 2007.

We retained \$467 million (2006 – \$321 million) of operating cash flow within our consolidated subsidiaries in excess of that distributed by way of dividends.

Financing Activities

Financing activities generated \$4.4 billion of cash during 2007, compared with \$8.4 billion in 2006. During the year, we completed a number of property-specific financings within our property, power and infrastructure operations, including a major core office property refinancing which lengthened our maturity profile, and financing for the U.S. Pacific Northwest timberlands acquired during the year. Financing proceeds also includes borrowings at the subsidiary level incurred in connection with the Multiplex acquisition.

During 2007, we increased corporate borrowings by \$476 million to establish funding for our acquisition of Multiplex. We also redeemed higher cost securities during the first and third quarters of the year and repurchased 4.9 million common shares under issuer bids.

We paid shareholder distributions to holders of our common and preferred shares totalling \$316 million (2006 – \$258 million), and repurchased common shares issued by our core office and residential property subsidiaries.

Investing Activities

We invested net capital of \$7.4 billion on a consolidated basis during 2007, compared with a net investment of \$9.1 billion during 2006. We increased our investment in office properties within our core office and opportunity property groups, and invested additional capital through the acquisition and development of power facilities. The most significant acquisitions included that of Multiplex, a major retail property portfolio in Brazil and U.S. timberlands.

RECONCILIATION OF SEGMENTED DISCLOSURE TO CONSOLIDATED FINANCIAL STATEMENTS

Balance Sheet

AS AT DECEMBER 31, 2007

(MILLIONS)	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Cash and Financial Assets	Other Assets	Corporate	Consolidated
Assets										
Operating assets										
Property, plant and equipment										
Commercial properties	\$ 20,984	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 20,984
Power generation	—	5,137	—	—	—	—	—	—	—	5,137
Infrastructure	—	—	3,046	—	—	—	—	—	—	3,046
Development and other properties	—	—	106	7,389	—	78	—	—	—	7,573
Other plant and equipment	18	—	—	—	632	398	2	—	—	1,050
Securities	182	—	—	—	—	1,646	—	—	—	1,828
Loans and notes receivable	—	—	—	—	856	53	—	—	—	909
Cash and cash equivalents	470	77	38	305	74	237	360	—	—	1,561
Financial assets	—	707	—	(41)	180	—	683	—	—	1,529
Investments	382	—	535	30	194	194	17	—	—	1,352
Accounts receivable and other	2,585	848	119	1,398	800	1,208	305	1,837	—	9,100
Goodwill	694	33	591	—	—	37	—	173	—	1,528
Total assets	\$ 25,315	\$ 6,802	\$ 4,435	\$ 9,081	\$ 2,736	\$ 3,851	\$ 1,367	\$ 2,010	\$ —	\$ 55,597
Liabilities and shareholders' equity										
Corporate borrowings	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,048	\$ 2,048
Property-specific financing	13,722	3,488	1,796	2,638	—	—	—	—	—	21,644
Other debt of subsidiaries	3,180	797	9	1,364	637	371	394	—	711	7,463
Accounts payable and other liabilities	3,155	879	668	876	434	1,877	65	—	3,148	11,102
Capital securities	—	—	—	—	—	—	—	—	1,570	1,570
Non-controlling interests in net assets	455	213	317	662	528	267	41	—	1,773	4,256
Preferred equity	—	—	—	—	—	—	—	—	870	870
Common equity / net invested capital	4,803	1,425	1,645	3,541	1,137	1,336	867	2,010	(10,120)	6,644
Total liabilities and shareholders' equity	\$ 25,315	\$ 6,802	\$ 4,435	\$ 9,081	\$ 2,736	\$ 3,851	\$ 1,367	\$ 2,010	\$ —	\$ 55,597

AS AT DECEMBER 31, 2006

(MILLIONS)	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Cash and Financial Assets	Other Assets	Corporate	Consolidated
Assets										
Operating assets										
Property, plant and equipment										
Commercial properties	\$16,058	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 16,058
Power generation	—	4,309	—	—	—	—	—	—	—	4,309
Infrastructure	—	—	2,940	—	—	—	—	—	—	2,940
Development and other properties	63	—	111	3,984	—	(2)	—	—	—	4,156
Other plant and equipment	—	—	—	—	453	166	—	—	—	619
Securities	182	—	—	—	29	1,500	—	—	—	1,711
Loans and notes receivable	—	—	—	—	645	6	—	—	—	651
Cash and cash equivalents	11	86	35	407	42	318	305	—	—	1,204
Financial assets	—	532	81	(15)	23	—	1,044	—	—	1,665
Investments	—	—	157	—	160	439	19	—	—	775
Accounts receivable and other	917	436	526	537	445	990	305	1,808	—	5,964
Goodwill	—	27	483	—	—	33	—	113	—	656
Total assets	\$17,231	\$ 5,390	\$ 4,333	\$ 4,913	\$ 1,797	\$ 3,450	\$ 1,673	\$ 1,921	\$ —	\$ 40,708
Liabilities and shareholders' equity										
Corporate borrowings	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,507	\$ 1,507
Property-specific financing	11,265	2,704	1,974	1,205	—	—	—	—	—	17,148
Other debt of subsidiaries	908	684	596	981	175	67	74	—	668	4,153
Accounts payable and other liabilities	945	419	317	435	250	1,914	446	—	1,771	6,497
Capital securities	—	—	—	—	—	—	—	—	1,585	1,585
Non-controlling interests in net assets	340	215	582	509	190	65	4	—	1,829	3,734
Preferred equity	—	—	—	—	—	—	—	—	689	689
Common equity / net invested capital	3,773	1,368	864	1,783	1,182	1,404	1,149	1,921	(8,049)	5,395
Total liabilities and shareholders' equity	\$17,231	\$ 5,390	\$ 4,333	\$ 4,913	\$ 1,797	\$ 3,450	\$ 1,673	\$ 1,921	\$ —	\$ 40,708

Results from Operations

FOR THE YEAR ENDED DECEMBER 31, 2007

(MILLIONS)	Asset Management	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Investment Income / Gains	Corporate	Consolidated
Fees earned	\$ 415	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 415
Revenues less direct operating costs										
Commercial properties	—	1,548	—	—	—	—	—	—	—	1,548
Power generation	—	—	611	—	—	—	—	—	—	611
Infrastructure	—	—	—	290	—	—	—	—	—	290
Development and other properties	—	—	—	7	419	—	(9)	1	—	418
Specialty funds	—	—	—	—	—	370	—	—	—	370
Investment and other income	—	18	—	21	(7)	11	213	370	—	626
Realization gains	—	—	—	—	—	—	—	—	231	231
	415	1,566	611	318	412	381	204	371	231	4,509
Expenses										
Interest	—	843	289	174	72	22	50	7	329	1,786
Asset management and other operating costs	—	—	—	—	—	—	7	—	457	464
Current income taxes	—	10	7	4	(18)	4	42	—	19	68
Non-controlling interests	—	84	54	38	57	14	1	—	388	636
Net income before the following	415	629	261	102	301	341	104	364	(962)	1,555
Dividends	—	—	—	—	—	—	21	—	—	21
Xstrata debenture gain	—	—	—	—	—	—	—	331	—	331
Cash flow from operations	415	629	261	102	301	341	125	695	(962)	1,907
Allocation of fees on Brookfield capital	280	(146)	(68)	(26)	(22)	(18)	—	—	—	—
	695	483	193	76	279	323	125	695	(962)	1,907
Less: asset management expenses	(264)	—	—	—	—	—	—	—	264	—
non-controlling interests	(65)	—	—	—	—	—	—	—	65	—
Cash flow from operations	\$ 366	\$ 483	\$ 193	\$ 76	\$ 279	\$ 323	\$ 125	\$ 695	\$ (633)	\$ 1,907

FOR THE YEAR ENDED DECEMBER 31, 2006

(MILLIONS)	Asset Management	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Investment Income / Gains	Corporate	Consolidated
Fees earned	\$ 257	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 257
Revenues less direct operating costs										
Commercial properties	—	936	—	—	—	—	—	—	—	936
Power generation	—	—	620	—	—	—	—	—	—	620
Infrastructure	—	—	—	200	—	—	—	—	—	200
Development and other properties	—	—	—	6	466	—	(2)	—	—	470
Specialty funds	—	—	—	—	—	228	—	—	—	228
Investment and other income	—	—	—	—	—	1	18	413	—	432
Realization gains	—	—	—	—	—	—	—	—	633	633
	257	936	620	206	466	229	16	413	633	3,776
Expenses										
Interest	—	457	235	109	53	13	32	—	286	1,185
Asset management and other operating costs	—	—	—	—	—	—	17	—	316	333
Current income taxes	—	6	2	8	93	3	3	—	27	142
Non-controlling interests	—	5	46	20	74	49	10	17	247	468
Net income before the following	257	468	337	69	246	164	(46)	396	(243)	1,648
Dividends	—	87	—	—	—	—	66	—	—	153
Cash flow from operations	257	555	337	69	246	164	20	396	(243)	1,801
Allocation of fees on Brookfield capital	226	(121)	(62)	(8)	(21)	(14)	—	—	—	—
	483	434	275	61	225	150	20	396	(243)	1,801
Less: asset management expenses	(192)	—	—	—	—	—	—	—	192	—
non-controlling interests	(54)	—	—	—	—	—	—	—	54	—
Cash flow from operations	\$ 237	\$ 434	\$ 275	\$ 61	\$ 225	\$ 150	\$ 20	\$ 396	\$ 3	\$ 1,801

PART 8 – SUPPLEMENTAL INFORMATION

This section contains information required by applicable continuous disclosure guidelines and to facilitate additional analysis.

CONTRACTUAL OBLIGATIONS

The following table presents the contractual obligations of the company by payment periods:

(MILLIONS)	Total	Payments Due by Period			
		Less than One Year	1 - 3 Years	4 - 5 Years	After 5 Years
Long-term debt					
Property-specific mortgages	\$ 21,644	\$ 4,336	\$ 2,911	\$ 5,959	\$ 8,438
Other debt of subsidiaries	7,463	1,872	3,333	339	1,919
Corporate borrowings	2,048	416	233	362	1,037
Capital securities	1,570	—	199	246	1,125
Lease obligations	27	5	10	6	6
Commitments	1,068	1,068	—	—	—
Interest expense ¹					
Long-term debt	10,130	1,916	2,710	1,834	3,670
Capital securities	541	81	162	133	165
Interest rate swaps	213	73	37	32	71

¹ Represents aggregate interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates

Contractual obligations include \$1,068 million (2006 – \$1,074 million) of commitments by the company and its subsidiaries provided in the normal course of business, including commitments to provide bridge financing, and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations, of which \$95 million is included as liabilities in the consolidated balance sheets and the balance treated as contingent obligations.

OFF BALANCE SHEET ARRANGEMENTS

We conduct our operations primarily through entities that are fully or proportionately consolidated in our financial statements. We do hold non-controlling interests in entities which are accounted for on an equity basis, as are interests in some of our funds, however we do not guarantee any financial obligations of these entities other than our contractual commitments to provide capital to a fund, which are limited to predetermined amounts.

We utilize various financial instruments in our business to manage risk and make better use of our capital. The fair values of these instruments that are reflected on our balance sheets, are disclosed in Note 18 to our Consolidated Financial Statements and under Financial and Liquidity Risks beginning on page 42.

RELATED-PARTY TRANSACTIONS

In the normal course of operations, the company enters into various transactions on market terms with related parties which have been measured at exchange value and are recognized in the consolidated financial statements. There were no such transactions, individually or in aggregate, that were material to our overall operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to select appropriate accounting policies to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, critical accounting policies and estimates utilized in the normal course of preparing the company's financial statements require the determination of future cash flows utilized in assessing net recoverable amounts and net realizable values; depreciation and amortization; value of goodwill and intangible assets; ability to utilize tax losses; the determination of the primary beneficiary of variable interest activities; effectiveness of financial hedges for accounting purposes; and fair values for disclosure purposes.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized

in this report. The estimates are impacted by, among other things, movements in interest rates and other factors, some of which are highly uncertain, as described in the analysis of Business Environment and Risks beginning on page 41 and in the section entitled Financial and Liquidity Risk beginning on page 42. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on the company's financial statements in a meaningful way. For further reference on critical accounting policies, see our significant accounting policies contained in Note 1 and Changes in Accounting Policies as described below.

CHANGES IN ACCOUNTING POLICIES

Financial Instruments

In 2005, the CICA issued five new accounting standards: Handbook Section 1530, *Comprehensive Income* (Section 1530), Handbook Section 3251, *Equity* (Section 3251), Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855), Handbook Section 3865, *Hedges* (Section 3865) and Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* (Section 3861), which provides disclosure and presentation requirements related to the aforementioned standards. These new standards became effective for the company on January 1, 2007.

Comprehensive Income

Section 1530 introduces Comprehensive Income which represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources. Other Comprehensive Income ("OCI") includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, unrealized gains and losses on derivatives designated to hedge self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Annual Consolidated Financial Statements include a Statement of Comprehensive Income. Accumulated Other Comprehensive Income ("AOCI"), is presented as a new category of Shareholders' Equity in the Consolidated Balance Sheets.

Equity

Section 3251, *Equity* (Section 3251) establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements of this section are in addition to those noted above in Section 1530. This standard requires the disclosure of both the changes in equity during the periods presented and the components of equity as at the end of the periods presented. As a result of adopting this standard, AOCI has been presented as a separate component of common equity.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Transaction costs related to held-for-trading financial assets or liabilities are expensed as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method of amortization.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in income in the period in which they arise. Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in OCI in the period in which they arise. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost. The company classifies financial instruments using their applicable default categories except when, in the opinion of management, alternative classification results in a more relevant accounting treatment of the specific instrument.

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial instruments or other contracts that are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments are recognized in Net Income, except for effective derivatives that are designated as cash flow hedges and hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation not classified as held-for-trading, the fair value change for which are recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this “fair value option” must have reliably measurable fair values.

The company accounts for securities transactions using trade date accounting. Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in Net Income. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in Net Income. The amounts recognized in AOCI will be reclassified to Net Income in the periods in which Net Income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging derivative is recognized in OCI and the ineffective portion is recognized in Net Income.

For hedging relationships existing prior to adopting Section 3865 that are continued and qualify for hedge accounting under the new standard, the transition accounting is as follows: (i) Fair value hedges – any gain or loss on the hedging instrument is recognized in the opening balance of retained earnings on transition and the carrying amount of the hedged item is adjusted by the cumulative change in fair value that reflects the designated hedged risk and the adjustment is included in the opening balance of retained earnings on transition; and (ii) Cash flow hedges and hedges of a net investment in a self-sustaining foreign operation – any gain or loss on the hedging instrument that is determined to be the effective portion is recognized in AOCI and the ineffectiveness in the past periods is included in the opening balance of retained earnings on transition.

Deferred gains or losses on the hedging instrument with respect to hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to Net Income over the remaining term of the hedged item for fair value hedges, and for cash flow hedges it will be recognized in AOCI and reclassified to Net Income in the same period during which the hedged item affects Net Income. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses are recognized in the opening balance of retained earnings on transition.

Impact of Adopting Sections 1530, 3251, 3855, 3861 and 3865

The company recorded a transition adjustment effective January 1, 2007, attributable to the following: (i) an increase of \$292 million, net of taxes, to opening retained earnings for financial instruments classified as held-for-trading, which includes embedded derivatives in financial instruments and contracts that were not previously recorded at fair value; (ii) recognition of \$185 million, net of taxes, in AOCI related to the unrealized gain on available-for-sale financial instruments, effective cash flow hedges and hedges of net investments in self-sustaining foreign operations; and (iii) reclassification of \$42 million of net foreign currency losses to AOCI, previously classified as the cumulative translation adjustment in Shareholders' Equity. The impact during the year is described in the Consolidated Statements of Comprehensive Income. Net income during 2007 was reduced by \$331 million representing the transitional adjustment in respect of securities sold during the year that would have been recognized under the previous accounting policies.

Accounting Changes

Effective January 1, 2007 the company adopted CICA Handbook Section 1506, *Accounting Changes*. The new standard sets out the conditions that must be met for a change in accounting policy to be applied in accordance with GAAP, specifies how such changes should be applied and requires disclosure of the impact of changes in accounting policies. The standard also specifies that changes in accounting estimate be recognized prospectively in net income and requires disclosure of the impact of a change in estimate on the current and future periods. The adoption of this standard did not have a material impact on the consolidated financial statements.

Variability In Variable Interest Entities

On September 15, 2006, the Emerging Issues Committee issued Abstract No. 163, *Determining the Variability to be Considered in Applying AcG-15* (EIC-163). This EIC provides additional clarification on how to analyze arrangements identified as potential variable interests. EIC-163 was effective for the company on April 1, 2007. The implementation of EIC-163 did not have a material impact to the consolidated financial position or results of operations.

Debt Instruments with Embedded Derivatives

On March 5, 2007, the Emerging Issues Committee issued Abstract No. 164, *Convertible and Other Debt Instruments with Embedded Derivatives* (EIC-164). The EIC provides guidance on how the issuer should account for the financial statement presentation of the instrument, embedded derivatives within the hybrid instrument, the future tax aspects of the instrument and how the instrument is to be treated in earnings per share computations. The implementation of EIC-164 did not have a material impact to the consolidated financial position or results of operations.

ASSESSMENT AND CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has evaluated the effectiveness of the company's internal control over financial reporting. Refer to Management's Report on Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the year ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect the internal control over financial reporting.

DISCLOSURE CONTROLS

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the Canadian Securities Administrators Multilateral Instrument 52-109). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2007 in providing reasonable assurance that material information relating to the company and the consolidated subsidiaries would be made known to them within those entities.

CORPORATE DIVIDENDS

The distributions paid by Brookfield on outstanding securities during the past three years are as follows:

	Distribution per Security		
	2007	2006	2005
Class A Common Shares ¹	\$ 0.47	\$ 0.40	\$ 0.26
Class A Preferred Shares			
Series 2	0.99	0.88	0.63
Series 3 ²	—	—	2,012.46
Series 4 + Series 7	0.99	0.88	0.63
Series 8	1.10	1.10	0.74
Series 9	1.01	1.25	1.16
Series 10	1.34	1.27	1.19
Series 11	1.28	1.22	1.14
Series 12	1.26	1.19	1.12
Series 13	0.99	0.88	0.63
Series 14	3.57	3.10	2.25
Series 15	1.15	1.00	0.65
Series 17 ³	1.11	0.12	—
Series 18 ⁴	0.71	—	—
Preferred Securities			
Due 2050 ⁵	0.01	1.85	1.73
Due 2051 ⁶	0.95	1.84	1.71

¹ Adjusted to reflect three-for-two stock split

² Redeemed November 8, 2005

³ Issued November 20, 2006

⁴ Issued May 9, 2007

⁵ Redeemed January 2, 2007

⁶ Redeemed July 3, 2007

QUARTERLY RESULTS

Net income and operating cash flows for the eight recently completed quarters are as follows:

(MILLIONS)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues	\$ 3,158	\$ 2,219	\$ 2,125	\$ 1,841	\$ 2,904	\$ 1,405	\$ 1,405	\$ 1,183
Fees earned	92	96	95	132	70	64	69	54
Revenues less direct operating costs								
Commercial property	414	350	396	388	322	194	208	212
Power generation	148	105	170	188	142	122	156	200
Infrastructure	33	54	114	89	70	80	30	20
Development and other properties	115	40	117	146	164	107	129	70
Specialty funds	233	16	59	62	131	29	29	39
Investment and other income	133	248	116	129	78	180	84	90
Realization gains	204	—	27	—	528	79	—	26
	1,372	909	1,094	1,134	1,505	855	705	711
Expenses								
Interest	510	454	424	398	420	291	250	224
Asset management and other operating costs	141	108	105	110	108	70	84	71
Current income taxes	28	(6)	26	20	68	23	37	14
Non-controlling interest in net income before the following	124	103	204	205	142	108	118	100
Net income before the following	569	250	335	401	767	363	216	302
Equity accounted income (loss) from investments	(4)	—	(29)	(39)	(10)	(7)	3	(22)
Depreciation and amortization	(294)	(250)	(267)	(223)	(233)	(136)	(127)	(104)
Provisions and other	(95)	(33)	11	5	(37)	4	70	20
Future income taxes	35	11	(69)	(65)	3	(49)	(86)	(71)
Non-controlling interests in the foregoing items	135	115	172	116	121	70	59	54
Net income	\$ 346	\$ 93	\$ 153	\$ 195	\$ 611	\$ 245	\$ 135	\$ 179

For the three months ended December 31, 2007, we reported operating cash flow of \$575 million, compared to \$859 million during the same period in 2006 as shown in the table on the following page and reported net income of \$346 million and \$611 million for the same periods in 2007 and 2006, respectively.

The results for the three months ended December 31, 2006 included \$528 million of realization gains whereas the results for the fourth quarter of 2007 included \$204 million of realization gains. The contribution from specialty funds during the fourth quarter of 2007 included a \$231 million disposition gain within our restructuring operations whereas the 2006 results from the same unit included a \$59 million net contribution from the settlement of an outstanding trade negotiations involving one of our investee companies. Commercial property operations contributed a higher level of operating cash flow due to acquisitions completed in the fourth quarter of both 2006 and during 2007. Cash flow from commercial property operations in 2006 included an \$87 million dividend from Canary Wharf, which represents an important component of our European property operations.

Commercial office property operations tend to produce consistent results throughout the year due to the long-term nature of the contractual lease arrangements. Quarterly seasonality does exist in our residential property and power generation operations. With respect to our residential operations, the fourth quarter tends to be the strongest as this is the period during which most of the construction is completed and homes are delivered. With respect to our power generation operations, seasonality exists in water inflows and pricing. During the fall rainy season and spring thaw, water inflows tend to be the highest leading to higher generation during those periods; however prices tend not to be as strong as the summer and winter seasons due to the more moderate weather conditions during those periods and associated reductions in demand for electricity. We periodically record realization and other gains, special distributions, as well as gains on losses or any unhedged financial positions throughout our operations and, while the timing of these items is difficult to predict, the dynamic nature of our asset base tends to result in these items occurring on a relatively frequent basis.

Cash flow from operations for the last eight quarters are as follows:

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net income before the following	\$ 569	\$ 250	\$ 335	\$ 401	\$ 767	\$ 363	\$ 216	\$ 302
Dividends from equity accounted investments	6	5	5	5	5	5	51	5
Dividends from Canary Wharf	—	—	—	—	87	—	—	—
Exchangeable debenture gain	—	66	100	165	—	—	—	—
Cash flow from operations and gains	575	321	440	571	859	368	267	307
Preferred share dividends	12	13	10	9	8	7	10	10
Cash flow to common shareholders	\$ 563	\$ 308	\$ 430	\$ 562	\$ 851	\$ 361	\$ 257	\$ 297
Common equity – book value	\$ 6,644	\$ 6,328	\$ 6,337	\$ 6,061	\$ 5,395	\$ 4,905	\$ 4,721	\$ 4,663
Common shares outstanding ¹	583.6	581.0	583.6	582.2	581.8	581.0	580.2	579.8
Per common share ¹								
Cash flow from operations	\$ 0.94	\$ 0.52	\$ 0.72	\$ 0.93	\$ 1.42	\$ 0.60	\$ 0.43	\$ 0.50
Net income	0.56	0.13	0.24	0.31	1.01	0.40	0.20	0.29
Dividends	0.12	0.12	0.12	0.11	0.11	0.11	0.11	0.07
Book value	11.64	11.17	11.07	10.59	9.37	8.60	8.31	8.19
Market trading price (NYSE)	35.67	38.50	39.90	34.84	32.12	29.56	27.08	24.47

¹ Adjusted to reflect three-for-two stock split

ADDITIONAL SHARE DATA

Basic and Diluted Earnings Per Share

The components of basic and diluted earnings per share are summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Net income	\$ 787	\$ 1,170
Preferred share dividends	(44)	(35)
Net income available for common shareholders	\$ 743	\$ 1,135
Weighted average – common shares	582	580
Dilutive effect of the conversion of notes and options using treasury stock method	17	18
Common shares and common share equivalents	599	598

Issued and Outstanding Common Shares

The number of issued and outstanding common shares changed as follows:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Outstanding at beginning of year	581.8	579.6
Issued (repurchased)		
Dividend reinvestment plan	0.1	0.1
Management share option plan	4.9	2.4
Issuer bid purchases	(5.0)	(0.3)
Acquisition	1.8	—
Outstanding at end of year	583.6	581.8
Unexercised options	27.4	29.0
Total diluted common shares at end of year	611.0	610.8

In calculating our book value per common share, the cash value of our unexercised options of \$469 million (2006 – \$328 million) is added to the book value of our common share equity of \$6,644 million (2006 – \$5,395 million) prior to dividing by the total diluted common shares presented above.

ASSETS UNDER MANAGEMENT

The following tables set forth the assets, net invested capital and commitments managed by Brookfield, including the amounts managed on behalf of co-investors:

		Total Assets Under Management			Co-investor Interests		Brookfield's
	Year		Net Invested	Committed	Net Invested	Committed	Ownership
AS AT DECEMBER 31, 2007 (MILLIONS)	Formed	Assets	Capital	Capital ¹	Capital	Capital	Level
Core and Value Add							
U.S. Core Office ²	2006	\$ 7,650	\$ 1,770	\$ 1,950	\$ 980	\$ 1,025	62%
Canadian Core Office ²	2005	1,641	866	866	650	650	25%
Multiplex Funds ³	2007	2,530	924	924	623	623	various
West Coast Timberlands	2005	911	477	477	243	243	50%
East Coast Timber Fund	2006	205	117	117	72	72	45%
Transmission	2006	2,650	1,207	1,207	877	877	28%
Bridge Loan I	2003	1,082	1,082	1,435	661	814	41%
Bridge Loan II	2007	105	105	936	38	696	26%
Real Estate Finance	various	4,637	1,330	1,624	1,053	1,225	4-51%
Brookfield Real Estate Services Fund	2003	125	84	84	59	59	25%
		21,536	7,962	9,620	5,256	6,284	
Opportunity and Private Equity							
Real Estate Opportunity	2006	988	226	249	93	116	52%
Real Estate Opportunity II	2007	583	92	168	—	43	74%
Brazil Retail Property	2006	1,698	328	800	225	600	25%
Residential Properties – U.S. ⁴	2007	1,384	400	400	200	200	29%
Tricap Restructuring I	2002	878	432	432	211	211	48%
Tricap Restructuring II	2006/7	660	380	842	240	542	36%
		6,191	1,858	2,891	969	1,712	
Listed Securities and Fixed Income							
Equity Funds	various	6,027	6,027	6,027	6,027	6,027	3%
Fixed Income Funds	various	20,210	20,210	20,210	20,210	20,210	na
		26,237	26,237	26,237	26,237	26,237	
Total fee bearing assets/capital		53,964	36,057	38,748	\$ 32,462	\$ 34,233	na
Directly Held Non-Fee Bearing Assets							
Core Office – North America ²		10,357	2,149	2,149			
Core Office – Europe		796	257	257			
Core Office – Australia		6,078	987	987			
Residential Properties – Canada ² / Brazil		1,525	200	200			
Power Generation – North America		5,994	901	901			
Power Generation – Brazil		808	524	524			
Timber – U.S.		2,462	674	674			
Timber – Brazil		97	72	72			
Transmission – Canada / Brazil		430	290	290			
Other		11,829	6,695	6,695			
		40,376	12,749	12,749			
		\$ 94,340	\$ 48,806	\$ 51,497			

¹ Includes incremental co-investment capital

² Held by 51%-owned Brookfield Properties

³ Comprised of four funds with ownerships ranging from 20% to 25%

⁴ Held by 58%-owned Brookfield Homes

Internal Control Over Financial Reporting

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Brookfield Asset Management Inc. ("Brookfield") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Management assessed the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2007, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2007, Brookfield's internal control over financial reporting is effective. Also, management determined that there were no material weaknesses in Brookfield's internal control over financial reporting as of December 31, 2007. Management excluded from its assessment the internal control over financial reporting at Longview Fibre Inc. ("Longview"), Multiplex Group Limited ("Multiplex"), and Malzoni Properties Inc. ("Malzoni"), which were acquired during 2007, whose total assets, net assets, total revenues, and

net income on a combined basis constitute approximately 22%, 39%, 11% and nil% respectively of the consolidated financial statement amounts as of and for the year ended December 31, 2007.

Management's assessment of the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2007, has been audited by Deloitte & Touche, LLP, Independent Registered Chartered Accountants, who also audited Brookfield's Consolidated Financial Statements for the year ended December 31, 2007. As stated in the Report of Independent Registered Chartered Accountants, Deloitte & Touche, LLP expressed an unqualified opinion on Brookfield's internal control over financial reporting as of December 31, 2007.



Toronto, Canada
March 13, 2008

J. Bruce Flatt
Chief Executive Officer



Brian D. Lawson
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Brookfield Asset Management Inc.

We have audited the internal control over financial reporting of Brookfield Asset Management Inc. and subsidiaries (the "Company") as of December 31, 2007, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Longview Fibre Company ("Longview"), Multiplex Group ("Multiplex"), and Malzoni Properties Inc. ("Malzoni"), which were acquired in 2007 and whose financial statements, on a combined basis, constitute approximately 39% and 22% of net and total assets, respectively, 11% of revenues, and nil% of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Longview, Multiplex, and Malzoni. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records

that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards, the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated March 13, 2008 expressed an unqualified opinion on those financial statements.

Deloitte + Touche LLP

Toronto, Canada
March 13, 2008

Deloitte & Touche, LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Consolidated Financial Statements

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the company's management which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the company maintains policies, procedures and systems of internal control 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. In addition, the company maintains an internal audit group that conducts periodic audits of all aspects of the company's operations. The Chief Internal Auditor has full access to the Audit Committee.

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada, and where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche, LLP, the independent registered chartered accountants appointed by the shareholders, have examined the consolidated financial statements set out on pages 84 through 115 in accordance with auditing standards generally accepted in Canada to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out below.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of directors who are not officers or employees of the company. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.



Toronto, Canada
March 13, 2008

J. Bruce Flatt
Chief Executive Officer



Brian D. Lawson
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Board of Directors and Shareholders of Brookfield Asset Management Inc.

We have audited the consolidated balance sheets of Brookfield Asset Management Inc. (the "Company") as at December 31, 2007 and 2006, and the consolidated statements of income, retained earnings, comprehensive income, accumulated other comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

On March 13, 2008, we reported separately to the Board of Directors and Shareholders of Brookfield Asset Management Inc. that we have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), consolidated financial statements for the same periods, prepared in accordance with Canadian generally accepted accounting principles but which included a footnote providing a reconciliation of accounting principles generally accepted in Canada and the United States of America as it related to the Company.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 13, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.



Toronto, Canada
March 13, 2008

Deloitte & Touche, LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 (MILLIONS)

	Note	2007	2006
Assets			
Cash and cash equivalents		\$ 1,561	\$ 1,204
Financial assets	3	1,529	1,665
Investments	4	1,352	775
Accounts receivable and other	5	7,327	4,805
Intangible assets	6	1,773	1,146
Goodwill	2	1,528	669
Operating assets			
Property, plant and equipment	7	37,790	28,082
Securities	8	1,828	1,711
Loans and notes receivable	9	909	651
		\$ 55,597	\$ 40,708
Liabilities and shareholders' equity			
Corporate borrowings	10	\$ 2,048	\$ 1,507
Non-recourse borrowings			
Property-specific mortgages	11	21,644	17,148
Subsidiary borrowings	11	7,463	4,153
Accounts payable and other liabilities	12	10,055	5,578
Intangible liabilities	13	1,047	919
Capital securities	14	1,570	1,585
Non-controlling interests in net assets	15	4,256	3,734
Shareholders' equity			
Preferred equity	16	870	689
Common equity	17	6,644	5,395
		\$ 55,597	\$ 40,708

On behalf of the Board:



Robert J. Harding, FCA, Director



Marcel R. Coutu, Director

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Note	2007	2006
Total revenues		\$ 9,343	\$ 6,897
Fees earned		415	257
Revenues less direct operating costs	19		
Commercial properties		1,548	936
Power generation		611	620
Infrastructure		290	200
Development and other properties		418	470
Specialty funds		370	228
		3,652	2,711
Investment and other income		626	432
Realization gains		231	633
		4,509	3,776
Expenses			
Interest		1,786	1,185
Current income taxes	21	68	142
Asset management and other operating costs		464	333
Non-controlling interests in net income before the following	20	636	468
		1,555	1,648
Other items			
Equity accounted loss from investments	22	(72)	(36)
Depreciation and amortization		(1,034)	(600)
Provisions and other		(112)	57
Future income taxes	21	(88)	(203)
Non-controlling interests in the foregoing items	20	538	304
Net income		\$ 787	\$ 1,170
Net income per common share ¹	17		
Diluted		\$ 1.24	\$ 1.90
Basic		\$ 1.27	\$ 1.95

¹ Prior year has been restated to reflect three-for-two stock split on June 1, 2007

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Retained earnings, beginning of year	\$ 4,222	\$ 3,321
Change in accounting policy ¹	292	—
Net income	787	1,170
Preferred equity issue costs	(6)	(5)
Shareholder distributions — preferred equity	(44)	(35)
— common equity	(272)	(223)
Amount paid in excess of book value of common shares purchased for cancellation	(112)	(6)
	\$ 4,867	\$ 4,222

¹ Refer to Note 1(m) for impact of new accounting policies related to financial instruments

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME¹

YEARS ENDED DECEMBER 31 (MILLIONS)	Note	2007	2006
Net income		\$ 787	\$ 1,170
Other comprehensive income (loss)	3		
Foreign currency translation		410	(36)
Available-for-sale securities		(79)	—
Derivative instruments designated as cash flow hedges		(73)	—
Future income taxes on above items		44	—
		302	(36)
Comprehensive income		\$ 1,089	\$ 1,134

¹ Refer to Note 1(m) for impact of new accounting policies related to financial instruments

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)¹

YEARS ENDED DECEMBER 31 (MILLIONS)	2007	2006
Transition adjustment — January 1, 2007	\$ 143	\$ —
Other comprehensive income (loss)	302	(36)
Balance, end of year	\$ 445	\$ (36)

¹ Refer to Note 1(m) for impact of new accounting policies related to financial instruments

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31 (MILLIONS)

	Note	2007	2006
Operating activities			
Net income		\$ 787	\$ 1,170
Adjusted for the following non-cash items			
Depreciation and amortization		1,034	600
Future income taxes and other provisions		200	146
Realization gains		(231)	(633)
Non-controlling interest in non-cash items	20	(538)	(304)
Equity accounted loss and dividends received from investments		93	102
		1,345	1,081
Net change in non-cash working capital balances and other		1,472	(418)
Undistributed non-controlling interests in cash flows		467	321
		3,284	984
Financing activities			
Corporate borrowings, net of repayments	25	476	(110)
Property-specific mortgages, net of repayments	25	2,484	5,437
Other debt of subsidiaries, net of repayments	25	1,824	33
Capital provided by non-controlling interests		268	1,950
Capital securities redemption		(225)	—
Corporate preferred equity issuance		181	174
Common shares and equivalents repurchased, net of issuances	25	(121)	10
Common shares of subsidiaries repurchased, net of issuances		(100)	1,144
Shareholder distributions		(316)	(258)
		4,471	8,380
Investing activities			
Investment in or sale of operating assets, net			
Property	25	(5,798)	(6,482)
Power generation		(452)	(801)
Infrastructure		(1,330)	(1,718)
Securities and loans	25	(528)	(720)
Financial assets	25	636	696
Investments		115	(169)
Other property, plant and equipment		(41)	(4)
Dividends from Canary Wharf Group, plc		—	87
		(7,398)	(9,111)
Cash and cash equivalents			
Increase		357	253
Balance, beginning of year		1,204	951
Balance, end of year		\$ 1,561	\$ 1,204

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF ACCOUNTING POLICIES

These consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

(a) Basis of Presentation

All currency amounts are in United States dollars ("U.S. dollars") unless otherwise stated. The consolidated financial statements include the accounts of Brookfield Asset Management Inc. and the entities over which it has voting control, as well as Variable Interest Entities ("VIEs") for which the company is considered to be the primary beneficiary.

The company accounts for investments over which it has significant influence using the equity basis. Interests in jointly controlled partnerships and corporate joint ventures are proportionately consolidated. Measurement of investments in which the company does not have a significant influence depends on the financial instrument classification.

Certain prior year amounts have been reclassified to conform to the current year's presentation.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates are required in the determination of cash flows and probabilities in assessing net recoverable amounts and net realizable values, tax and other provisions, hedge effectiveness, and fair values.

(b) Reporting Currency

The U.S. dollar is the functional currency of the company's head office operations and the U.S. dollar is the company's reporting currency.

The accounts of self-sustaining subsidiaries having a functional currency other than the U.S. dollar are translated using the current rate method. Gains or losses on translation are deferred and included in other comprehensive income in the cumulative translation adjustment account. Gains or losses on foreign currency denominated balances and transactions that are designated as hedges of net investments in these subsidiaries are reported in the same manner.

Foreign currency denominated monetary assets and liabilities of the company and subsidiaries where the functional currency is other than the U.S. dollar, are translated at the rate of exchange prevailing at period-end and revenues and expenses at average rates during the period. Gains or losses on translation of these items are included in the consolidated statements of income. Gains or losses on transactions which hedge these items are also included in the consolidated statements of income. Gains or losses on foreign currency denominated available-for-sale financial instruments are included in other comprehensive income.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits and all highly liquid short-term investments with original maturities less than 90 days.

(d) Operating Assets

(i) Commercial Properties

Commercial properties held for investment are carried at cost less accumulated depreciation. Depreciation on buildings is provided during the year on a straight-line basis over the useful lives of the properties to a maximum of 60 years. Depreciation is determined with reference to the carried value, remaining estimated useful life and residual value of each rental property. Tenant improvements and re-leasing costs are deferred and amortized over the lives of the leases to which they relate.

CICA Handbook EIC-140, *Accounting for Operating Leases Acquired in either an Asset Acquisition or a Business Combination* and CICA Handbook EIC-137, *Recognition of Customer Relationships Acquired in a Business Combination* require that when a company acquires real estate in either an asset acquisition or business combination, a portion of the purchase price should be allocated to the in-place leases to reflect the intangible amounts of leasing costs, above or below market tenant and land leases, and tenant relationship values, if any. These intangible costs are amortized over their respective lease terms.

(ii) Power Generation

Power generating facilities are recorded at cost, less accumulated depreciation. Depreciation on power generating facilities and equipment is provided at various rates on a straight-line basis over the estimated service lives of the assets, which are up to 60 years for hydroelectric generation assets.

Power generating facilities under development are recorded at cost, including pre-development expenditures, unless impairment is identified requiring a write-down to estimated fair value.

(iii) Infrastructure

(a) Timberlands

Timber assets are carried at cost, less accumulated depletion. Depletion of timber assets is determined based on the number of cubic metres of timber harvested annually at a fixed rate.

(b) Transmission Infrastructure

Transmission assets are carried at cost, less accumulated depreciation. Depreciation on transmission and distribution facilities is provided at various rates on a straight-line basis over the estimated service lives of the assets, which is up to 40 years.

(iv) Development and Other Properties

Development and other properties consist of residential properties, properties for which a major repositioning program is being conducted and properties which are under construction. These properties are recorded at cost, including pre-development expenditures. Homes and other properties held for sale, which include properties subject to sale agreements, are recorded at the lower of cost and estimated fair value. Income received relating to homes and other properties held for sale is applied against the carried value of these properties. Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue.

(v) Financial Assets, Investments and Securities

Financial Assets include securities that are not an active component of the company's asset management operations and are designated as either held-for-trading or available-for-sale. Investments in securities that are actively deployed in the company's operations are classified as securities and are designated as either held-for-trading or available-for-sale. Financial Assets and Securities are recorded at fair value, with changes in fair value accounted for in net income or other comprehensive income as applicable. Equity instruments designated as available-for-sale financial assets and securities that do not have a quoted market price from an active market are carried at cost.

Investments include investments in the securities of affiliates and are accounted for using the equity method of accounting.

Provisions are established in instances where, in the opinion of management, the carrying values of portfolio securities or portfolio investments has been impaired.

(vi) Loans and Notes Receivable

Loans and notes receivable are recorded initially at their fair value and, with the exception of receivables designated as trading, are subsequently measured at amortized cost using the effective interest method, less any applicable provision for impairment. Loans and receivables designated as held-for-trading are recorded at fair value with changes in fair value accounted for in net income in the period in which they arise. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

(e) Asset Impairment

For assets other than securities and loans and notes receivable, a write-down to estimated fair value is recognized if the estimated undiscounted future cash flows from an asset or group of assets is less than their carried value. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

(f) Accounts Receivable and Other

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any provision for impairment. Included in accounts receivable and other are restricted cash and inventories which are carried at the lower of average cost and net realizable value and materials and supplies which are valued at the lower of average cost and replacement cost.

(g) Intangible Assets and Liabilities

Intangible assets and liabilities with a finite life are amortized on a straight-line basis over their estimated useful lives, generally not exceeding 20 years, and are tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to recover its carrying amount.

(h) Goodwill

Goodwill represents the excess of the price paid for the acquisition of a consolidated entity over the fair value of the net identifiable tangible and intangible assets acquired.

Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. If the carrying value of a subsidiary, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the subsidiary's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the subsidiary. Any goodwill impairment is charged to income in the period in which the impairment is identified.

(i) Revenue and Expense Recognition

(i) Asset Management Fee Income

Revenues from performance-based incentive fees are recorded on the accrual basis based upon the amount that would be due under the incentive fee formula at the end of the measurement period established by the contract where it is no longer subject to adjustment based on future events. In some cases this will require that the recognition of performance-based incentive fees be deferred to the end, or towards the end of the contract at which point performance can be accurately measured.

(ii) Commercial Property Operations

Revenue from a commercial property is recognized upon the earlier of attaining a break-even point in cash flow after debt servicing, or the expiration of a reasonable period of time following substantial completion, subject to the time limitation determined when the project is approved, but no later than one year following substantial completion. Prior to this, the property is categorized as a property under development, and related revenue is applied to reduce development costs.

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, as applicable is recorded for the difference between the rental revenue recorded and the contractual amount received. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property, capital and similar taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

Revenue from commercial land sales is recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, all material conditions of the sales contract have been met, and a significant cash down payment or appropriate security is received.

(iii) Power Generation

Revenue from the sale of electricity is recorded at the time power is provided based upon output delivered and capacity provided at rates as specified under contract terms or prevailing market rates.

(iv) Infrastructure

(a) Timberlands

Revenue from timberlands is derived from the sale of logs and related products. The company recognizes sales to external customers when the product is shipped and title passes, and collectibility is reasonably assured.

(b) Transmission Infrastructure

Revenue from transmission infrastructure assets is derived from the transmission and distribution of electricity to industrial and retail customers. Revenue is recognized at regulated rates when the electricity is delivered, and collectibility is reasonably assured.

(v) Development and Other Properties

Revenue from residential land sales is recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, all material conditions of the sales contract have been met, and a significant cash down payment or appropriate security is received.

Revenue from the sale of homes is recognized when title passes to the purchaser upon closing and at which time all proceeds are received or collectability is assured.

Revenue from the sale of condominium units is recognized using the percentage-of-completion method at the time that construction is beyond a preliminary stage, sufficient units are sold and all proceeds are received or collectability is assured.

Revenue from construction projects is recognized by the percentage-of-completion method at the time that construction is beyond a preliminary stage, there are indications that the work will be completed according to plan and all proceeds are received or collectability is assured.

(vi) Securities and Loans and Notes Receivable

Revenue from notes receivable, loans and securities, less a provision for uncollectible amounts, is recorded on the accrual basis.

(vii) Other

Gains on the exchange of assets which do not result from transactions of commercial substance are deferred until realized by sale.

The net proceeds recorded under reinsurance contracts are accounted for as deposits until a reasonable possibility that the company may realize a significant loss from the insurance risk does not exist.

(j) Derivative Financial Instruments

The company and its subsidiaries selectively utilize derivative financial instruments primarily to manage financial risks, including interest rate, commodity and foreign exchange risks. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is reasonable assurance that it will continue to be effective as a hedge based on an expectation of offsetting cash flows or fair value. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. Once discontinued, the cumulative change in fair value of a derivative that was previously deferred by the application of hedge accounting is recognized in income over the remaining term of the original hedging relationship.

Realized and unrealized gains and losses on foreign exchange forward contracts and currency swap contracts designated as hedges of currency risks are included in other comprehensive income when the currency risk relates to a net investment in a self-sustaining subsidiary and are otherwise included in income in the same period as when the underlying asset, liability or anticipated transaction affects income.

Unrealized gains and losses on interest rate forward and swap contracts designated as hedges of future interest payments are included in other comprehensive income when the interest rate risk relates to an anticipated interest payment. The periodic exchanges of payments on interest rate swap contracts designated as hedges of debt are recorded on an accrual basis as an adjustment to interest expense. The periodic exchanges of payments on interest rate contracts designated as hedges of future interest payments are amortized into income over the term of the corresponding interest payments. Unrealized gains and losses on electricity forward and swap contracts designated as hedges of future power generation revenue are included in other comprehensive income. The periodic exchanges of payments on power generation commodity swap contracts designated as hedges are recorded on a settlement basis as an adjustment to power generation revenue. Premiums paid on options are initially recorded as assets and are amortized into earnings over the term of the option contract.

Derivative financial instruments that are not designated as hedges are carried at estimated fair value, and gains and losses arising from changes in fair value are recognized in the period the changes occur. Unrealized gains and losses on interest rate swaps carried to offset corresponding changes in the values of assets and cash flow streams that are not reflected in the consolidated financial statements at December 31, 2007 and 2006 are recorded in other comprehensive income. Realized and unrealized gains and losses on equity derivatives used to offset the change in share prices in respect of vested Deferred Share Units and Restricted Share Appreciation Units are recorded together with the corresponding compensation expense. Realized and unrealized gains on other derivatives not designated as hedges are recorded in investment and other income. Derivative financial instruments of a financing nature are recorded at fair value determined on a credit adjusted basis.

(k) Income Taxes

The company uses the asset and liability method whereby future income tax assets and liabilities are determined based on differences between the carrying amounts and tax bases of assets and liabilities, and measured using the tax rates and laws that will be in effect when the differences are expected to reverse.

(l) Other Items

(i) Capitalized Costs

Capitalized costs on assets under development and redevelopment include all expenditures incurred in connection with the acquisition, development and construction of the asset until it is available for its intended use. These expenditures consist of costs and interest on debt that is related to these assets. Ancillary income relating specifically to such assets during the development period is treated as a reduction of costs.

(ii) Pension Benefits and Employee Future Benefits

The costs of retirement benefits for defined benefit plans and post-employment benefits are recognized as the benefits are earned by employees. The company uses the accrued benefit method pro-rated using 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. For defined contribution plans, the company expenses amounts as paid.

(iii) Liabilities and Equity

Financial instruments that must or could be settled by a variable number of the company's common shares upon their conversion by the holders as well as the related accrued distributions are classified as liabilities on the Consolidated Balance Sheets under the caption "Capital Securities" and are translated into U.S. dollars at period end rates. Dividends and yield distributions on these instruments are classified as Interest expense in the Consolidated Statements of Income.

(iv) Asset Retirement Obligations

Obligations associated with the retirement of tangible long-lived assets are recorded as liabilities when those obligations are incurred, with the amount of the liabilities initially measured at fair value. These obligations are capitalized to the book value of the related long-lived assets and are depreciated over the useful life of the related asset.

(v) Stock-Based Compensation

The company and most of its consolidated subsidiaries account 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 charged to income over the vesting period. The company's publicly traded U.S. and Brazilian homebuilding subsidiaries record the liability and expense of stock options based on their intrinsic value using variable plan accounting, reflecting differences in how these plans operate. Under this method, vested options are revalued each reporting period, and any change in value is included in income.

(m) Changes in Accounting Policies Adopted During 2007

Financial Instruments

The CICA issued five new accounting standards: Handbook Section 1530, *Comprehensive Income* (Section 1530), Handbook Section 3251, *Equity* (Section 3251), Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855), Handbook Section 3865, *Hedges* (Section 3865) and Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* (Section 3861), which provides disclosure and presentation requirements related to the aforementioned standards. These new standards became effective for the company on January 1, 2007.

(i) Comprehensive Income

Section 1530 introduces Comprehensive Income which represents changes in Shareholders' Equity during a period arising from transactions and other events with non-owner sources. Other Comprehensive Income ("OCI") includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, unrealized gains and losses on derivatives designated to hedge self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. The Annual Consolidated Financial Statements include a Statement of Comprehensive Income. Accumulated Other Comprehensive Income ("AOCI"), is presented as a new category of Shareholders' Equity in the Consolidated Balance Sheets.

(ii) *Equity*

Section 3251, Equity (Section 3251) establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements of this section are in addition to those noted above in Section 1530. This standard requires the disclosure of both the changes in equity during the periods presented and the components of equity as at the end of the periods presented. As a result of adopting this standard, AOCI has been presented as a separate component of common equity.

(iii) *Financial Instruments – Recognition and Measurement*

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when the company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related-party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities. Transaction costs related to held-for-trading financial assets or liabilities are expensed as incurred. For other financial instruments, transaction costs are capitalized on initial recognition and amortized using the effective interest method of amortization.

Financial assets and financial liabilities held-for-trading are measured at fair value with gains and losses recognized in income in the period in which they arise. Available-for-sale financial assets are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in OCI in the period in which they arise. Financial assets classified as held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading will be measured at amortized cost using the effective interest method of amortization. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost. The company classifies financial instruments using their applicable default categories except when, in the opinion of management, alternative classification results in a more relevant accounting treatment of the specific instrument.

Derivative instruments are recorded on the balance sheet at fair value, including those derivatives that are embedded in financial instruments or other contracts that are not closely related to the host financial instrument or contract. Changes in the fair values of derivative instruments are recognized in Net Income, except for effective derivatives that are designated as cash flow hedges and hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation not classified as held-for-trading, the fair value change for which are recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this “fair value option” must have reliably measurable fair values.

The company accounts securities transactions using trade date accounting. Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

(iv) *Hedges*

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in Net Income. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in Net Income. The amounts recognized in AOCI will be reclassified to Net Income in the periods in which Net Income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging derivative is recognized in OCI and the ineffective portion is recognized in Net Income.

For hedging relationships existing prior to adopting Section 3865 that are continued and qualify for hedge accounting under the new standard, the transition accounting is as follows: (i) Fair value hedges – any gain or loss on the hedging instrument is recognized in the opening balance of retained earnings on transition and the carrying amount of the hedged item is adjusted by the cumulative

change in fair value that reflects the designated hedged risk and the adjustment is included in the opening balance of retained earnings on transition; and (ii) Cash flow hedges and hedges of a net investment in a self-sustaining foreign operation – any gain or loss on the hedging instrument that is determined to be the effective portion is recognized in AOCI and the ineffectiveness in the past periods is included in the opening balance of retained earnings on transition.

Deferred gains or losses on the hedging instrument with respect to hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to Net Income over the remaining term of the hedged item for fair value hedges, and for cash flow hedges it will be recognized in AOCI and reclassified to Net Income in the same period during which the hedged item affects Net Income. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses are recognized in the opening balance of retained earnings on transition.

Impact of Adopting Sections 1530, 3251, 3855, 3861 and 3865

The company recorded a transition adjustment effective January 1, 2007, attributable to the following: (i) an increase of \$292 million, net of taxes, to opening retained earnings for financial instruments classified as held-for-trading, which includes embedded derivatives in financial instruments and contracts that were not previously recorded at fair value; (ii) recognition of \$185 million, net of taxes, in AOCI related to the unrealized gain on available-for-sale financial instruments, effective cash flow hedges and hedges of net investments in self-sustaining foreign operations; and (iii) reclassification of \$42 million of net foreign currency losses to AOCI, previously classified as the cumulative translation adjustment in Shareholders' Equity. The impact during the year is described in the Consolidated Statements of Comprehensive Income. Net income during 2007 was reduced by \$331 million representing the transitional adjustment in respect of securities sold during the year that would have been recognized under the previous accounting policies.

Accounting Changes

Effective January 1, 2007 the company adopted CICA Handbook Section 1506, *Accounting Changes*. The new standard sets out the conditions that must be met for a change in accounting policy to be applied in accordance with GAAP, specifies how such changes should be applied and requires disclosure of the impact of changes in accounting policies. The standard also specifies that changes in accounting estimates be recognized prospectively in net income and requires disclosure of the impact of a change in estimate on the current and future periods. The adoption of this standard did not have a material impact to the consolidated financial statements.

Variability In Variable Interest Entities

On September 15, 2006, the Emerging Issues Committee issued Abstract No. 163, *Determining the Variability to be Considered in Applying AcG-15* (EIC-163). This EIC provides additional clarification on how to analyze and arrangements identified as potential variable interests. EIC-163 was effective for the company on April 1, 2007. The implementation of EIC-163 did not have a material impact on the consolidated financial position or results of operations.

Debt Instruments with Embedded Derivatives

On March 5, 2007, the Emerging Issues Committee issued Abstract No. 164, *Convertible and Other Debt Instruments with Embedded Derivatives* (EIC-164). The EIC provides guidance on how the issuer should account for and the financial statement presentation of the instrument, embedded derivatives within the hybrid instrument, the future tax aspects of the instrument and how the instrument is to be treated in earnings per share computations. The implementation of EIC-164 did not have a material impact on the consolidated financial position or results of operations.

(n) Future Changes in Accounting Policies

Financial Instruments – Disclosures and Presentation

On December 1, 2006, the CICA issued two new accounting standards, Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. These standards replace Section 3861, *Financial Instruments – Disclosure and Presentation* and enhance the disclosure of the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards are effective for fiscal years beginning January 1, 2008.

Capital Disclosures

On December 1, 2006, the CICA issued Section 1535, *Capital Disclosures*. Section 1535 requires the disclosure of: (i) an entity's objectives, policies and process for managing capital; (ii) quantitative data about an entity's managed capital; (iii) whether an entity

has complied with capital requirements; and (iv) if an entity has not complied with such capital requirements, the consequences of such non-compliance. This new standard is effective for fiscal years beginning January 1, 2008.

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*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new section will be applicable to the financial statements relating to fiscal years beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets by profit-oriented enterprises. The company is currently evaluating the impact of Section 3064 on its financial statements.

Inventories

In June 2007, the CICA issued Section 3031, *Inventories*, replacing Section 3030, *Inventories*. This standard provides guidance on the determination of the cost of inventories and the subsequent recognition as an expense, including any write-down to net realizable value. This new standard is effective for fiscal years beginning January 1, 2008. The adoption of Section 3031 is not expected to have a material impact on the consolidated financial statements.

2. ACQUISITIONS

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 cost of acquiring a business is allocated to its identifiable tangible and intangible assets and liabilities on the basis of the estimated fair values at the date of purchase with any excess allocated to goodwill.

(a) Completed During 2007

On April 20, 2007, the company completed the acquisition of Longview Fibre Company for approximately \$2.3 billion including assumed debt and recorded \$593 million of goodwill. With this transaction, the company has acquired 588,000 acres of prime, freehold timberlands in Washington and Oregon and an integrated manufacturing operation that produces specialty papers and containers.

The company completed the acquisition of the Multiplex Group's ("Multiplex") stapled securities in the fourth quarter of 2007, comprising the shares of Multiplex Limited and the units of Multiplex Property Trust for, A\$5.05 per stapled security and recorded goodwill of \$694 million. Multiplex is a diversified property business with operations throughout Australia, New Zealand, the United Kingdom and the Middle East. The Multiplex portfolio consists of 24 commercial properties, in addition to construction, development, facilities and funds management divisions.

In December 2007, the company completed the acquisition of a retail mall portfolio consisting of four properties in the São Paulo area and one in Rio de Janeiro from the Malzoni Investment Group. The properties were acquired for approximately \$950 million.

In addition, the company acquired \$972 million of net assets including other commercial properties, hydro generation facilities, and hydro generation developments, together with associated intangibles, working capitals and borrowings. Included in this balance is the acquisition of a real estate equity securities manager which resulted in goodwill of \$55 million in 2007.

The following table summarizes the balance sheet impact of the significant acquisitions in 2007:

(MILLIONS)	<i>Longview</i>	<i>Multiplex</i>	<i>Malzoni</i>	<i>Other</i>	<i>Total</i>
Cash, accounts receivable and other	\$ 487	\$ 1,838	\$ 13	\$ 56	\$ 2,394
Intangible assets	—	513	—	32	545
Goodwill	593	694	13	57	1,357
Property, plant and equipment	1,985	5,188	1,070	1,777	10,020
Non-recourse and corporate borrowings	(1,350)	(4,712)	(95)	(724)	(6,881)
Accounts payable and other liabilities	(160)	(1,441)	(57)	(29)	(1,687)
Intangible liabilities	—	—	—	(107)	(107)
Future income tax asset (liability)	(593)	87	6	(9)	(509)
Non-controlling interests in net assets	—	—	—	(62)	(62)
Preferred equity	—	—	—	(19)	(19)
	\$ 962	\$ 2,167	\$ 950	\$ 972	\$ 5,051

(b) Completed During 2006

The company completed the acquisition of all of the shares of Trizec Properties Inc. and Trizec Canada Inc. (collectively, "Trizec"), for a combined equity value of \$4.8 billion. The Trizec portfolio consists of 58 high quality office properties totalling 29.2 million square feet. The company was joined by a partner in the acquisition and is jointly responsible for managing and operating the portfolio. In addition, the company completed a \$460 million acquisition of 33 commercial properties across the U.S. comprising 5.3 million square feet. The company acquired two buildings in the Washington, D.C. area for \$230 million which are 100% leased to the U.S. Government and are the headquarters of the Transportation Security Administration. The company and a joint venture partner acquired, and subsequently 100% leased to Chevron, a building in Houston for \$120 million, comprising 1.2 million square feet.

The company completed the acquisition of a transmission company, which included over 8,000 kilometers of transmission lines and 51 substations in Chile ("Transec"), for approximately \$2.5 billion, including assumed liabilities. The acquisition resulted in goodwill of \$483 million. The company holds a 28% interest in Transec and consolidates it under the VIE rules. The 72% held by institutional investors is reflected in non-controlling interests. As a result of a change in ownership structure in the second quarter of 2007, the company ceased consolidating Transec and commenced accounting for its interest on an equity accounted basis.

The company completed the acquisition of two hydroelectric generating stations totalling 39 megawatts in Maine for approximately \$146 million including assumed liabilities and the company completed the acquisition of four hydroelectric generating facilities with a total capacity of 50 megawatts located in Ontario for approximately \$197 million, including assumed liabilities.

The following table summarizes the balance sheet impact of the significant acquisitions in 2006:

(MILLIONS)	Trizec	Transec	Total
Cash, accounts receivable and other	\$ 475	\$ 140	\$ 615
Intangible assets	739	339	1,078
Goodwill	—	483	483
Property, plant and equipment	7,591	1,793	9,384
Non-recourse and corporate borrowings	(5,556)	(1,998)	(7,554)
Accounts payable and other liabilities	(283)	(223)	(506)
Intangible liabilities	(816)	—	(816)
Future income tax liability	(182)	—	(182)
Non-controlling interests in net assets	(1,474)	(215)	(1,689)
Preferred equity	(65)	—	(65)
	\$ 429	\$ 319	\$ 748

3. FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of a financial instruments is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for that instrument to which the company has immediate access. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the company looks primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities as applicable. In limited circumstances, the company uses input parameters that are not based on observable market data and believes that using possible alternative assumptions will not result in significantly different fair values.

Fair Value of Financial Instruments

As described in Note 1, financial instruments classified or designated as held-for-trading or available-for-sale are typically carried at fair value on the Consolidated Balance Sheet. Equity instruments designated as available-for-sale that do not have a quoted market price from an active market are carried at cost. The carrying amount of available-for-sale financial assets that do not have a quoted market price from an active market was \$182 million at December 31, 2007. Any changes in the fair values of financial instruments classified as held-for-trading or available-for-sale are recognized in Net Income or OCI, respectively. The cumulative changes in the fair values of available-for-sale securities previously recognized in AOCI are reclassified to Net Income when the

underlying security is either sold or there is a decline in value that is considered to be other than temporary. During the year ended December 31, 2007, \$55 million of deferred gains previously recognized in AOCI were reclassified to Net Income due to the sale of available-for-sale securities.

Available-for-sale securities measured at fair value or cost are assessed for impairment at each reporting date. For the year ended December 31, 2007, unrealized gains and unrealized losses in the fair values of available-for-sale financial instruments measured at fair value amounted to \$164 million and \$243 million respectively. Unrealized gains and losses for debt securities are primarily due to changing interest rates and for equity securities, are due to changes in market prices and foreign exchange movements. As at December 31, 2007, the company did not consider any investments to be other than temporarily impaired, as the company has the ability and intent to hold them until the fair value recovers.

Gains or losses arising from changes in the fair value on held-for-trading financial assets are presented in the statements of income, within investment and other income in the period in which they arise. Dividend income on held-for-trading financial assets is recognized in the income statement as part of investment and other income when the company's right to receive payment is established.

Interest on available-for-sale financial assets is calculated using the effective interest method and recognized in the income statement as part of investment and other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of investment and other income when the company's right to receive payment is established.

Carrying Value and Fair Value of Selected Financial Instruments

As a result of adopting the new financial instruments accounting standards, certain financial instruments are now measured at fair value which were previously reported at cost or amortized cost. This is primarily due to the reclassification of certain securities as held-for-trading securities, which includes securities designated as held-for-trading using the fair value option and available-for-sale securities. The following table provides a comparison of the carrying values and fair values as at December 31, 2007 and December 31, 2006, for selected financial instruments.

December 31, 2007							December 31, 2006	
Financial Instrument Classification	Held-for-Trading	Available-for-Sale		Loans Receivable and Other Liabilities	Total		Total	
Measurement Basis (MILLIONS)	(Fair Value)	(Fair Value)	(Cost)	(Amortized Cost)	(Carrying Value)	(Fair Value)	(Carrying Value)	(Fair Value)
Financial assets								
Cash and cash equivalents	\$ 1,561	\$ —	\$ —	\$ —	\$ 1,561	\$ 1,561	\$ 1,204	\$ 1,204
Financial Assets								
Government bonds	358	62	—	—	420	420	138	138
Corporate bonds	216	155	—	—	371	371	712	1,044
Fixed income securities	—	62	—	—	62	62	42	47
Common shares	118	190	—	—	308	308	548	652
Loans receivable	—	—	—	368	368	368	225	225
	692	469	—	368	1,529	1,529	1,665	2,106
Accounts receivable and other	—	—	—	3,519	3,519	3,519	2,558	2,558
Securities								
Government bonds	—	465	—	—	465	465	375	375
Corporate bonds	—	670	—	—	670	670	693	693
Fixed income securities	—	449	—	—	449	449	392	392
Common shares	—	62	182	—	244	244	251	251
	—	1,646	182	—	1,828	1,828	1,711	1,711
Loans and notes receivable	—	53	—	856	909	909	651	651
	\$ 2,253	\$ 2,168	\$ 182	\$ 4,743	\$ 9,346	\$ 9,346	\$ 7,789	\$ 8,230
Financial liabilities								
Corporate borrowings	\$ —	\$ —	\$ —	\$ 2,048	\$ 2,048	\$ 2,068	\$ 1,507	\$ 1,581
Property-specific mortgages	—	—	—	21,644	21,644	21,644	17,148	17,323
Subsidiary borrowings	—	—	—	7,463	7,463	7,470	4,153	4,162
Accounts payable and other liabilities	161	—	—	8,191	8,352	8,352	5,142	5,142
Capital securities	—	—	—	1,570	1,570	1,561	1,585	1,699
	\$ 161	\$ —	\$ —	\$ 40,916	\$ 41,077	\$ 41,095	\$ 29,535	\$ 29,907

The purpose of the table below is to present the carrying value at December 31, 2006 of those financial instruments that were classified upon adoption as held-for-trading or available-for-sale or designated as held-for-trading using the fair value option, prior to adoption of the new financial instruments accounting standards.

(MILLIONS)	Carrying Value as at December 31, 2006			
	Classified as Held-for-Trading	Designated as Held-for-Trading	Classified as Available-for-Sale	Total
Financial instruments				
Cash and cash equivalents	\$ 1,204	\$ —	\$ —	\$ 1,204
Financial Assets	—	654	786	1,440
Securities	—	—	1,711	1,711
	\$ 1,204	\$ 654	\$ 2,497	\$ 4,355

During the year, the fair value of net financial assets classified as held-for-trading decreased by \$61 million which was recorded in net income. In addition to the above financial instruments, the company designated as a held-for-trading liability, debentures that are exchangeable into 20 million shares of Norbord, see Note 12(c). The fair value of net financial assets designated as held-for-trading increased by \$9 million which was recorded in net income.

Hedging Activities

The company uses derivatives and non-derivative financial instruments to manage exposures to interest, currency, credit and other market risks. When derivatives are used to manage exposures, the company determines for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation. The derivative must be highly effective in accomplishing the objective of offsetting changes in the fair value or cash flows attributable to the hedged risk both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

Cash Flow Hedges

The company uses energy derivative contracts primarily to hedge the sale of power, interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability, and equity derivatives to hedge the long-term compensation arrangements. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness. For the year ended December 31, 2007, pre-tax net unrealized losses of \$73 million were recorded in OCI for the effective portion of the cash flow hedges.

Net Investment Hedges

The company uses foreign exchange contracts and foreign currency denominated debt instruments to manage its foreign currency exposures to net investments in self-sustaining foreign operations having a functional currency other than the U.S. dollar. For the year ended December 31, 2007, unrealized pre-tax net losses of \$208 million were recorded in OCI for the effective portion of hedges of net investments in foreign operations.

4. INVESTMENTS

Equity accounted investments include the following:

(MILLIONS)	Number of Shares		% of Investment		Book Value	
	2007	2006	2007	2006	2007	2006
Property funds	—	—	20 - 25%	—	\$ 382	\$ —
Chile Transmission	—	—	28%	—	330	—
Brazil Transmission	—	—	7.5 - 25%	7.5 - 25%	205	157
Norbord Inc.	60.2	54.4	41%	38%	180	178
Real Estate Finance Fund	—	—	27%	33%	148	139
Fraser Papers Inc.	16.6	14.4	56%	49%	—	141
Stelco Inc.	—	6.2	—	23%	—	44
Other					107	116
Total					\$ 1,352	\$ 775

In connection with the acquisition of Multiplex, the company acquired interests in five property funds which are accounted for using the equity method.

The company commenced accounting for its 28% interest in the Chilean transmission operations on an equity accounted basis on June 30, 2007 following a change in the ownership structure. During the third quarter of 2007, the company increased its ownership interest in Fraser Papers and began accounting for its investment on a consolidated basis.

The company completed the disposition of Stelco during the fourth quarter of 2007.

5. ACCOUNTS RECEIVABLE AND OTHER

(MILLIONS)	Note	2007	2006
Accounts receivable	(a)	\$ 2,892	\$ 1,597
Prepaid expenses and other assets	(b)	3,808	2,247
Restricted cash	(c)	627	961
Total		\$ 7,327	\$ 4,805

(a) Accounts Receivable

Included in accounts receivable are loans receivable from employees of the company and consolidated subsidiaries of \$4 million (2006 – \$8 million). None of the company's receivables were impaired at year end.

(b) Prepaid Expenses and Other Assets

Prepaid expenses and other assets includes \$773 million (2006 – \$706 million) of levelized receivables arising from straight-line revenue recognition for property rent and power sales contracts and \$878 million (2006 – \$345 million) of inventory primarily related to completed residential properties and pulp and paper products.

(c) Restricted Cash

Restricted cash relates primarily to commercial property and power generating financing arrangements including defeasement of debt obligations, debt service accounts and deposits held by the company's insurance operations.

6. INTANGIBLE ASSETS

Intangible assets includes \$1,700 million (2006 – \$853 million) related to leases and tenant relationships allocated from the purchase price on the acquisition of commercial properties, net of accumulated amortization.

7. PROPERTY, PLANT AND EQUIPMENT

(MILLIONS)	Note	2007	2006
Commercial properties	(a)	\$ 20,984	\$ 16,058
Power generation	(b)	5,137	4,309
Infrastructure	(c)	3,046	2,940
Development and other properties	(d)	7,573	4,156
Other plant and equipment	(e)	1,050	619
Total		\$ 37,790	\$ 28,082

(a) Commercial Properties

(MILLIONS)	2007	2006
Commercial properties	\$ 22,274	\$ 16,933
Less: accumulated depreciation	1,290	875
Total	\$ 20,984	\$ 16,058

Commercial properties carried at a net book value of approximately \$4,000 million (2006 – \$3,714 million) are situated on land held under leases or other agreements largely expiring after the year 2099. Minimum rental payments on land leases are approximately \$28 million (2006 – \$28 million) annually for the next five years and \$3,256 million (2006 – \$1,230 million) in total on an undiscounted basis.

Construction costs of \$71 million (2006 – \$1 million) were capitalized to the commercial property portfolio for properties undergoing redevelopment in 2007.

During 2007, the company acquired Multiplex and a Brazilian retail mall portfolio which included commercial properties with an ascribed value of \$3,967 million, see Note 2(a).

(b) Power Generation

(MILLIONS)	2007	2006
Hydroelectric power facilities	\$ 5,095	\$ 4,351
Wind energy	393	332
Co-generation and pumped storage	362	260
	5,850	4,943
Less: accumulated depreciation	949	694
	4,901	4,249
Generating facilities under development	236	60
Total	\$ 5,137	\$ 4,309

Generation assets includes the cost of the company's approximately 160 hydroelectric generating stations, wind energy, pumped storage and two gas-fired cogeneration facilities. The company's hydroelectric power facilities operate under various agreements for water rights which extend to or are renewable over terms through the years 2008 to 2046.

(c) Infrastructure

(MILLIONS)	Note	2007	2006
Timberlands	(i)	\$ 2,853	\$ 1,011
Transmission	(ii)	193	1,929
Total		\$ 3,046	\$ 2,940

(i) Timberlands

(MILLIONS)	2007	2006
Timberlands	\$ 3,202	\$ 1,022
Other property, plant and equipment	21	30
	3,223	1,052
Less: accumulated depletion and amortization	370	41
Total	\$ 2,853	\$ 1,011

The carrying value of timberlands includes the cost of the company's 2.5 million acres of timber in eastern and western North America and Brazil. The company acquired \$1,934 million of timberlands through its acquisition of Longview Fibre, see Note 2(a).

(ii) Transmission

(MILLIONS)	2007	2006
Transmission lines and infrastructure	\$ 186	\$ 1,422
Other property, plant and equipment	90	603
	276	2,025
Less: accumulated depreciation	83	96
Total	\$ 193	\$ 1,929

The company's infrastructure assets are comprised of power transmission and distribution networks which are operated under regulated rate base arrangements that are applied to the company's invested capital.

The company discontinued consolidating its Chilean transmission operations during 2007, see Note 4.

(d) Development and Other Properties

Development and other properties include properties relating to the company's opportunity investments, residential properties, properties under development and properties held for development.

(MILLIONS)	Note	2007	2006
Opportunity investments	(i)	\$ 981	\$ 1,039
Residential	(ii)	1,850	1,592
Under development	(iii)	3,584	780
Held for development	(iii)	1,158	745
Total		\$ 7,573	\$ 4,156

(i) Opportunity Investments

(MILLIONS)	2007	2006
Commercial and other properties	\$ 1,017	\$ 1,064
Less: accumulated depreciation	36	25
Total	\$ 981	\$ 1,039

(ii) Residential

(MILLIONS)	2007	2006
Residential properties — owned	\$ 1,747	\$ 1,497
— optioned	103	95
Total	\$ 1,850	\$ 1,592

Residential properties include infrastructure, land (owned and under option), and construction in progress for single-family homes and condominiums. During 2007, the company capitalized \$85 million (2006 – \$72 million) to its residential land operations.

(iii) Development

Properties that are currently under development or held for future development include commercial developments, construction projects, residential land, and rural lands held for future development in agricultural or residential areas. During 2007, the company capitalized construction related costs of \$203 million (2006 – \$54 million) and interest costs of \$58 million (2006 – \$24 million) to its commercial development sites.

(e) Other Plant and Equipment

Other plant and equipment includes capital assets associated primarily with the company's investment in Western Forest Products and Fraser Papers.

8. SECURITIES

(MILLIONS)	2007	2006
Government bonds	\$ 465	\$ 375
Corporate bonds	670	693
Fixed income securities	449	392
Common shares	62	69
Canary Wharf Group common shares	182	182
Total	\$ 1,828	\$ 1,711

Securities represent holdings that are actively deployed in the company's financial operations and include \$1,638 million (2006 – \$1,529 million) owned through the company's insurance operations, as described in Note 18(g).

Securities are measured at fair value except for equity instruments classified as available-for-sale securities that do not have a quoted market price in an active market, which are measured at cost. The fair value of securities at December 31, 2007 was \$2,722 million (2006 – \$2,256 million).

Corporate bonds include fixed rate securities totalling \$634 million (2006 – \$660 million) with an average yield of 5.2% (2006 – 5.3%) and an average maturity of approximately four years. Government bonds and fixed-income securities include predominantly fixed-rate securities.

9. LOANS AND NOTES RECEIVABLE

Loans and notes receivable include corporate loans, bridge loans and other loans, either advanced directly or acquired in the secondary market.

The fair value of the company's loans and notes receivable at December 31, 2007 and 2006 approximated their carrying value based on expected future cash flows, discounted at market rates for assets with similar terms and investment risks.

The loans and notes receivable mature over the next five years (2006 – five years), with an average maturity of approximately two years (2006 – three years) and include fixed rate loans totalling \$5 million (2006 – \$12 million) with an average yield of 10.0% (2006 – 7.0%).

10. CORPORATE BORROWINGS

(MILLIONS)	Market	Maturity	Annual Rate	Currency	2007	2006
Term debt	Private – Canadian	March 27, 2007	11.75%	C\$	\$ —	\$ 1
	Public – Canadian	June 1, 2007	7.25%	C\$	—	107
	Public – U.S.	December 12, 2008	8.13%	US\$	300	300
	Public – U.S.	March 1, 2010	5.75%	US\$	200	200
	Public – U.S.	June 15, 2012	7.13%	US\$	350	350
	Public – U.S.	April 25, 2017	5.80%	US\$	250	—
	Public – Canadian	April 25, 2017	5.29%	C\$	250	—
	Private – Canadian	July 16, 2021	5.50%	C\$	—	43
	Public – U.S.	March 1, 2033	7.38%	US\$	250	250
	Public – Canadian	June 14, 2035	5.95%	C\$	300	256
Commercial paper and bank borrowings			5.61%	N/A	167	—
Deferred financing costs ¹					(19)	—
Total					\$ 2,048	\$ 1,507

¹ Deferred financing costs were reclassified from other assets to corporate borrowings on January 1, 2007 and totalled \$18 million at December 31, 2006, in connection with the adoption of new accounting guidelines (see Note 1(m))

Term debt borrowings have a weighted average interest rate of 6.6% (2006 – 7.2%), and include \$551 million (2006 – \$407 million) repayable in Canadian dollars equivalent to C\$550 million (2006 – C\$476 million).

Commercial paper and bank borrowings is principally commercial paper issued by the company. Commercial paper obligations are backed by the company's credit facilities, which are in the form of a four year revolving term facility.

The fair value of corporate borrowings at December 31, 2007 exceeds the company's carrying values by \$20 million (2006 – \$74 million), determined by way of discounted cash flows using market rates adjusted for the company's credit spreads. Corporate borrowings are recorded initially at their fair value, net of transaction costs incurred, and are subsequently reported at their amortized cost calculated using the effective interest method.

11. NON-RECOURSE BORROWINGS

(a) Property-Specific Mortgages

Principal repayments on property-specific mortgages due over the next five years and thereafter are as follows:

(MILLIONS)	Commercial Properties	Power Generation	Infrastructure	Development and Other Properties	Total Annual Repayments
2008	\$ 2,950	\$ 55	\$ 1,200	\$ 131	\$ 4,336
2009	1,678	138	42	499	2,357
2010	211	161	—	182	554
2011	4,685	88	32	2	4,807
2012	423	667	—	62	1,152
Thereafter	5,479	2,379	522	58	8,438
Total – 2007	\$ 15,426	\$ 3,488	\$ 1,796	\$ 934	\$ 21,644
Total – 2006	\$ 11,650	\$ 2,704	\$ 1,974	\$ 820	\$ 17,148

Property-specific mortgages include \$3,211 million (2006 – \$2,667 million) repayable in Canadian dollars equivalent to C\$3,206 million (2006 – C\$3,120 million); \$164 million (2006 – \$91 million) in Brazilian *real* equivalent to R\$291 million (2006 – R\$195 million); \$561 million (2006 – \$459 million) in British pounds equivalent to £283 million (2006 – £234 million); \$nil (2006 – \$782 million) in Chilean pesos equivalent to CLP\$nil (2006 – CLP\$416 billion); and \$2,751 million (2006 – \$nil) in Australian dollars equivalent to A\$3,144 million (2006 – \$nil). The weighted average interest rate at December 31, 2007 was 6.1% per annum (2006 – 6.8%).

Property-specific mortgages are recorded initially at their fair value, net of transaction costs incurred, and are subsequently reported at their amortized cost calculated using the effective interest method.

The fair value of property-specific mortgages exceeds the company's carrying values by \$nil (2006 – \$175 million), determined by way of discounted cash flows using market rates adjusted for credit spreads applicable to the debt.

(b) Subsidiary Borrowings

Principal repayments on subsidiary borrowings over the next five years and thereafter are as follows:

(MILLIONS)	Commercial Properties	Power Generation	Infrastructure	Development and Other Properties	Other	Total Annual Repayments
2008	\$ 469	\$ —	\$ 4	\$ 563	\$ 836	\$ 1,872
2009	1,754	448	—	554	47	2,803
2010	—	—	—	121	409	530
2011	—	—	4	97	152	253
2012	25	—	—	1	60	86
Thereafter	932	349	—	53	585	1,919
Total – 2007	\$ 3,180	\$ 797	\$ 8	\$ 1,389	\$ 2,089	\$ 7,463
Total – 2006	\$ 908	\$ 684	\$ 596	\$ 1,006	\$ 959	\$ 4,153

The fair value of subsidiary borrowings exceeds the company's carrying values by \$7 million (2006 – \$9 million), determined by way of discounted cash flows using market rates adjusted for credit spreads applicable to the debt.

Subsidiary borrowings include \$1,504 million (2006 – \$1,149 million) repayable in Canadian dollars equivalent to C\$1,502 million (2006 – C\$1,344 million); \$820 million (2006 – \$7 million) in Brazilian *real* equivalent to R\$1,455 million (2006 – R\$15 million); \$9 million (2006 – \$7 million) in British pounds equivalent to £4 million (2005 – £4 million); \$25 million (2006 – \$30 million) in European euros equivalent to €17 million (2006 – €23 million); \$1,960 million (2006 – \$nil) in Australian dollars equivalent to A\$2,240 million (2006 – A\$nil); and \$126 million (2006 – \$nil) in Japanese yen equivalent to ¥14,030 million (2006 – ¥nil). The weighted average interest rate at December 31, 2007 was 9.3% per annum (2006 – 8.4%).

Commercial properties includes \$257 million (2006 – \$257 million) invested by investment partners in the form of debt capital in entities that are required to be consolidated into the company's accounts.

Residential property debt represents amounts drawn under construction financing facilities which are typically established on a project-by-project basis. Amounts drawn are repaid from the proceeds on the sale of building lots, single-family homes and condominiums and redrawn to finance the construction of new homes.

Subsidiary borrowings include obligations pursuant to financial instruments which are recorded as liabilities. These amounts include \$584 million (2006 – \$497 million) of subsidiary obligations relating to the company's international operations subject to credit rating provisions, which are supported by corporate guarantees.

Subsidiary borrowings are recorded initially at their fair value, net of transaction costs incurred, and are subsequently reported at their amortized costs calculated using the effective interest method.

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(MILLIONS)	Note	2007	2006
Accounts payable	(a)	\$ 5,212	\$ 3,099
Other liabilities and future tax liabilities	(b)	4,682	2,327
Exchangeable debentures	(c)	161	152
Total		\$ 10,055	\$ 5,578

Acquisitions in 2007 resulted in an increase in accounts payable and other liabilities of \$2,912 million, see Note 2(a).

(a) Accounts Payable

Accounts payable include \$1,560 million (2006 – \$1,473 million) of insurance deposits, claims and other liabilities incurred by the company's insurance subsidiaries.

(b) Other Liabilities and Future Tax Liabilities

Other liabilities include the fair value of the company's obligations to deliver securities it did not own at the time of sale and obligations pursuant to financial instruments recorded as liabilities.

(c) Exchangeable Debentures

A subsidiary of the company issued debentures that are exchangeable for and secured by 20 million common shares of Norbord and mature on September 30, 2029. The debentures are classified as held-for-trading and accordingly the carrying value is adjusted to reflect the market value of the underlying Norbord shares, which at December 31, 2007 was \$161 million, and any change in value is recorded in income. In 2007, a loss of \$9 million was recorded to income as a result of the change in value.

13. INTANGIBLE LIABILITIES

Intangible liabilities represent below-market tenant leases and above-market ground leases assumed on acquisitions, net of accumulated amortization.

14. CAPITAL SECURITIES

The company has the following capital securities outstanding:

(MILLIONS)	Note	2007	2006
Corporate preferred shares and preferred securities	(a)	\$ 517	\$ 663
Subsidiary preferred shares	(b)	1,053	922
Total		\$ 1,570	\$ 1,585

(a) Corporate Preferred Shares and Preferred Securities

(MILLIONS, EXCEPT SHARE INFORMATION)	Shares	Description	Cumulative	Currency	2007	2006
	Outstanding		Distribution			
Class A preferred shares	10,000,000	Series 10	5.75%	C\$	\$ 251	\$ 214
	4,032,401	Series 11	5.50%	C\$	101	86
	7,000,000	Series 12	5.40%	C\$	175	149
Preferred securities	—	Due 2050	8.35%	C\$	—	107
	—	Due 2051	8.30%	C\$	—	107
Deferred financing costs ¹					(10)	—
Total					\$ 517	\$ 663

¹ Deferred financing costs were reclassified from other assets to Capital Securities on January 1, 2007 and totalled \$9 million at December 31, 2006, in connection with the adoption of new accounting guidelines (see Note 1(m))

Subject to approval of the Toronto Stock Exchange, the Series 10, 11 and 12 shares, unless redeemed by the company for cash, are convertible into Class A common shares at a price equal to the greater of 95% of the market price at the time of conversion and C\$2.00, at the option of both the company and the holder, at any time after the following dates:

<i>Class A Preferred Shares</i>	<i>Earliest Permitted Redemption Date</i>	<i>Company's Conversion Option</i>	<i>Holder's Conversion Option</i>
Series 10	September 30, 2008	September 30, 2008	March 31, 2012
Series 11	June 30, 2009	June 30, 2009	December 31, 2013
Series 12	March 31, 2014	March 31, 2014	March 31, 2018

The company redeemed the 8.35% preferred securities on January 2, 2007 and the 8.30% preferred securities on July 3, 2007.

(b) Subsidiary Preferred Shares

<i>(MILLIONS, EXCEPT SHARE INFORMATION)</i>	<i>Shares Outstanding</i>	<i>Description</i>	<i>Cumulative Dividend Rate</i>	<i>Currency</i>	<i>2007</i>	<i>2006</i>
Class AAA preferred shares of	8,000,000	Series F	6.00%	C\$	\$ 200	\$ 171
Brookfield Properties Corporation	4,400,000	Series G	5.25%	US\$	110	110
	8,000,000	Series H	5.75%	C\$	200	171
	8,000,000	Series I	5.20%	C\$	200	171
	8,000,000	Series J	5.00%	C\$	200	171
	6,000,000	Series K	5.20%	C\$	150	128
Deferred financing costs ¹					(7)	—
Total					\$ 1,053	\$ 922

¹ Deferred financing costs were reclassified from other assets to Capital Securities on January 1, 2007 and totalled \$12 million at December 31, 2006, in connection with the adoption of new accounting guidelines (see Note 1(m))

The subsidiary preferred shares are redeemable at the option of both the company and the holder, at any time after the following dates:

<i>Class AAA Preferred Shares</i>	<i>Earliest Permitted Redemption Date</i>	<i>Company's Conversion Option</i>	<i>Holder's Conversion Option</i>
Series F	September 30, 2009	September 30, 2009	March 31, 2013
Series G	June 30, 2011	June 30, 2011	September 30, 2015
Series H	December 31, 2011	December 31, 2011	December 31, 2015
Series I	December 31, 2008	December 31, 2008	December 31, 2010
Series J	June 30, 2010	June 30, 2010	December 31, 2014
Series K	December 31, 2012	December 31, 2012	December 31, 2016

15. NON-CONTROLLING INTERESTS IN NET ASSETS

Non-controlling interests in net assets represent the common and preferred equity in consolidated entities that is owned by other shareholders.

<i>(MILLIONS)</i>	<i>2007</i>	<i>2006</i>
Common equity	\$ 4,105	\$ 3,538
Preferred equity	151	196
Total	\$ 4,256	\$ 3,734

16. PREFERRED EQUITY

Preferred equity represents perpetual preferred shares.

(MILLIONS, EXCEPT SHARE INFORMATION)	Rate	Term	Issued and Outstanding		2007	2006
			2007	2006		
Class A preferred shares						
Series 2	70% P	Perpetual	10,465,100	10,465,100	\$ 169	\$ 169
Series 4	70% P/8.5%	Perpetual	2,800,000	2,800,000	45	45
Series 8	Variable up to P	Perpetual	1,805,948	1,805,948	29	29
Series 9	4.35% ¹	Perpetual	2,194,052	2,194,052	35	35
Series 13	70% P	Perpetual	9,297,700	9,297,700	195	195
Series 15	B.A. + 40 b.p. ²	Perpetual	2,000,000	2,000,000	42	42
Series 17	4.75%	Perpetual	8,000,000	8,000,000	174	174
Series 18	4.75%	Perpetual	8,000,000	—	181	—
Total					\$ 870	\$ 689

¹ Rate was reset from 5.63% per annum in October 2006

² Rate determined in a quarterly auction

P – Prime Rate B.A. – Banker's Acceptance Rate b.p. – Basis Points

The company is authorized to issue an unlimited number of Class A preferred shares and an unlimited number of Class AA preferred shares, issuable in series. No Class AA preferred shares have been issued.

The Class A preferred shares have preference over the Class AA preferred shares, which in turn are entitled to preference over the Class A and Class B common shares on the declaration of dividends and other distributions to shareholders. All series of the outstanding preferred shares have a par value of C\$25 per share.

On May 9, 2007, the company issued 8,000,000 Class A Series 18, 4.75% preferred shares for cash proceeds of C\$200 million, and incurred transaction costs of C\$6 million.

17. COMMON EQUITY

The company is authorized to issue an unlimited number of Class A Limited Voting Shares ("Class A common shares") and 85,120 Class B Limited Voting Shares ("Class B common shares"), together referred to as common shares.

The company's common shareholders' equity is comprised of the following:

(MILLIONS)	2007	2006 ¹
Class A and B common shares	\$ 1,275	\$ 1,215
Contributed surplus	57	—
Retained earnings	4,867	4,222
Accumulated other comprehensive income ²	445	—
Cumulative translation adjustment ²	—	(42)
Common equity	\$ 6,644	\$ 5,395
NUMBER OF SHARES		
Class A common shares	583,527,581	581,730,809
Class B common shares	85,120	85,120
	583,612,701	581,815,929
Unexercised options	27,344,215	28,991,782
Total diluted common shares	610,956,916	610,807,711

¹ Prior year has been restated to reflect three-for-two stock split on June 1, 2007

² Refer to Note 1(m) for impact of new accounting policies related to financial instruments

(a) Class A and Class B Common Shares

The company's Class A common shares and its Class B common shares are each, as a separate class, entitled to elect one-half of the company's Board of Directors. Shareholder approvals for matters other than for the election of directors must be received from the holders of the company's Class A common shares as well as the Class B common shares, each voting as a separate class.

During 2007 and 2006, the number of issued and outstanding common shares changed as follows:

	2007	2006 ¹
Outstanding at beginning of year	581,815,929	579,572,028
Shares issued (repurchased)		
Dividend reinvestment plan	71,251	79,258
Management share option plan	4,920,468	2,421,657
Business acquisitions	1,795,297	—
Repurchases	(4,985,802)	(251,925)
Other	(4,442)	(5,089)
Outstanding at end of year	583,612,701	581,815,929

¹ Prior year has been restated to reflect three-for-two stock split on June 1, 2007

In 2007, the company repurchased 4,985,802 (2006 – 251,925) Class A common shares under normal course issuer bids at a cost of \$163 million (2006 – \$8 million). Proceeds from the issuance of common shares pursuant to the company's dividend reinvestment plan and management share option plan ("MSOP"), totalled \$45 million (2006 – \$18 million).

On November 16, 2007, the company issued 1,795,297 Class A common shares to acquire a real estate securities manager representing consideration of \$66 million.

(b) Earnings Per Share

The components of basic and diluted earnings per share are summarized in the following table:

(MILLIONS)	2007	2006 ¹
Net income	\$ 787	\$ 1,170
Preferred share dividends	(44)	(35)
Net income available for common shareholders	\$ 743	\$ 1,135
Weighted average outstanding common shares	582.4	580.4
Dilutive effect of options using treasury stock method	17.1	17.6
Common shares and common share equivalents	599.5	598.0

¹ Prior year has been restated to reflect three-for-two stock split on June 1, 2007

The holders of Class A common shares and Class B common shares rank on parity with each other with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding up of the company or any other distribution of the assets of the company among its shareholders for the purpose of winding up its affairs. With respect to the Class A and Class B common shares, there are no dilutive factors, material or otherwise, that would result in different diluted earnings per share. This relationship holds true irrespective of the number of dilutive instruments issued in either one of the respective classes of common stock, as both classes of common shares participate equally, on a pro rata basis in the dividends, earnings and net assets of the company, whether taken before or after dilutive instruments, regardless of which class of common shares is diluted.

(c) Stock-Based Compensation

Options issued under the company's MSOP typically vest proportionately over five years and expire 10 years after the grant date. The exercise price is equal to the market price at the grant date. During 2007, the company granted 3,516,763 (2006 – 3,306,412) options with an average exercise price of C\$38.67 (2006 – C\$27.36) per share. The cost of the options granted was determined using the Black-Scholes model of valuation, assuming a 7.5 year term to exercise (2006 – 7.5 year), 22% volatility (2006 – 17%), a weighted average expected annual dividend yield of 1.2% (2006 – 1.2%) and risk-free rate of 4.0% (2006 – 3.9%). The cost of \$26 million (2006 – \$18 million) is charged to employee compensation expense on an equal basis over the five-year vesting period of the options granted.

The changes in the number of options during 2007 and 2006 were as follows:

	2007		2006 ¹	
	Number of Options (000's)	Weighted Average Exercise Price	Number of Options (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	28,992	C\$ 13.25	28,379	C\$ 11.13
Granted	3,517	38.67	3,306	27.36
Exercised	(4,921)	9.20	(2,421)	7.27
Cancelled	(244)	26.87	(272)	17.69
Outstanding at end of year	27,344	C\$ 17.12	28,992	C\$ 13.25
Exercisable at end of year	15,876		16,921	

¹ Prior year has been restated to reflect three-for-two stock split on June 1, 2007

At December 31, 2007, the following options to purchase Class A common shares were outstanding:

Number Outstanding (000's)	Exercise Price	Weighted Average Remaining Life	Number Exercisable (000's)
1,933	C\$4.90 – C\$5.69	2.1 yrs	1,933
4,039	C\$5.72 – C\$8.56	3.1 yrs	4,039
6,308	C\$8.71 – C\$12.28	3.7 yrs	5,544
3,096	C\$13.37 – C\$16.63	6.1 yrs	1,813
8,463	C\$19.71 – C\$29.47	7.5 yrs	2,537
3,505	C\$29.91 – C\$46.59	9.2 yrs	10
27,344			15,876

A Restricted Share Unit Plan provides for the issuance of Deferred Share Units (“DSUs”), the value of which are equal to the value of a Class A common share, as well as Restricted Share Appreciation Units (“RSAUs”), the value of which are equal to the increase in value of a Class A common share over the value as at the date of issuance. Under this plan, qualifying employees and directors receive varying percentages of their annual incentive bonus or directors’ fees in the form of DSUs. The DSUs and RSAUs vest over periods of up to five years, and DSUs accumulate additional DSUs at the same rate as dividends on common shares based on the market value of the common shares at the time of the dividend. Participants are not allowed to convert DSUs and RSAUs into cash until retirement or cessation of employment. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the RSAUs when converted into cash will be equivalent to the difference between the market price of equivalent numbers of common shares at the time the conversion takes place, and the market price on the date the RSAUs are granted. The company uses equity derivative contracts to offset its exposure to the change in share prices in respect of vested DSUs and RSAUs. The value of the vested and unvested DSUs and RSAUs as at December 31, 2007 was \$372 million (2006 – \$335 million).

Employee compensation expense for these plans is charged against income over the vesting period of the DSUs and RSAUs. The amount payable by the company in respect of vested DSUs and RSAUs changes as a result of dividends and share price movements. All of the amounts attributable to changes in the amounts payable by the company are recorded as employee compensation expense in the period of the change, and for the year ended December 31, 2007, including those of operating subsidiaries, totalled \$27 million (2006 – \$44 million), net of the impact of hedging arrangements.

18. RISK MANAGEMENT AND DERIVATIVE FINANCIAL INSTRUMENTS

The company’s activities expose it to a variety of financial risks, including market risk (i.e. currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The company and its subsidiaries selectively use derivative financial instruments principally to manage risk. Management evaluates and monitors the credit risk of its derivative financial instruments and endeavours to minimize counterparty credit risk through collateral diversification, and other credit risk mitigation techniques. The credit risk of derivative financial instruments is limited to the positive fair value of the instruments. Substantially all of the company’s derivative financial instruments involve counterparties that are banks or other financial institutions in North America, the United Kingdom and Australia with high credit ratings from international credit rating agencies. The company does not expect to incur credit losses in respect of any of these counterparties.

The fair value of interest rate swap contracts which form part of financing arrangements is calculated by way of discounted cash flows using market interest rates. The company endeavours to maintain a matched book of currencies and interest rates. However,

unmatched positions are carried, on occasion, within predetermined exposure limits. These limits are reviewed on a regular basis and the company believes the exposures are manageable and not material in relation to its overall business operations.

The aggregate notional amount of the company's derivative positions at the end of 2007 and 2006 are as follows:

(MILLIONS)	Note	2007	2006
Foreign exchange	(a)	\$ 2,887	\$ 2,908
Interest rates	(b)	8,294	5,126
Credit default swaps	(c)	2,350	2,338
Equity derivatives	(d)	870	424
Commodity instruments (energy)	(e)	193	49
		\$ 14,594	\$ 10,845

(a) Foreign Exchange

At December 31, 2007, the company held foreign exchange contracts with a notional amount of \$1,562 million (2006 – \$1,469 million) at an average exchange rate of \$1.0036 (2006 – \$1.1622) to manage its Canadian dollar exposure. At December 31, 2007, the company held foreign exchange contracts with a notional amount of \$198 million (2006 – \$238 million) at an average exchange rate of \$1.9944 (2006 – \$1.8981) to manage its British pounds exposure. The company held cross currency interest rate swap contracts with a notional amount of \$946 million (2006 – \$574 million), to manage its Canadian dollar and Australian dollar exposure. The remaining foreign exchange contracts relate to the company's Brazilian and European operations.

Included in 2007 income, are net losses on foreign currency balances amounting to \$24 million (2006 – \$14 million) and included in the cumulative translation adjustment account of other comprehensive income are losses in respect of foreign currency contracts entered into for hedging purposes amounting to \$60 million (2006 – \$4 million), which are offset by translation gains on the underlying net assets.

(b) Interest Rates

At December 31, 2007, the company held interest rate swap contracts having an aggregate notional amount of \$800 million (2006 – \$840 million). The company's subsidiaries held interest rate swap contracts having an aggregate notional amount of \$3,191 million (2006 – \$466 million). The company's subsidiaries held interest rate cap contracts with an aggregate notional amount of \$4,303 million (2006 – \$3,820 million).

All interest rate contracts are recorded at an amount equal to fair value and are reflected in the company's consolidated financial statements at year end.

(c) Credit Default Swaps

As at December 31, 2007, the company held credit default swap contracts with an aggregate notional amount of \$2,350 million (2006 – \$2,338 million). Credit default swaps are contracts which are designed to compensate the purchaser for any change in value of an underlying reference asset, based on measurement in credit spreads, upon the occurrence of predetermined credit events. The company is entitled to receive payment in the event of a predetermined credit event for up to \$2,334 million (2006 – \$2,275 million) of the notional amount and could be required to make payment in respect of \$16 million (2006 – \$22 million) of the notional amount.

(d) Equity Derivatives

At December 31, 2007, the company and its subsidiaries held equity derivatives with a notional amount of \$870 million (2006 – \$424 million) recorded at an amount equal to replacement value. A portion of the notional amount represents a hedge of long-term compensation arrangements and the balance represents common equity positions established in connection with the company's investment activities. The fair value of these instruments was reflected in the company's consolidated financial statements at year end.

(e) Commodity Instruments

The company has entered into energy derivative contracts primarily to hedge the sale of generated power. The company endeavours to link forward electricity sale derivatives to specific periods in which it expects to generate electricity for sale. All energy derivative contracts are recorded at an amount equal to replacement value and are reflected in the company's consolidated financial statements at year end.

Other Information Regarding Derivative Financial Instruments

The following table classifies derivatives elected for hedging as fair value hedges, cash flow hedges or net investment hedges, and presents the effective portion of the hedge recorded in either other comprehensive income or in income, depending on the type of hedge and the ineffective portion of the hedge recorded in income during the year.

(MILLIONS)	Notional	Net Gain (Losses)	
		Effective Portion	Ineffective Portion
Fair value hedges	\$ 35	\$ —	\$ —
Cash flow hedges	5,434	(73)	5
Net investment hedges	1,939	(137)	—
	\$ 7,408	\$ (210)	\$ 5

The following table presents the notional amounts underlying the company's derivative instruments by term to maturity, as at December 31, 2007, for both derivatives that are held-for-trading and derivatives that qualify for hedge accounting:

	Residual Term to Contractual Maturity			Total Notional
(MILLIONS)	< 1 year	1 to 5 years	> 5 years	Amount
Held-for-trading				
Foreign exchange derivatives	\$ 869	\$ 1	\$ 6	\$ 876
Interest rate derivatives				
Interest rate swaps	666	1,128	582	2,376
Interest rate caps	272	329	—	601
	938	1,457	582	2,977
Credit default swaps	—	2,303	47	2,350
Equity derivatives	49	523	263	835
Commodity derivatives	19	49	80	148
	\$ 1,875	\$ 4,333	\$ 978	\$ 7,186
Elected for hedge accounting				
Foreign exchange derivatives	\$ 1,390	\$ 182	\$ 439	\$ 2,011
Interest rate derivatives				
Interest rate swaps	62	303	1,250	1,615
Interest rate caps	3,702	—	—	3,702
	3,764	303	1,250	5,317
Equity derivatives	—	35	—	35
Commodity derivatives	27	15	3	45
	\$ 5,181	\$ 535	\$ 1,692	\$ 7,408
	\$ 7,056	\$ 4,868	\$ 2,670	\$ 14,594

The following table presents the change in fair values of the company's derivative positions during the year ended December 31, 2007 and 2006, for both derivatives that are held-for-trading and derivatives that qualify for hedge accounting:

(MILLIONS)	Unrealized Gains During 2007	Unrealized Loss During 2007	Net Change During 2007	2006 Net Change
Foreign exchange derivatives	\$ 23	\$ (107)	\$ (84)	\$ (19)
Interest rate derivatives				
Interest rate swaps	59	(186)	(127)	(2)
Interest rate caps	1	(1)	—	1
	60	(187)	(127)	(1)
Credit default swaps	123	(25)	98	(7)
Equity derivatives	47	(85)	(38)	176
Commodity derivatives	75	(133)	(58)	4
	\$ 328	\$ (537)	\$ (209)	\$ 153

(f) Commitments, Guarantees and Contingencies

The company and its subsidiaries are contingently liable with respect to litigation and claims that arise in the normal course of business.

In the normal course of business, the company and its subsidiaries enter into commitments which primarily support financing arrangements and power purchase agreements. At the end of 2007, the company and its subsidiaries had \$1,068 million (2006 – \$1,074 million) of such commitments outstanding. The company maintains credit facilities and other financial assets to fund these commitments.

The company has acquired \$500 million of insurance for damage and business interruption costs sustained as a result of an act of terrorism. However, a terrorist act could have a material effect on the company's assets to the extent damages exceed the coverage.

The company has reviewed its loan agreements and believes it is in compliance, in all material respects, with the contractual obligations therein.

The company, through its subsidiaries within the residential properties operations, is contingently liable for obligations of its associates in its land development joint ventures. In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations, with the balance shared among the participants in accordance with predetermined joint venture arrangements.

In the normal course of operations, the company and its consolidated subsidiaries execute agreements that provide for indemnification and guarantees to third parties in transactions or dealings such as business dispositions, business acquisitions, sales of assets, provision of services, securitization agreements, and underwriting and agency agreements. 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 the company could be required to pay third parties, as in most cases the agreements do not 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. Neither the company nor its consolidated subsidiaries have made significant payments in the past nor do they expect at this time to make any significant payments under such indemnification agreements in the future.

(g) Insurance

The company conducts insurance operations as part of its asset management activities. As at December 31, 2007, the company held insurance assets of \$581 million (2006 – \$609 million) in respect of insurance contracts that are accounted for using the deposit method which were offset in each year by an equal amount of reserves and other liabilities. Net underwriting income earned on reinsurance operations was \$67 million (2006 – \$19 million) representing \$544 million (2006 – \$675 million) of premium and other revenues offset by \$477 million (2006 – \$656 million) of reserves and other expenses.

19. REVENUES LESS DIRECT OPERATING COSTS

Direct operating costs include all attributable expenses except interest, depreciation and amortization, taxes, other provisions and non-controlling interest in income. The details are as follows:

(MILLIONS)	2007			2006		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Commercial properties	\$ 2,851	\$ 1,303	\$ 1,548	\$ 1,544	\$ 608	\$ 936
Power generation	959	348	611	893	273	620
Infrastructure	599	309	290	429	229	200
Development and other properties	1,802	1,384	418	1,788	1,318	470
Specialty funds	1,246	876	370	908	680	228
	\$ 7,457	\$ 4,220	\$ 3,237	\$ 5,562	\$ 3,108	\$ 2,454

20. NON-CONTROLLING INTERESTS IN INCOME

Non-controlling interests of others in income is segregated into the non-controlling share of income before certain items and their share of those items, which include depreciation and amortization, taxes and other provisions attributable to the non-controlling interest.

(MILLIONS)	2007	2006
Non-controlling interests' share of income prior to the following	\$ 636	\$ 468
Non-controlling interests' share of depreciation and amortization, and future income taxes and other provisions	(538)	(304)
Non-controlling interests in income	\$ 98	\$ 164
Distributed as recurring dividends		
Preferred	\$ 5	\$ 4
Common	169	143
(Overdistributed) Undistributed	(76)	17
Non-controlling interests in income	\$ 98	\$ 164

21. INCOME TAXES

(MILLIONS)	2007	2006
Current	\$ 68	\$ 142
Future	88	203
Current and future tax expense	\$ 156	\$ 345

(MILLIONS)	2007	2006
Future income tax assets	\$ 932	\$ 890
Future income tax liabilities	(1,925)	(1,326)
Net future income tax liabilities	\$ (993)	\$ (436)

The future income tax assets relate primarily to non-capital losses available to reduce taxable income which may arise in the future. The company and its Canadian subsidiaries have future income tax assets of \$359 million (2006 – \$463 million) that relate to non-capital losses which expire over the next 20 years, and \$105 million (2006 – \$115 million) that relate to capital losses which have no expiry date. The company's U.S. subsidiaries have future income tax assets of \$272 million (2006 – \$189 million) that relate to net operating losses which expire over the next 20 years. The company's international subsidiaries have future income tax assets of \$196 million (2006 – \$123 million) that relate to operating losses which generally have no expiry date. The amount of non-capital and capital losses and deductible temporary differences for which no future income tax assets have been recognized is approximately \$2,825 million (2006 – \$2,426 million). The future income tax liabilities represent the cumulative amount of income tax payable on the differences between the book values and the tax values of the company's assets and liabilities at the rates expected to be effective at the time the differences are anticipated to reverse. The future income tax liabilities relate primarily to differences between book values and tax values of property, plant and equipment due to different depreciation rates for accounting and tax purposes. The future income tax assets and liabilities are recorded in accounts receivable and other and accounts payable and other liabilities on the balance sheet. The following table reflects the company's effective tax rate at December 31, 2007 and 2006:

	2007	2006
Statutory income tax rate	33%	36%
Increase (reduction) in rate resulting from		
Dividends subject to tax prior to receipt by the company	(3)	(3)
Portion of gains not subject to tax	(13)	(12)
Lower income tax rates in other jurisdictions	(8)	(4)
Derecognition of future tax assets/(liabilities)	(7)	3
Foreign exchange gain	9	(1)
Other	3	2
Effective income tax rate	14%	21%

22. EQUITY ACCOUNTED LOSS FROM INVESTMENTS

Equity accounted income (loss) includes the following:

(MILLIONS)	2007	2006
Norbord	\$ (17)	\$ 37
Fraser Papers ¹	(23)	(62)
Stelco Inc. ²	(32)	(11)
Total	\$ (72)	\$ (36)

¹ During 2007, the company increased its ownership in Fraser Papers to 56% and started to account for the investment on a consolidated basis

² During 2007, the company sold its 23% common equity interest in Stelco

23. JOINT VENTURES

The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures that are reflected in the company's accounts:

(MILLIONS)	2007	2006
Assets	\$ 4,343	\$ 4,888
Liabilities	2,243	2,769
Operating revenues	715	914
Operating expenses	417	554
Net income	267	223
Cash flows from operating activities	276	251
Cash flows from (used in) investing activities	74	(107)
Cash flows used in financing activities	(187)	(98)

24. POST-EMPLOYMENT BENEFITS

The company offers pension and other post employment benefit plans to its employees. The company's obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations. The benefit plans' income for 2007 was \$2 million (2006 – expense of \$5 million). The discount rate used was 6% (2006 – 5%) with an increase in the rate of compensation of 4% (2006 – 4%) and an investment rate of 8% (2006 – 7%).

(MILLIONS)	2007	2006
Plan assets	\$ 688	\$ 71
Less accrued benefit obligation:		
Defined benefit pension plan	(586)	(81)
Other post-employment benefits	(62)	(16)
Net asset (liability)	40	(26)
Less: Unamortized transitional obligations and net actuarial losses	14	8
Accrued benefit asset (liability)	\$ 54	\$ (18)

In connection with the acquisition of Longview Fibre, the company assumed the pension and other post-employment benefit plans of its employees which represented a net plan asset of \$71 million, of which the company's pro rata interest is \$26 million. This pension plan is held through a 36% owned restructuring fund.

25. SUPPLEMENTAL CASH FLOW INFORMATION

(MILLIONS)	2007	2006
Corporate borrowings		
Issuances	\$ 2,768	\$ 524
Repayments	(2,292)	(634)
Net	\$ 476	\$ (110)
Property-specific mortgages		
Issuances	\$ 4,113	\$ 6,386
Repayments	(1,629)	(949)
Net	\$ 2,484	\$ 5,437
Other debt of subsidiaries		
Issuances	\$ 2,897	\$ 279
Repayments	(1,073)	(246)
Net	\$ 1,824	\$ 33
Common shares		
Issuances	\$ 44	\$ 18
Repayments	(165)	(8)
Net	\$ (121)	\$ 10
Property		
Proceeds of dispositions	\$ 455	\$ 211
Investments	(6,253)	(6,693)
Net	\$ (5,798)	\$ (6,482)
Securities		
Securities sold	\$ 128	\$ 3
Securities purchased	(552)	(327)
Loans collected	707	399
Loans advanced	(811)	(795)
Net	\$ (528)	\$ (720)
Financial assets		
Securities sold	\$ 1,396	\$ 1,446
Securities purchased	(760)	(750)
Net	\$ 636	\$ 696

Cash taxes paid were \$103 million (2006 – \$147 million) and are included in current income taxes. Cash interest paid totalled \$1,686 million (2006 – \$1,101 million). Capital expenditures in the company's power generating operations were \$50 million (2006 – \$40 million), in its property operations were \$45 million (2006 – \$45 million) and in its transmission operations were \$10 million (2006 – \$35 million).

26. SEGMENTED INFORMATION

The company's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performance. The company has five reportable segments:

- commercial properties operations, which are principally commercial office properties and retail properties, located primarily in major North American, Brazilian, and Australian cities;
- power generation operations, which are predominantly hydroelectric power generating facilities on river systems in North America and Brazil;
- infrastructure operations, which are predominantly timberlands and electrical transmission and distribution systems. The company's timberland operations are located in North America and Brazil. The electrical transmission and distribution systems are located in Northern Ontario and Chile;
- development and other properties operations, which are principally residential development and homebuilding operations, located primarily in major North American, Brazilian and Australian cities; and
- specialty funds, which include the company's bridge lending, real estate finance and restructuring funds, are managed for the company and for institutional partners.

Non-operating assets and related revenue, cash flow and income are presented as financial assets and other.

Revenue, net income and assets by reportable segments are as follows:

(MILLIONS)	2007			2006		
	Revenue	Net Income	Assets	Revenue	Net Income	Assets
Commercial properties	\$ 2,891	\$ 24	\$ 23,571	\$ 1,499	\$ 19	\$ 17,538
Power generation	971	106	7,106	893	228	5,390
Infrastructure	622	4	4,230	419	56	4,333
Development and other properties	1,751	138	12,115	1,856	377	4,606
Specialty funds	1,368	187	2,676	943	173	1,797
Cash, financial assets and other	1,740	328	5,899	1,287	317	7,044
	\$ 9,343	\$ 787	\$ 55,597	\$ 6,897	\$ 1,170	\$ 40,708

Revenue and assets by geographic segments are as follows:

(MILLIONS)	2007		2006	
	Revenue	Assets	Revenue	Assets
United States	\$ 4,844	\$ 27,156	\$ 2,699	\$ 23,618
Canada	2,604	12,248	3,322	10,111
International	1,895	16,193	876	6,979
	\$ 9,343	\$ 55,597	\$ 6,897	\$ 40,708

27. SUBSEQUENT EVENTS

On January 31, 2008, the company completed the spin-off of a newly created publicly-traded partnership named Brookfield Infrastructure Partners L.P. ("BIP"). The spin-off was implemented by way of a special dividend of a 60% interest in BIP to holders of the company's Class A and Class B Limited Voting shares. Initially, BIP will own interests in five electricity transmission and timber operations in North America, Chile and Brazil.

Five Year Financial Review

AS AT AND FOR THE YEARS ENDED DECEMBER 31

(MILLIONS, EXCEPT PER SHARE AMOUNTS; UNAUDITED)

	2007	2006	2005	2004	2003
Per Common Share (fully diluted)					
Book value	\$ 11.64	\$ 9.37	\$ 7.87	\$ 5.67	\$ 4.99
Cash flow from operations	3.11	2.95	1.46	1.03	0.95
Cash return on book equity	30%	34%	21%	19%	18%
Net income	\$ 1.24	\$ 1.90	\$ 2.72	\$ 0.90	\$ 0.35
Market trading price – NYSE	\$ 35.67	\$ 32.12	\$ 22.37	\$ 16.01	\$ 9.05
Dividends paid	\$ 0.47	\$ 0.39	\$ 0.26	\$ 0.24	\$ 0.22
Common shares outstanding					
Basic	583.6	581.8	579.6	582.1	576.2
Diluted	611.0	610.8	608.0	611.3	610.4
Total (millions)					
Total assets under management	\$ 94,340	\$ 71,121	\$ 49,700	\$ 27,146	\$ 23,108
Consolidated balance sheet assets	55,597	40,708	26,058	20,007	16,309
Corporate borrowings	2,048	1,507	1,620	1,675	1,213
Non-recourse borrowings					
Property-specific mortgages	21,644	17,148	8,756	6,045	4,881
Other debt of subsidiaries	7,463	4,153	2,510	2,373	2,075
Common equity	6,644	5,395	4,514	3,277	2,898
Revenues	9,343	6,897	5,220	3,867	3,370
Operating income	4,509	3,776	2,319	1,793	1,532
Cash flow from operations	1,907	1,801	908	626	590
Net income	787	1,170	1,662	555	232

Corporate Governance

Management and the Board of Directors are committed to working together to achieve strong and effective corporate governance, with the objective of promoting the long-term interests of the company and the enhancement of value for all shareholders. Our Board of Directors is of the view that our corporate governance policies and practices and our disclosure in this regard are appropriate, effective and consistent with the guidelines established by Canadian and U.S. securities regulators. We continue to review our corporate governance policies and practices in relation to evolving legislation, guidelines and best practices.

Our Statement of Corporate Governance Practices is set out in full in the Management Information Circular mailed each year to all our shareholders along with the Notice of our Annual Meeting. This Statement is also available on our web site, **www.brookfield.com**, at “About Brookfield / Corporate Governance.”

You can also access the following documents referred to in the Statement on our web site – the Mandate of our Board of Directors, the Charter of Expectations for Directors, the Charters of the Board’s three Standing Committees (Audit, Governance & Nominating and Management Resources & Compensation), Board Position Descriptions, our Code of Business Conduct and our Corporate Disclosure Policy. We encourage you to review these materials.

Sustainable Development

Management and the Board of Directors are committed to the principle that our business decisions will consider social issues, including the long-term sustainability of our local communities in which we operate, taking into account current and future environmental, safety, health and economic considerations. The review and improvement of our sustainability practices is an ongoing process that we take very seriously throughout our organization.

Environmental initiatives across our operations include energy reduction, water conservation, recycling, air quality standards, wildlife preservation, timber harvesting techniques and erosion control. We believe that these initiatives will benefit the company over the long term from an economic perspective by increasing competitiveness and strengthening the local communities in which we operate. While an appropriate balance is sometimes difficult to achieve, the initiatives we undertake and the investments we make in building our company are guided by our core set of values around sustainable development.

Our renewable energy business is focused on hydroelectricity and wind power generation, while our office properties contain building features, systems and programs that foster environmental responsibility, cost and energy savings for tenants, and the health and safety of all those who work at and visit our properties. We implement comprehensive environmental initiatives in existing properties as well as new development projects to ensure industry standards are achieved and exceeded. For example, our most recent office development, the Bay Adelaide Centre in Toronto, will be built to a Leadership in Energy and Environmental Design (LEED) Gold standard. The LEED® Green Building Rating System is the internationally accepted scorecard for sustainable sites, water efficiency, energy and atmosphere, materials and resources, and indoor environmental quality.

Shareholder Information

Shareholder Enquiries

Shareholder enquiries are welcomed and should be directed to Denis Couture, Senior Vice-President, Investor Relations, Corporate and International Affairs at 416-363-9491 or dcouture@brookfield.com. Alternatively shareholders may contact the company at its administrative head office:

Brookfield Asset Management Inc.

Suite 300, Brookfield Place, Box 762, 181 Bay Street
Toronto, Ontario M5J 2T3
Telephone: 416-363-9491
Facsimile: 416-365-9642
Web Site: www.brookfield.com
E-Mail: inquiries@brookfield.com

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

CIBC Mellon Trust Company

P.O. Box 7010, Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Telephone: 416-643-5500 or
1-800-387-0825 (Toll free throughout North America)
Facsimile: 416-643-5501
Web Site: www.cibcmellon.com
E-Mail: inquiries@cibcmellon.com

Investor Relations and Communications

We are committed to informing our shareholders of our progress through a comprehensive communications program which includes publication of materials such as our annual report, quarterly interim reports and press releases for material information. We also maintain a web site that provides ready access to these materials, as well as statutory filings, stock and dividend information and other presentations.

Meeting with shareholders is an integral part of our communications program. Directors and management meet with Brookfield's shareholders at our annual meeting and are available to respond to questions at any time. Management is also available to investment analysts, financial advisors and media to ensure that accurate information is available to investors. All materials distributed at any of these meetings are posted on the company's web site.

The text of the company's 2007 Annual Report is available in French on request from the company and is filed with and available through SEDAR at www.sedar.com.

Annual Meeting of Shareholders

The company's 2008 Annual Meeting of Shareholders will be held at 10:30 a.m. on Wednesday, April 30, 2008 at The Design Exchange, 234 Bay Street, Toronto, Ontario and will be webcast through www.brookfield.com.

Stock Exchange Listings

	Symbol	Stock Exchange
Class A Common Shares	BAM	New York
	BAM.A	Toronto
	BAMA	Euronext Amsterdam
Class A Preference Shares		
Series 2	BAM.PR.B	Toronto
Series 4	BAM.PR.C	Toronto
Series 8	BAM.PR.E	Toronto
Series 9	BAM.PR.G	Toronto
Series 10	BAM.PR.H	Toronto
Series 11	BAM.PR.I	Toronto
Series 12	BAM.PR.J	Toronto
Series 13	BAM.PR.K	Toronto
Series 14	BAM.PR.L	Toronto
Series 17	BAM.PR.M	Toronto
Series 18	BAM.PR.N	Toronto

Dividend Reinvestment Plan

Registered holders of Class A Common Shares who are resident in Canada may elect to receive their dividends in the form of newly issued Class A Common Shares at a price equal to the weighted average price at which the shares traded on the Toronto Stock Exchange during the five trading days immediately preceding the payment date of such dividends.

The Dividend Reinvestment Plan allows current shareholders to acquire additional shares in the company without payment of commissions. Further details on the Plan and a Participation Form can be obtained from our administrative head office, our transfer agent or from our web site.

Dividend Record and Payment Dates

	Record Date	Payment Date
Class A Common Shares ¹	First day of February, May, August and November	Last day of February, May, August and November
Class A Preference Shares ¹		
Series 2, 4, 10, 11, 12, 13, 17 and 18	15th day of March, June, September and December	Last day of March, June, September and December
Series 8 and 14	Last day of each month	12th day of following month
Series 9	15th day of January, April, July and October	First day of February, May, August and November

¹ All dividend payments are subject to declaration by the Board of Directors

Board of Directors and Officers

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* Director-elect

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Brookfield incorporates sustainable development practices within our corporation. This document was printed in Canada using vegetable based inks on FSC certified stock.

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Trees: 6 trees preserved for the future
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CORPORATE OFFICES

New York – United States

Three World Financial Center
200 Vesey Street, 11th Floor
New York, New York
10281-0221
T 212-417-7000
F 212-417-7196

Toronto – Canada

Brookfield Place, Suite 300
Bay Wellington Tower
181 Bay Street, Box 762
Toronto, Ontario M5J 2T3
T 416-363-9491
F 416-365-9642

REGIONAL OFFICES

Sydney – Australia

Level 1
1 Kent Street
Sydney, NSW 2000
T 62-2-9256-5000
F 62-2-9256-5001

Beijing – China

Beijing Kerry Center
North Tower, 3rd Floor
1 Guanghai Road
Chao Yang District
Beijing, PRC, 100020
T 8610-8529-8858
F 8610-8529-8859

London – United Kingdom

40 Berkeley Square
London W1J 5AL
United Kingdom
T 44 (0) 20-7659-3500
F 44 (0) 20-7659-3501

Hong Kong

Lippo Centre, Tower Two
26/F, 2601
89 Queensway, Hong Kong
T 852-2810-4538
F 852-2810-7083

São Paulo – Brazil

Brascan Century Plaza
Rua Joaquim Floriano,
466 Edifício Corporate, 10º Andar,
Conjunto 1004
São Paulo, SP Brasil
CEP: 04534-002
T 55 (11) 3707-6744
F 55 (11) 3707-6751

Dubai – UAE

Level 12, Al Attar Business Tower
Sheikh Zayed Road
Dubai UAE
T 971-4-3158-500
F 971-4-3158-600

SUMMARY OF EXHIBIT C

The purpose of this summary is to describe the nature of the evidence and materials that are set out in Exhibit C and how this evidence relates to the broader Omnibus Application that these materials have been filed in connection with.

The materials included in Exhibit C are filed strictly in support of a Notice of Proposal by Great Lakes Power Distribution Inc. (“GLPDI”) under s. 81 of the *Ontario Energy Board Act, 1998* (“OEB Act”). The Notice of Proposal is being filed in connection with an Omnibus Application, the central element of which is an application under s. 86 of the OEB Act related to an internal reorganization involving the transfer of distribution assets (the “MAAD Application”). The Omnibus Application also includes various requests and applications that are ancillary to the internal reorganization. The primary purpose of the Omnibus Application, and particularly the MAAD Application, is to support the efforts of Great Lakes Power Ltd. (“GLPL”) and its affiliates to be compliant with section 71 of the OEB Act.

The MAAD Application, which is provided at **Exhibit B, Tab 1, Schedule 2**, is brought by GLPL, a licensed distributor (ED-2008-0343) under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system assets to Great Lakes Power Distribution Inc. (“GLPDI”). This is referred to throughout the MAAD Application as the “Asset Sale Transaction”. This transaction is depicted in Figure 3 of Appendix C to this Exhibit. The Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business.

The Notice of Proposal under s. 81 of the OEB Act, which is supported by the materials provided in Exhibit C of the Omnibus Application, is being filed on behalf of GLPDI. GLPDI triggers the requirement to provide notice under s. 81 because it is an affiliate of a generator (GLPL) and is acquiring an interest in a distribution system in Ontario (from GLPL). The s. 81 filing is provided at **Exhibit C, Tab 1, Schedule 2**, with supporting materials provided in the remaining Exhibit C schedules.

Other than the s. 81 Notice described above, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application and internal reorganization:

- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL's distribution facilities to GLPDI (the "Asset Sale Transaction") (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to Great Lakes Power Transmission L.P. ("GLPTLP") effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and transmitter the Omnibus Application includes an application by GLPTLP under s. 74 of the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

To facilitate review of the materials in Exhibit C, the following background information on the broader Omnibus Application provided as appendices to this summary:

- Exhibit List (**Appendix A**);
- Application (**Appendix B**); and
- Summary of the Application (**Appendix C**).

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APPENDIX A

Exhibit List

APPENDIX B

Application

APPENDIX C

Summary of the Application

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APPENDIX A
Exhibit List

EXHIBIT LIST

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		3	Description of the Distribution Facilities
		4	Corporate Charts for the Parties and Their Electricity Sector Affiliates
		5	Description of GLPL's Electricity Sector Affiliates
		6	Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates
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C - NOTICE OF PROPOSAL – SECTION 81

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 - Appendix C – Summary of the Application
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- 3 Description of the Distribution Facilities
- 4 Corporate Charts for the Parties and Their Electricity Sector Affiliates
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- 6 Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates

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- 3 GLPTLP's Current Electricity Transmission Licence
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APPENDIX B

Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.
By its Counsel


Torys LLP
per Charles Keizer

APPENDIX C

Summary of the Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

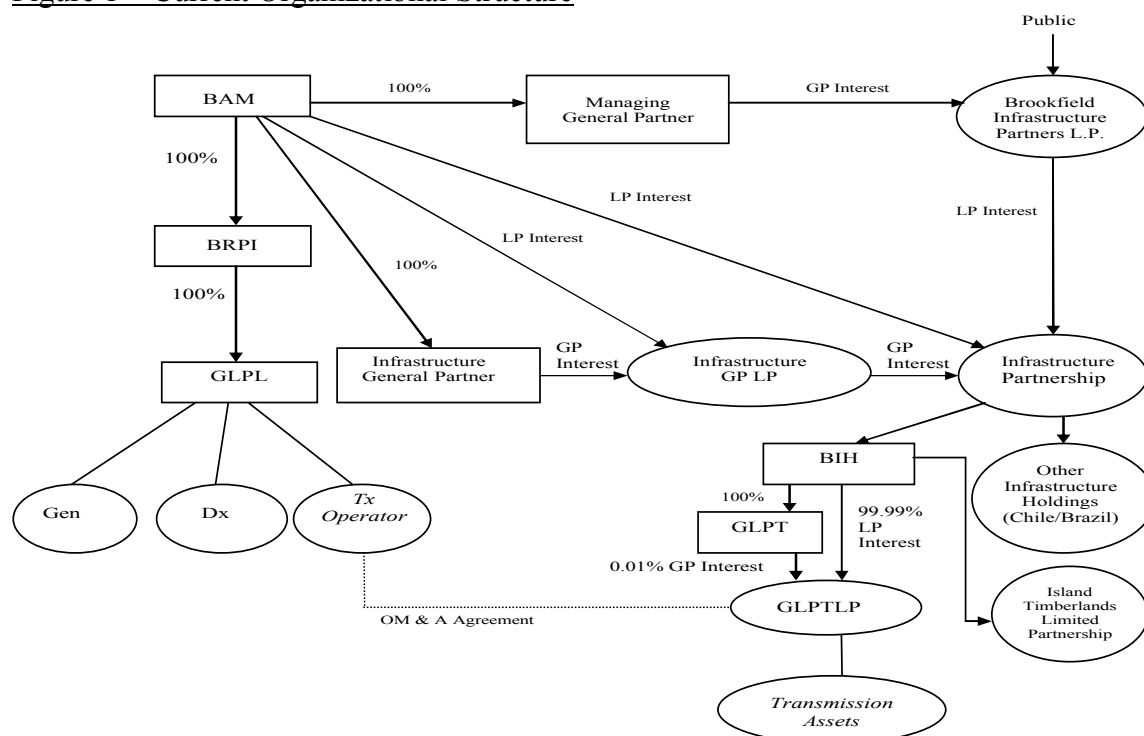


Figure 2: Current Organizational Structure Relating to GLPL

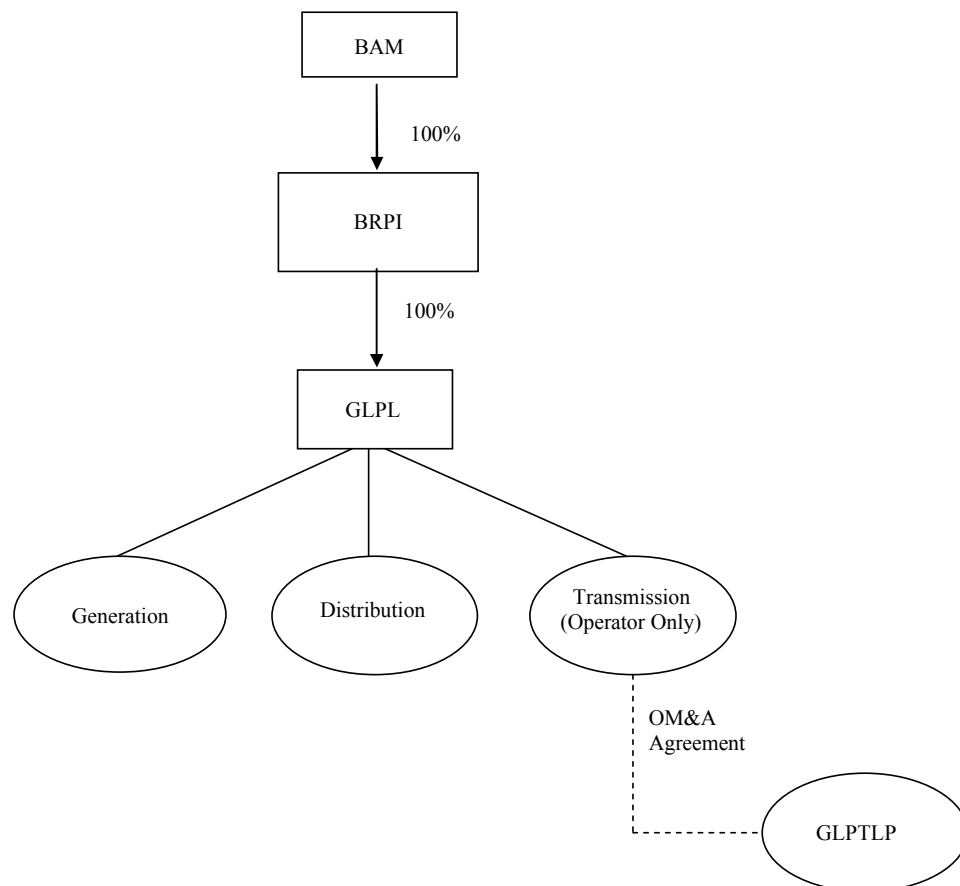
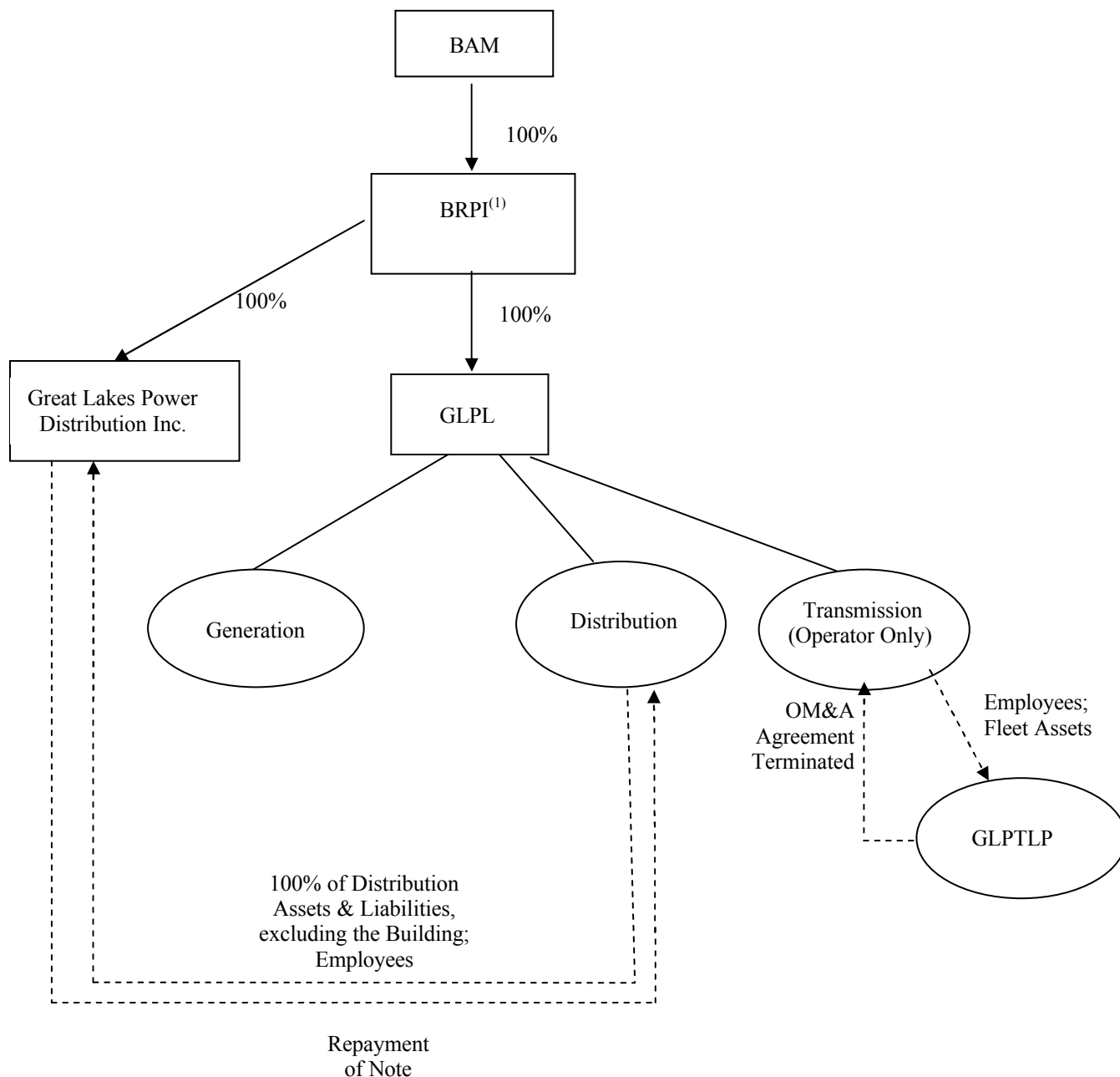


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

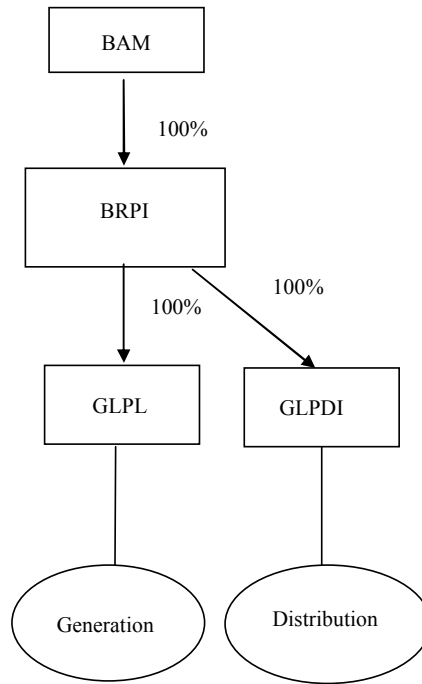
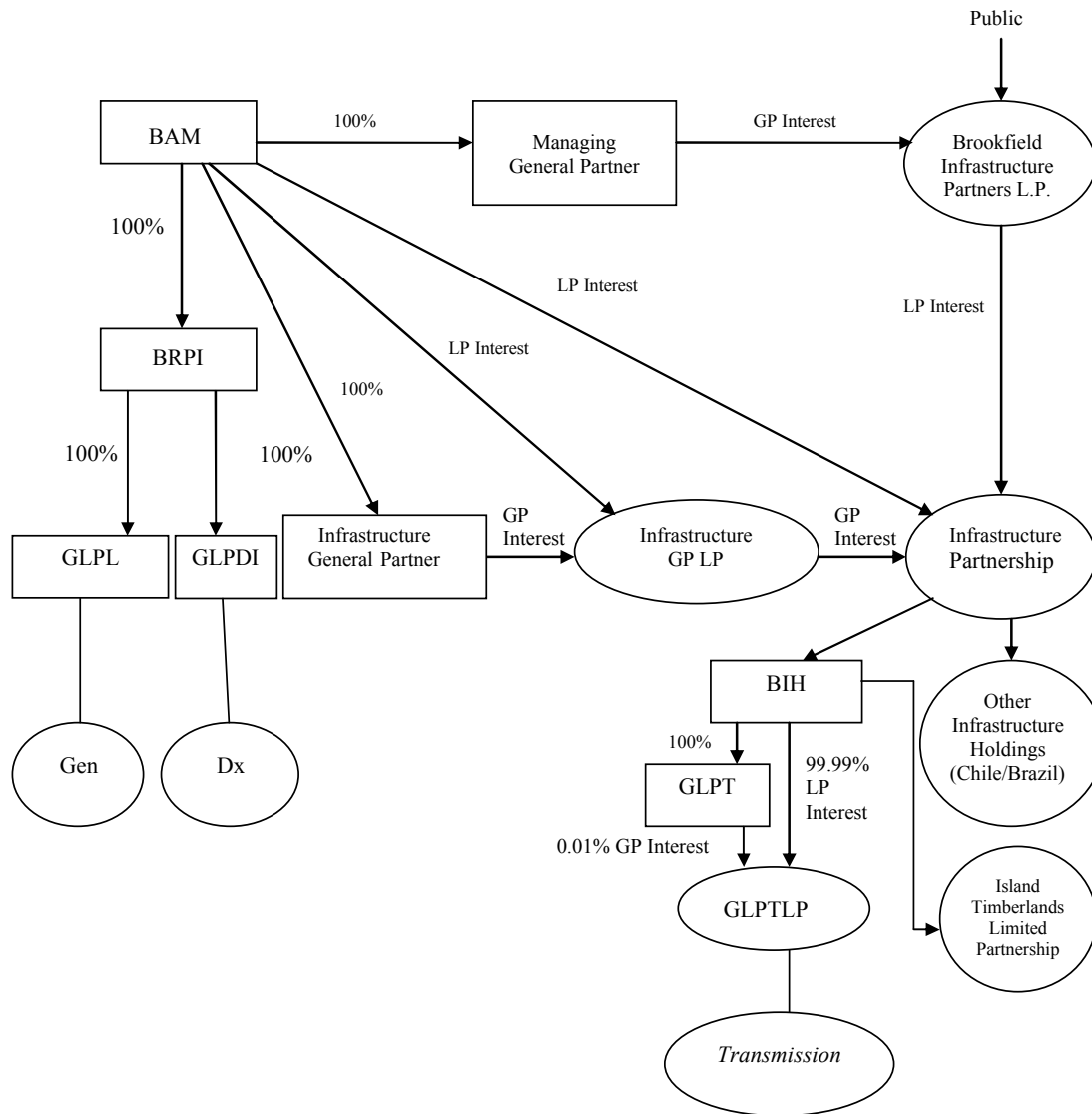


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.

Ontario Energy Board

Preliminary Filing Requirements For a Notice of Proposal under Sections 80 and 81 Of the *Ontario Energy Board Act, 1998*

INSTRUCTIONS:

This form applies to all applicants who are providing a Notice of Proposal to the Ontario Energy Board (the "Board") under sections 80 and 81 of the *Ontario Energy Board Act, 1998* (the "Act"), including parties who are also, as part of the same transaction or project, applying for other orders of the Board such as orders under sections 86 and 92 of the Act.

The Board has established this form under section 13 of the Act. Please note that the Board may require information that is additional or supplementary to the information filed in this form and that the filing of the form does not preclude the applicant from filing additional or supplementary information.

PART I: GENERAL MINIMUM FILING REQUIREMENTS

All applicants must complete and file the information requested in Part I.

1.1 Identification of the Parties

This Notice of Proposal is being filed in connection with a proposed reorganization involving an electricity distribution system, which is described at **Exhibit C, Tab 1, Schedule 3**. The applicant is Great Lakes Power Distribution Inc. ("GLPDI"). GLPDI triggers the requirement to provide notice under s. 81 because it is an affiliate of a generator (GLPL) and is acquiring an interest in a distribution system in Ontario (from GLPL). Information about GLPDI and GLPL is provided below.

1.1.1 Applicant

Name of Applicant: Great Lakes Power Distribution Inc. ("GLPDI")	File No: (OEB Use Only)	
Address of Head Office 2 Sackville Road Sault Ste. Marie, Ontario P6B 6J6	Telephone Number (705) 759-7600	
	Facsimile Number (705) 941-5600	
	E-mail Address	

<i>Name of Individual to Contact</i> Mr. Tim Lavoie, General Manager	<i>Telephone Number</i> (705) 941-5697	
	<i>Facsimile Number</i> (705) 941-5600	
	<i>E-mail Address</i> tlavoie@glp.ca	

1.1.2 Other Parties to the Transaction or Project

<i>Name of Other Party:</i> Great Lakes Power Limited ("GLPL")	<i>File No: (OEB Use Only)</i>	
<i>Address of Head Office:</i> 2 Sackville Road Sault Ste. Marie, Ontario P6B 6J6	<i>Telephone Number:</i> (705) 759-7600	
	<i>Facsimile Number:</i> (705) 941-5600	
	<i>E-mail Address:</i>	
<i>Name of Individual Contact for the Applicants:</i> Mr. Tim Lavoie, General Manager	<i>Telephone Number:</i> (705) 941-5697	
	<i>Facsimile Number:</i> (705) 941-5600	
	<i>E-mail Address:</i> tlavoie@glp.on.ca	

1.2 Relationship Between Parties to the Transaction or Project

1.2.1	Attach a list of the officers, directors and shareholders of each of the parties to the proposed transaction or project. <u>GLPDI</u> Directors: Edward C. Kress Harry A. Goldgut Basil Carruthers Officers:	

	Richard Legault Donald Tremblay Jeff Rosenthal Patricia Bood Tim Lavoie Mark Faught Duane Fecteau Shareholders: Brookfield Renewable Power Inc. <u>GLPL</u> Directors: Basil Carruthers Edward C. Kress Harry A. Goldgut *Mr. Carruthers will be replaced as a Director by Mr. Richard Legault at the closing of the Asset Purchase Transaction. Officers: Richard Legault - President and Chief Executive Officer Donald Tremblay - Executive Vice President Colin Clark - Executive Vice President Laurent Cusson - Executive Vice-President Andre Legault - Chief Operating Officer and Senior Vice President, Canadian Operations Ben Vaughan - Chief Operating Officer & Senior Vice President, Brookfield Energy Marketing Inc. Lee Butler - Vice President, Canadian Operations and Chief Financial Officer Julie Morin - Vice-President, Finance Normand Perreault - Vice President, Canadian Operations Patricia Bood - Vice President and Secretary Walter Di Cesare - Assistant Secretary and Director Legal Services, Canadian Operations Carole Fortier - Director, Human Resources Tracy Brason - General Manager, System Control Centre, Canadian Operations Stephane Masse - General Manager, Wawa Hydro Tim Lavoie - General Manager, Great Lakes Power Mark Faught - Business Controller, Great Lakes Power Duane Fecteau – Director of Administration Jim Deluzio - General Manager, Sault Operations Shareholder: Brookfield Renewable Power Inc.	
1.2.2	<i>Attach a corporate chart describing the relationship between each of the parties to the proposed transaction or project and each of their respective affiliates.</i> A corporate chart is attached at Exhibit C, Tab 1, Schedule 4.	

1.3 Description of the Businesses of Each of the Parties

1.3.1	<i>Attach a description of the business of each of the parties to the proposed transaction or project, including each of their affiliates licenced under the OEB Act to operate in Ontario for the generation, transmission, distribution, wholesaling or retailing of electricity or providing goods and services to companies licenced under the OEB Act in Ontario ("Electricity Sector Affiliates").</i> A) GLPDI: GLPDI is a corporation duly incorporated in Ontario and created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor. Please see Exhibit C, Tab 1, Schedule 5 for a description of GLPDI's Electricity Sector Affiliates. B) GLPL: Brookfield Renewable Power Inc. ("BRPI") owns 100% of the shares in GLPL, which is a licensed generator and distributor of electricity under OEB licenses EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP. The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system. GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 pole km of lines and 1,823 circuit km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations. GLPL's distribution business operates pursuant to licence ED-2008-0343. GLPL's distribution business has its own separate financial and accounting systems. GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems. Please see Exhibit C, Tab 1, Schedule 5 for a description of GLPL's Electricity Sector Affiliates, which are the same as those for GLPDI. D) Electricity Sector Affiliates: Please refer to Exhibit C, Tab 1, Schedule 5 for descriptions of the Electricity Sector Affiliates of the parties.	
1.3.2	<i>Attach a description of the geographic territory served by each of the parties to the proposed transaction or project, including each of their Electricity Sector Affiliates, if applicable, and the geographic location of all existing generation facilities.</i>	

	If approved by the Board, GLPDI would serve the same geographic territory currently served by GLPL's Distribution System. Maps of the geographic territory currently served by GLPL are set out at Exhibit C, Tab 1, Schedule 6. Descriptions of the geographic territories of BRPI and the Electricity Sector Affiliates of the parties are set out at Exhibit C, Tab 1, Schedule 5.	
1.3.3	<i>Attach a breakdown of the annual sales (in C\$, and in MWh) as of the most recent year end of the existing generation output among the IESO Administered Markets ("IAM"), bilateral contracts, and local distribution companies.</i>	
	<u>GLPL</u> Annual Sales C\$ (for 2007): \$63,707,473 (GLPL entities generation only) Annual Sales C\$ (for 2007): \$112,456,919 (including transmission and distribution) MWh (for 2008): 1,084,896 <u>Valerie Falls</u> Annual Sales C\$ (for 2007): \$3,324,193 MWh (for 2007): 45,963 <u>MPT</u> (50% owned by BRPI) Annual Sales C\$ (for 2007): \$41,219,032 (100%) Annual Sales C\$ (for 2007): \$20,609,516 (50%) MWh (for 2007): 501,956 (100%) MWh (for 2007): 250,978 (50%) <u>LSPI</u> Annual Sales C\$ (for 2007): \$74,758,597 MWh (for 2007): 406,085 (output sold to OEFC) MWh (for 2007): 468,254 (gas equivalent) MWh (for 2007): 874,339 (total - including gas equivalent) <u>BPWP LP</u> (50% owned by BRPI) Annual Sales C\$ (for 2007): \$43,134,000 MWh (for 2007): 478,490 <u>Beaver Power</u> (Excluding Carmichael) Annual Sales C\$ (for 2007): \$9,389,018 MWh (for 2007): 134,208 <u>Carmichael</u> (50% owned by BRPI) Annual Sales C\$ (for 2007): \$9,349,030 (100%) Annual Sales C\$ (for 2007): \$4,674,515 (50%) MWh (for 2007): 84,977 (100%) MWh (for 2007): 42,489 (50%)	
1.3.4	<i>Attach a list identifying all relevant Board licences and approvals held by the parties to the proposed transaction or project and each of their Electricity Sector Affiliates, and any applications currently before the Director of Licensing or the Board, or forthcoming. Please include all Board file numbers.</i> Board Licences and Approvals Held : ▪ GLPL: ED-2008-0343, ET-2008-0342, EG-2003-0175 ▪ GLPTLP: ET-2007-0649 ▪ Valerie Falls LP: EG-2003-0177 ▪ MPT: EG-2002-0276 ▪ LSPI: EG-2003-0176 ▪ BPWC: EG-2004-0426 ▪ BPWP LP: EG-2006-0130 ▪ BEMI: EW-2005-0471, ER-2005-0440 ▪ BEMLP: EW-2005-0300	

- Beaver Power: EG-2002-0408
- Algonquin Power (Nagagami) LP: EG-2006-0072
- Carmichael LP: EG-2006-0070

1.4 Current Competitive Characteristics of the Market

1.4.1 Describe the generation capacity (in MW), within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Energy Sector Affiliates, **prior to the completion of the proposed transaction or project.**

Entity	MW
GLPL	349.0
Valerie Falls LP	10.0
MPT*	488.0
LSPI	110.0
BPWP LP*	189.0
Beaver Power	29.7
Carmichael*	20.4
TOTAL	1196.1

*These entities are owned by GLHIF. BRPI's proportionate share of generation produced by these facilities is therefore 50.01% of the capacity listed.

1.4.2 Describe the generation **market share** based on actual MWh production as a percent of the Annual Primary Demand, within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Energy Sector Affiliates, **prior to completion of the proposed transaction or project.**

Entity	MWh	% market share
GLPL	1,084,896	●
Valerie Falls LP	45,963	●
MPT*	501,956	●
LSPI	874,339	●
BPWP LP*	478,490	●
Beaver Power	134,208	●
Carmichael*	84,977	●
TOTAL	3,204,829	●

*These entities are owned by GLHIF. BRPI's proportionate share of generation produced by these facilities is therefore 50.01% of the capacity listed.

Please note that Annual Primary Demand is no longer calculated by the IESO. As such, we are unable to calculate the generation market share percentage.

1.5 Description of the Proposed Transaction or Project and Impact on Competition - General

1.5.1 Attach a detailed description of the proposed transaction or project, including geographic locations of proposed new transmission or distribution systems, or new generation facilities.

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI (the "Asset Sale Transaction"). This will complete the separation of the distribution business, which is currently owned and operated by GLPL, from the generation business, which will continue to be owned and operated by GLPL.

For a more detailed and complete description of the transaction, including diagrams illustrating the organizational structure relevant to the parties before and after each of the transactions, please see

Exhibit C, Tab 1, Schedule 1, Appendix C.

The transactions amount to an internal reorganization. The structure resulting from the completion of the Asset Sale Transaction and the Share Purchase Transaction, supported by the related applications and requests included in the omnibus application, is illustrated in Figure 5 of **Exhibit C, Tab 1, Schedule 1, Appendix C** and can be described as follows:

- GLPL will continue to be the owner and operator of its generation assets;
- GLPDI will own and operate the distribution system currently owned and operated by GLPL;
- GLPTLP will own and operate all of the transmission assets that it currently owns, which are currently operated under an OM&A Agreement by GLPL; and
- BRPI, which currently has indirect control of the distribution system through its ownership of GLPL, will retain indirect control of the distribution system through its ownership of GLPDI.

1.5.2 Describe the generation **capacity** (in MW), within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Energy Sector Affiliates, **after** the completion of the proposed transaction or project.

Generation capacity will not be affected by the proposed transaction/internal reorganization.

Entity	MW
GLPL	349.0
Valerie Falls LP	10.0
MPT*	488.0
LSPI	110.0
BPWP LP*	189.0
Beaver Power	29.7
Carmichael*	20.4
TOTAL	1196.1

*These entities are owned by GLHIF. BRPI's proportionate share of generation produced by these facilities is therefore 50.01% of the capacity listed.

1.5.3 Describe the generation **market share** based on anticipated MWh production as a percentage of the Annual Primary Demand, within the Province of Ontario, of the parties to the proposed transaction or project, including each of their respective Energy Sector Affiliates, **after** the completion of the proposed transaction or project.

Entity	MWh (LTA)**	% market share
GLPL	1,612,118	●
Valerie Falls LP	51,480	●
MPT*	735,571	●
LSPI	850,000	●
BPWP LP*	534,721	●
Beaver Power	126,089	●
Carmichael*	85,984	●
TOTAL	3,995,963	●

*These entities are owned by GLHIF. BRPI's proportionate share of generation produced by these facilities is therefore 50.01% of the capacity listed.

** Long-term average generation figures.

Please note that Annual Primary Demand is no longer calculated by the IESO. As such, we are unable to calculate the generation market share percentage.

1.5.4	<i>Attach a short description of the impact, if any, of the proposed transaction or project on competition. If there will be no impact on competition, please state the reasons. Cite specifically the impacts of the proposal on customer choice regarding generation, energy wholesalers, and energy retailers.</i> The proposed transaction amounts to an internal reorganization that will maintain the status quo in regard to the operation of the Distribution System, thereby having no impact on competition. Please refer to Exhibit C, Tab 1, Schedule 1, Appendix C for more information on the proposed transaction/internal reorganization.	

1.5.5	<i>Provide confirmation that the proposed transaction or project will have no impact on open access to the transmission or distribution system of the parties or their affiliates. If open access will be affected explain how and why.</i> The proposed transaction amounts to an internal reorganization that will have no impact on open access to the distribution facilities at issue. GLPDI has applied for an electricity distribution licence, which is expected to contain standard provisions regarding non-discriminatory access.	

1.6 Other Information

1.6.1	<i>Attach confirmation that the parties to the proposed transaction or project are in compliance with all licence and code requirements, and will continue to be in compliance after completion of the proposed transaction or project.</i> Until very recently, GLPL has been exempt from Section 71 of the OEB Act through various regulations. The exemption expired on December 31, 2008. The completion of the Asset Sale Transaction to GLPDI will ensure compliance with Section 71. The parties to the transaction confirms that to the best of their knowledge, they are in compliance with all licence and applicable code requirements and will continue to comply after the completion of the transaction.	

PART II: TRANSMITTERS, DISTRIBUTORS ACQUIRING OR CONSTRUCTING GENERATORS - SECTION 80

All applicants filing Notice of Proposal under section 80 of the Act must complete and file the information requested in Part II.

The proposed transaction/internal reorganization does not trigger section 80 of the Act.

2.1 Effect on Competition

2.1.2	Describe whether the proposed generation output will be primarily offered into the IAM, sold via bilateral contracts, or for own use.	

2.1.3	Provide a description of the generation including fuel source, technology used, maximum capacity output, typical number of hours of operation in a year, and peaking versus base-load character.	

2.1.4	Provide details on whether the generation facility is expected to be a “must run” facility.	

2.1.5	Provide details of whether the generation facility is expected to serve a “load pocket”, or is likely to be “constrained on” due to transmission constraints.	

2.2 System reliability

Section 2.2 must be completed by applicants who are claiming that the proposed transaction or project is required for system reliability under clause 82(2)(b) of the Act.

2.2.1	Provide reasons why the proposal is required to maintain the reliability of the transmission or distribution system. Provide supporting studies.	
2.2.2	Discuss the effect of the proposal on the adequacy (ability of supply to meet demand) of supply in the relevant control area or distribution region, citing effects on capacity plus reserve levels in comparison to load forecasts.	
2.2.3	Discuss the effect of the proposal on the security (ability of supply to respond to system contingencies) of supply.	
2.2.4	Provide a copy of the IMO Preliminary System Impact Assessment Report, if completed, and the IMO Final System Impact Assessment Report, if completed. If the IMO is not conducting a System Impact Assessment Report, please explain.	

PART III: GENERATORS ACQUIRE OR CONSTRUCT TRANSMISSION, DISTRIBUTION - SECTION 81

All applicants filing Notice of Proposal under section 81 of the Act must complete and file the information requested in Part III.

3.1 Effect on Competition

3.1.1	<i>Provide a description of the transmission or distribution system being acquired or constructed.</i> A description of the distribution system being acquired is provided at Exhibit C, Tab 1, Schedule 3 .	
3.1.2	<i>Provide details on whether the generation facilities owned by the acquiring company are or will be directly connected to the transmission or distribution system being acquired or constructed.</i> In respect of GLPDI's acquisition of the distribution system, GLPDI does not own any generation facilities and as such this section is not applicable.	
3.1.3	<i>Provide details of whether the generation facility is expected to serve a “load pocket”, or is likely to be “constrained on” due to transmission constraints.</i> It is not expected that the affiliates of the parties that are licensed to generate electricity in Ontario will serve load pockets or are likely to be constrained on due to transmission constraints.	

3.1.4	<i>Provide details on whether the generation facilities are expected to be “must-run” facilities.</i> None of the affiliates of the parties that are licensed to generate electricity in Ontario operate must-run facilities.	

How to Contact the Ontario Energy Board

The Ontario Energy Board is located at:

P.O. Box 2319
2300 Yonge Street, Suite 2701
Toronto, Ontario
M4P 1E4

Telephone: 416-481-1967
Toll Free Number: 1-888-632-6273
Fax: 416-440-7656
Website: <http://www.oeb.gov.on.ca>
Board Secretary's e-mail address: boardsec@oeb.gov.on.ca

DESCRIPTION OF DISTRIBUTION FACILITIES

Subject to the exceptions described below, the Distribution Facilities include all property and assets, whether real, personal or mixed, tangible or intangible, of every kind and description, wherever located, that are owned or leased by Great Lakes Power Limited ("GLPL") and are related to, or used or required in respect of the distribution business, including all of GLPL's right, title and interest in and to the following assets:

- The 1705 pole kilometers of lines and 1823 circuit kilometers of lines of voltages ranging from 2.4 kV up to 44 kV currently operated by Great Lakes Power Limited ("GLPL"), including all lines, poles, wires and associated equipment and property;
- The real property including all plant, buildings, structures, improvements and fixtures (including all fixed machinery and fixed equipment) located thereon or forming part thereof (collectively, the "Owned Property");
- All easements, licences and permits relating to the distribution business (collectively, the "Real Property Rights");
- All subtransmission distribution stations used in connection with the distribution business, and all associated equipment and property;
- All warranties and all contracts, agreements and other legally binding instruments which have been entered into by GLPL in respect of the distribution business (collectively, the "Contracts");
- All trade accounts receivable and all trade debts due or accruing due to GLPL in respect of the distribution business;
- All plans, research, work, reports, studies, applications, documentation and material prepared by or for the benefit of GLPL in respect of the distribution business;
- All trade marks and trade mark applications, trade names, certification marks, patents and patent applications, copyrights, know-how, formulae, processes, inventions, technical expertise, research data, trade secrets, industrial designs and other similar property related to or used in respect of the distribution business;
- All inventories, work in process, raw materials, spare parts and other materials and supplies related to the distribution business; and
- All business and financial records and systems, including all accounting systems, lists of customers and suppliers, surveys, plans and specifications relating to the transmission business, and all operating manuals, engineering standards and specifications and other information used or required to effectively conduct the distribution business or operate the Distribution Facilities or any of them.

Exceptions

The Distribution Facilities do not include:

- The building at 2 Sackville Road, Sault Ste. Marie, which currently houses GLPL's transmission and distribution employees; and
- Some fleet vehicles.

ONTARIO OPERATIONS - CORPORATE STRUCTURE - CURRENT



(2) Brookfield Renewable Power Inc. owns 46.21% of GLHIF, but through its shares of Great Lakes Power Holding Corporation, which shares are exchangeable on a one-for-one into trust units of the Fund, on a fully exchanged basis, Brookfield Renewable Power holds a 50.01% ownership interest in the Fund.

**DESCRIPTION OF ONTARIO ELECTRICITY SECTOR AFFILIATES OF
GLPL**

Brookfield Asset Management Inc. ("BAM")

BAM is focused on property, power and infrastructure assets, with approximately US\$90 billion of assets under management. BAM's securities trade on the Toronto, New York and Euronext Amsterdam stock exchanges under the symbol BAM.A, BAM and BAMA respectively. BAM is the ultimate parent company to the electricity sector affiliates mentioned below.

Address:

Brookfield Place, Suite 300
181 Bay Street
Toronto, Ontario
M5J 2T3
Phone: 416-363-9491
Fax: 416-365-9642

Brookfield Renewable Power Inc. ("BRPI")

BRPI, wholly-owned by BAM, has more than 100 years of experience as an owner, operator and developer of hydroelectric power facilities. Its total portfolio includes more than 160 generating facilities with approximately 4,000 megawatts of capacity. It also has a significant hydroelectric and wind project pipeline. BRPI's operations are primarily located in North America and Brazil and held through various subsidiaries. Some of its assets are owned through Great Lakes Hydro Income Fund, a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN).

Address:

480 Boulevard de la Cité
Gatineau, Québec
J8T 8R3
Ph: 819-561-2722
Fax: 819-561-7188

Great Lakes Power Transmission Inc. ("GLPT")

GLPT is the general partner of Great Lakes Power Transmission LP ("GLPTLP"), a limited partner that owns transmission facilities in Northern Ontario that are operated by Great Lakes Power Limited ("GLPL"). GLPT and GLPTLP are indirect subsidiaries of Brookfield Infrastructure Partners L.P. ("BIP"). BAM is a major shareholder of BIP. BIP has securities trading on the New York Stock Exchange under the symbol BIP. GLPT is a licensed transmitter on behalf of GLPTLP pursuant to transmission licence ET-2007-0649. GLPL operates the GLPTLP transmission facilities pursuant to operator licence EB-2008-0342.

Address:
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6
Phone: 705-759-7600
Fax: 705-941-5600

Brookfield Energy Marketing Inc. ("BEMI")

BEMI, located in Gatineau, Quebec, is wholly owned by BRPI and conducts most of BRPI's wholesale energy marketing business in Canada and the United States. It manages the scheduling of BRPI's generating assets, sells power into the applicable wholesale electricity markets and enters into short-term financial contracts and power purchase agreements on behalf of the relevant entities. BEMI is a licensed energy wholesale marketer and retailer under OEB licences EW-2005-0471 and ER-2005-0440.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Brookfield Power Wind Prince LP ("BPWP LP")

BPWP LP owns the Prince Wind Energy Project, a wind farm west of Sault Ste. Marie located in the townships of Dennis, Pennefather, Korah, Aweres and Prince, in the District of Algoma in the Province of Ontario. It is owned by BRPI's publicly traded subsidiary, Great Lakes Hydro Income Fund. It is a licensed electricity generator (EG-2006-0130).

Address:
Ontario Wind Operations
400 Allen Side Road
Sault Ste. Marie, Ontario
P6A 6K4
Phone: 705-941-5659
Fax: 705-946-5574

Brookfield Power Wind Corporation ("Brookfield Wind")

Brookfield Wind has been actively involved in the development of wind power projects in Ontario for many years. Brookfield Wind is a licensed electricity generator (EG-2004-0426), but does not currently have any operating generation.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Valerie Falls General Partner Limited (“Valerie GP”)

Valerie GP is the general partner of Valerie Falls Limited Partnership (“Valerie LP”), a limited partnership generating electricity through its 10 MW hydroelectric station on the Seine River at Valerie Falls, three miles north of Atikokan in northwestern Ontario. Valerie GP is a licensed generator on behalf of Valerie LP pursuant to licence EG-2003-0177. Brookfield Renewable Power holds a 65% controlling interest in Valerie GP. The other 35% interest in Valerie GP is held by Seine River Power Inc. (“Seine”), a wholly owned subsidiary of Brookfield Renewable Power. Valerie LP is held 99.99% by Brookfield Renewable Power and 0.01% by Valerie GP.

Address:
Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Mississagi Power Trust (“MPT”)

MPT generates electricity through four hydroelectric facilities: the Aubrey Falls Generating Station, the George W. Rayner Generating Station, the Wells Generating Station and the Red Rock Falls Generating Station. It is owned by Brookfield Renewable Power’s publicly traded subsidiary, Great Lakes Hydro Income Fund. MPT is a licensed generator pursuant to OEB licence EG-2002-0276.

Address:
Mississagi Operations
R.R. #3, 4917 Highway 129
Thessalon, Ontario
P0R 1L0
Phone: 705-842-3377
Fax: 705-842-2086

Lake Superior Power Inc. ("LSPI")

LSPI's cogeneration facility is located in Sault Ste. Marie, Ontario. Lake Superior Power Limited Partnership ("Lake Superior Power LP") is a limited partnership formed to develop and operate a 110 MW natural gas-fired cogeneration plant in Sault Ste. Marie, Ontario. Brookfield Renewable Power is the sole limited partner in the Lake Superior Power LP. The general partner is LSPI, which holds a 1% interest in the project. Brookfield Renewable Power is the sole shareholder of LSPI. LSPI is a licensed generator on behalf of Lake Superior Power LP pursuant to OEB licence EG-2003-0176.

Address:

Lake Superior Operations
 102 West Street, P.O. Box 1198
 Sault Ste. Marie, Ontario
 P6A 5N7
 Phone: 705-942-8804
 Fax: 705-942-8939

Beaver Power Corporation ("Beaver Power")

The hydroelectric facilities of Beaver Power are located in northern Ontario. Beaver Power directly and indirectly owns three run-of-river hydro-electric generating facilities. It directly owns the Serpent River Project (7 MW) and the Aux Sables Project (4 MW). It also holds a 99.99% limited partnership interest in Algonquin Power (Nagagami) Limited Partnership ("Algonquin LP") which owns the Nagagami Project (19 MW). The remaining 0.01% of Algonquin LP is held by Algonquin Power General Partner (Nagagami) Inc. ("Algonquin GP"), which is 75% held by Algonquin Power Financial Services (Nagagami) Inc., which is a wholly owned subsidiary of Beaver Power. The balance of Algonquin GP is held by the Matawa First Nations Economic Development Corporation.

Beaver Power and Algonquin LP are licensed generators pursuant respectively to licences EG-2002-0408 and EG-2006-0072.

Address (Serpent River & Aux Sables Projects): Mississagi Operations R.R. #3, 4917 Highway 129 Thessalon, Ontario P0R 1L0 Phone: 705-842-3377 Fax: 705-842-2086	Address (Nagagami Project): Wawa Hydro Operations 105 Mills Drive, P.O. Box 320 Wawa, Ontario P0S 1K0 Phone: 705-856-2632 Fax: 705-856-1338

Carmichael Limited Partnership (“Carmichael LP”)

The hydroelectric facility of Carmichael LP is located in northern Ontario. Carmichael LP directly owns Carmichael Falls, a 20 MW generating station on Groundhog River. Carmichael LP is held 99.99% by Great Lakes Power Trust, a wholly-owned subsidiary of Great Lakes Hydro Income Fund, and 0.01% by its general partner, Carmichael GP Inc., which is also wholly-owned by Great Lakes Power Trust. Carmichael LP is a licensed generator pursuant to licence EG-2006-0070.

Address:

Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Brookfield Energy Marketing LP (“BEMLP”)

Brookfield Energy Marketing LP (“BEMLP”), located in Gatineau, Quebec, is a limited partnership which acts in the same capacity as BEMI. Brookfield Wind is its sole limited partner holding a 99.999% interest and BEMI is its general partner with a 0.001% interest. BEMLP is a licensed energy wholesale marketer under OEB licence EW-2005-0300.

Address:

480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

MAPS OF GLPL DISTRIBUTION SYSTEM

Map "AB-10000, GLP Area Overview" contains a legend to provide context as to the location of the rest of the maps included with respect to the GLPL Distribution System. An index of these maps is set out below. The maps are provided in Folder 1 of the accompanying CD-ROM.

Please refer to the legend to determine the location of land areas depicted on the other maps of GLPL's Distribution System.

Map No.	Description
AB-10000	GLP Area Overview
DG-30106	Town of Wawa
DG-30110	Wawa Michipicoten
DG-30249	Hawk Junction, Goudreau, Lochalsh, Missinabie
DG-30305	Montreal River Area
DG-30444	Goulais Bay Area
DG-30445	Batchawana Bay Area
DG-35203	Garden River & Bar River Areas
DG-35204	Desbarats & Bruce Mines Areas
DG-35205	St. Joseph's Island

SUMMARY OF EXHIBIT D

The purpose of this summary is to describe the nature of the evidence and materials that are set out in Exhibit D and how this evidence relates to the broader Omnibus Application that these materials have been filed in connection with.

The materials included in Exhibit D are filed strictly in connection with:

- the application for an electricity distribution licence by Great Lakes Power Distribution Inc. (“GLPDI”) under s. 57 of the *Ontario Energy Board Act, 1998* (“OEB Act”), and
- a request by Great Lakes Power Limited (“GLPL”) pursuant to s. 77(5) of the OEB Act for cancellation of its electricity distribution licence (ED-2008-0343).

The licence application and the request for cancellation are being filed in connection with an Omnibus Application, the central element of which is an application under s. 86 of the OEB Act related to an internal reorganization involving the transfer of distribution assets (the “MAAD Application”). The Omnibus Application also includes various requests and applications that are ancillary to the internal reorganization. The primary purpose of the Omnibus Application, and particularly the MAAD Application, is to support the efforts of GLPL and its affiliates to ensure compliance with section 71 of the OEB Act.

The MAAD Application, which is provided at **Exhibit B, Tab 1, Schedule 2**, is brought by GLPL, a licensed distributor (ED-2008-0343) under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system assets to Great Lakes Power Distribution Inc. (“GLPDI”). This is referred to throughout the MAAD Application as the “Asset Sale Transaction”. This transaction is depicted in Figure 3 of Appendix C to this Exhibit. The Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business.

Upon the closing of the Asset Sale Transaction, GLPDI will own GLPL's distribution facilities and will require a distribution licence to own and operate the facilities. Accordingly, GLPDI's completed Application for Electricity Distribution Licence is provided at **Exhibit D, Tab 1, Schedule 2**, with supporting materials provided in the remaining schedules within Exhibit D. The licence application is in respect of the same distribution facilities that are currently the subject of GLPL's MAAD Application, as well as GLPL's electricity distribution licence ED-2008-0343. It is important to note the timing of the effective date of GLPDI's proposed licence. As indicated, the licence is to be *effective on the date of closing of the Asset Sale Transaction*.

A copy of GLPL's current licence is provided at **Exhibit D, Tab 1, Schedule 5**. GLPL's request to cancel ED-2008-0343 pursuant to s. 77(5) of the OEB Act, *effective upon the closing of the Asset Sale Transaction*, is provided at **Exhibit D, Tab 1, Schedule 10**.

In addition to GLPDI's s. 57 electricity distribution licence application and GLPL's s. 77(5) request to cancel its current distribution licence, both of which are described above, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application and internal reorganization:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the Distribution System by GLPDI (see **Exhibit C** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to Great Lakes Power Transmission L.P. ("GLPTLP") effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and transmitter the Omnibus Application includes an application by GLPTLP under s. 74 of the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

To facilitate review of the materials in Exhibit D, the following background information on the broader Omnibus Application provided as appendices to this summary:

- Exhibit List (**Appendix A**);
- Application (**Appendix B**); and
- Summary of the Application (**Appendix C**).

APPENDIX A

Exhibit List

APPENDIX B

Application

APPENDIX C

Summary of the Application

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APPENDIX A
Exhibit List

EXHIBIT LIST

Ex. Tab Sch. Contents of Schedule

A - ADMINISTRATIVE

A	1	1	Exhibit List
		2	Application
		3	Summary of the Application
		4	Orders Sought

B - MAAD APPLICATION – SECTIONS 86(1)(a) & 86(2)

B	1	1	Summary of Exhibit B ▪ Appendix A – Exhibit List ▪ Appendix B – Application ▪ Appendix C – Summary of the Application
		2	Preliminary Filing Requirements for Applications under Section 86 of the <i>Ontario Energy Board Act, 1998</i>
		3	Description of the Distribution Facilities
		4	Corporate Charts for the Parties and Their Electricity Sector Affiliates
		5	Description of GLPL's Electricity Sector Affiliates
		6	Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates
		7	GLPL Distribution's 2007 and 2008 Financial Statements
		8	GLPDI's 2009 and 2010 Pro-Forma Financial Statements
		9	Brookfield Asset Management's 2007 and 2008 Annual Reports

C - NOTICE OF PROPOSAL – SECTION 81

- C 1 1 Summary of Exhibit C
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Preliminary Filing Requirements for a Notice of Proposal under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*
- 3 Description of the Distribution Facilities
- 4 Corporate Charts for the Parties and Their Electricity Sector Affiliates
- 5 Description of GLPL’s Electricity Sector Affiliates
- 6 Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates

D - APPLICATION FOR GLPDI’S DISTRIBUTION LICENCE (SECTION 57) & REQUEST TO CANCEL GLPL DISTRIBUTION LICENCE (SECTION 77(5))

- D 1 1 Summary of Exhibit D in the Context of the Omnibus Filing
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 *Application for Electricity Distribution Licence*
- 3 Description of the Distribution Facilities
- 4 Maps of the Geographic Territories Served by the Distribution System
- 5 GLPL’s Electricity Distribution Licence
- 6 Description of GLPDI’s Electricity Sector Affiliates
- 7 Corporate Charts for the Applicant and its Electricity Sector Affiliates
- 8 GLPL Distribution’s 2007 and 2008 Financial Reports

- 9 GLPDI's 2009 and 2010 Pro-Forma Financial Statements
- 10 Request to Cancel Distribution Licence
 - Appendix A – Distribution Licence
 - Appendix B – Application
 - Appendix C – Summary of the Application

E - REQUEST TO TRANSFER BOARD ORDERS AND APPROVALS – SECTION 18

- E 1 1 Summary of Exhibit E
 - Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 GLPL's Current Distribution Rate Order
- 3 GLPL's Customer Delivery Point Performance Standards (CDPPS) Approval
- 4 GLPL's Customer Connections Procedures (CCP) Approval

F - APPLICATION TO AMEND GLPTLP'S TRANSMISSION LICENCE (SECTION 74) & REQUEST TO CANCEL GLPL'S TRANSMISSION LICENCE (SECTION 77(5))

- F 1 1 Summary of Exhibit F in the Context of the Omnibus Filing
 - Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Licence Amendment Application
- 3 GLPTLP's Current Electricity Transmission Licence
- 4 Description of the Transmission Facilities
- 5 Description of GLPTLP's Electricity Sector Affiliates
- 6 Corporate Charts for the Applicant and its Electricity Sector

Affiliates

- 7 GLPL Transmission's 2007 and 2008 Financial Statements
- 8 Maps of the Geographic Territories Served by GLPTLP's
Transmission Facilities
- 9 Single-line Diagram of the Transmission Facilities
- 10 Request to Cancel Transmission Licence
 - Appendix A – Transmission Licence
 - Appendix B – Application
 - Appendix C – Summary of the Application

APPENDIX B

Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

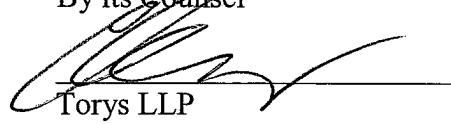
and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.

By its Counsel

A handwritten signature in black ink, appearing to be 'C. Keizer', is written over a horizontal line.

Torys LLP

per Charles Keizer

APPENDIX C

Summary of the Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

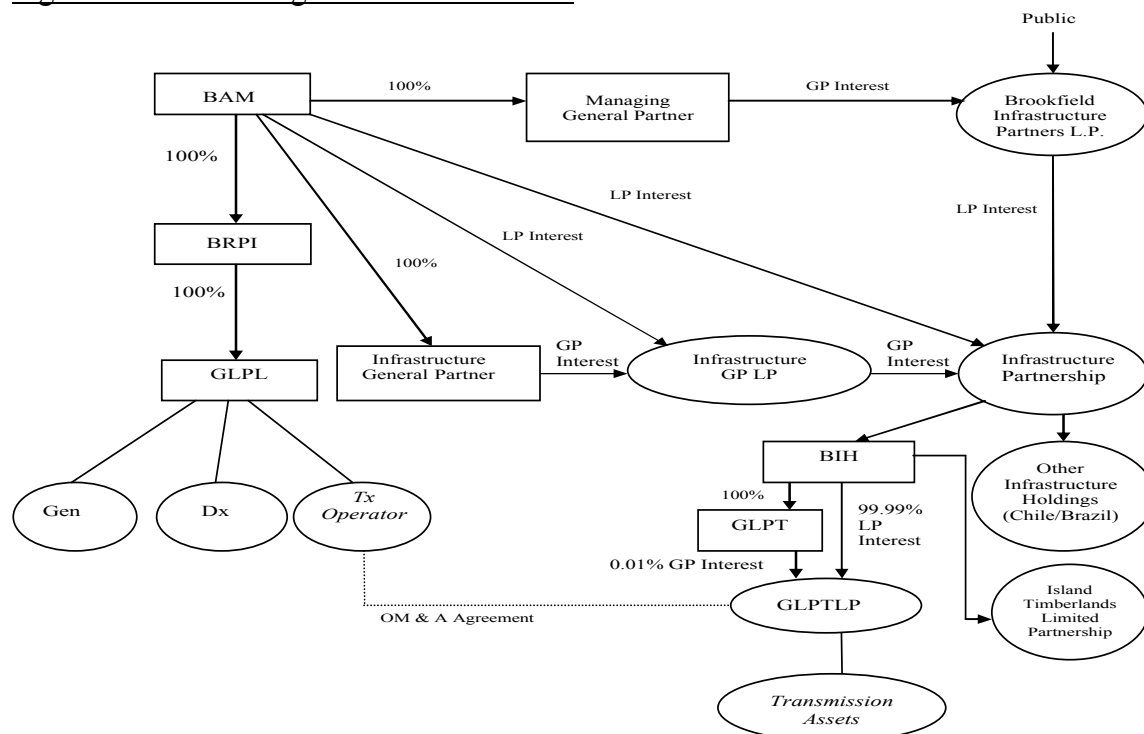


Figure 2: Current Organizational Structure Relating to GLPL

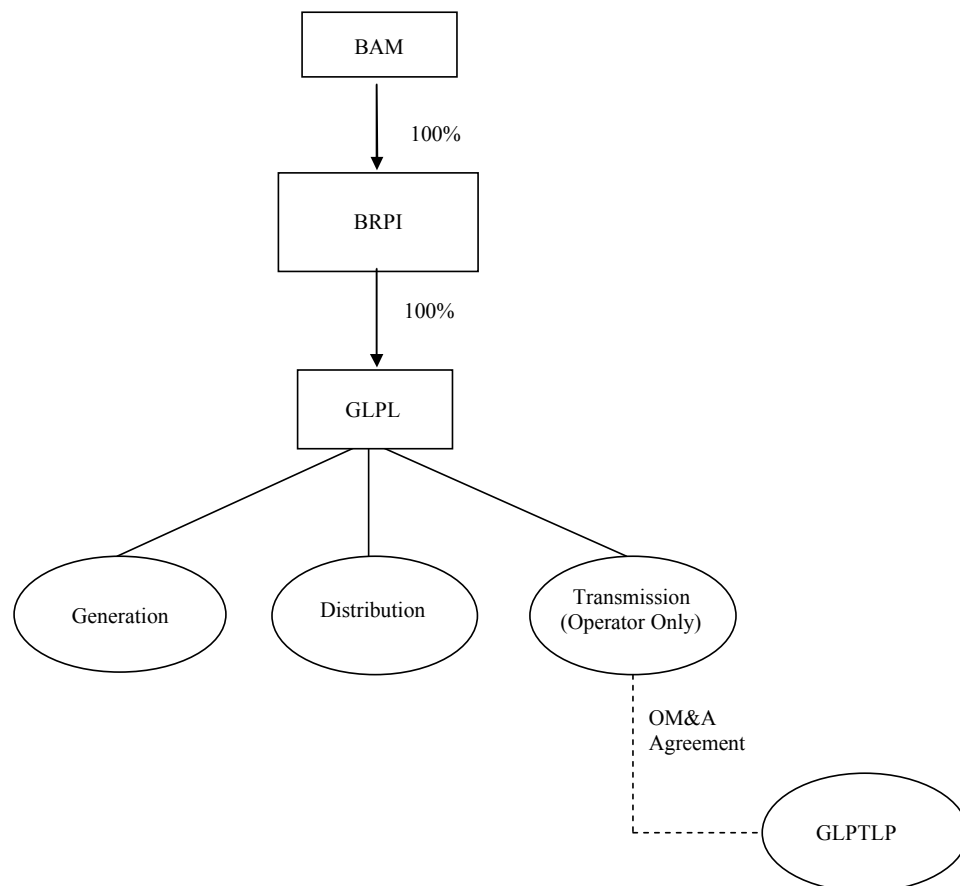
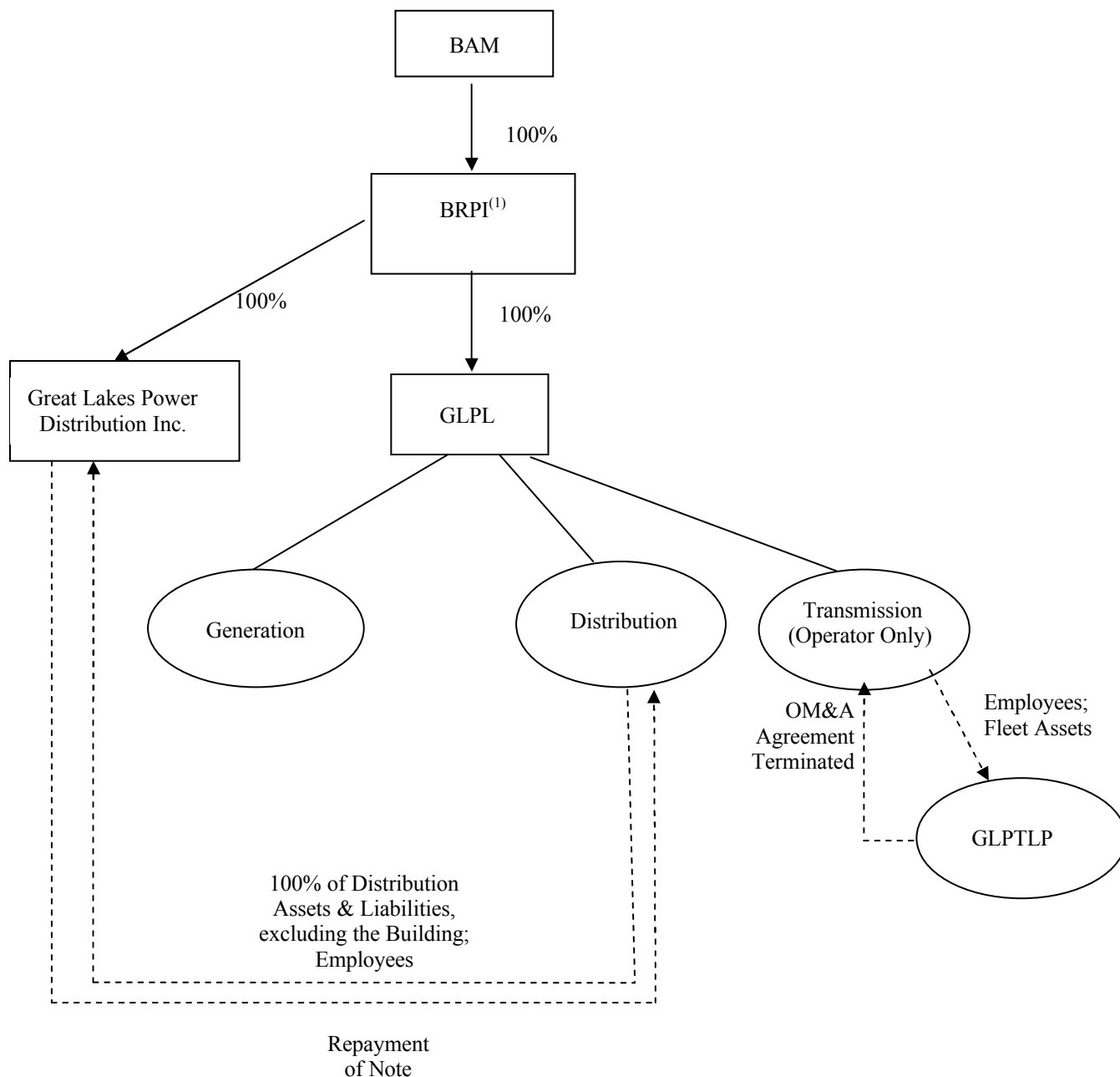


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

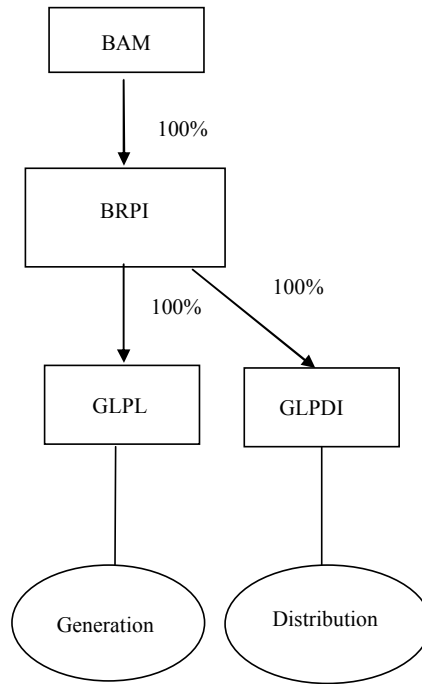
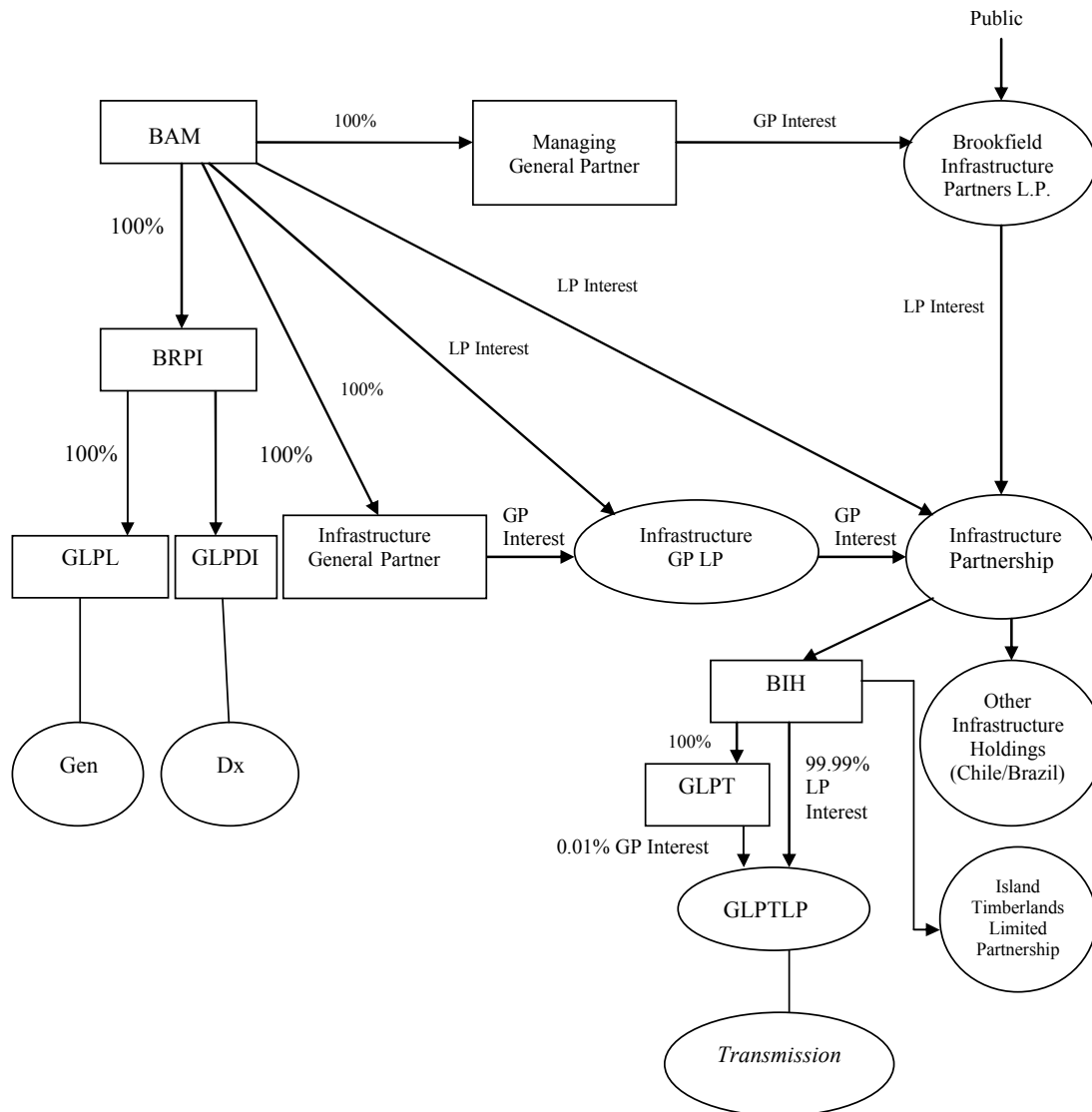


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.



Ontario Energy Board
Commission de l'Énergie de l'Ontario

**Application for Electricity
Distribution Licence**

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'énergie de
l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Telecopieur: (416) 440-7656

For Office Use Only	
Application Number	
Date Received	

A. General information

1. Type of Application

New licence	☒
Renewal	☐
Amendment to an existing Licence	☐

2. Ownership/Operation

Please indicate whether the Application is for:

- ☒ Ownership and Operation of a distribution system
- ☐ Ownership of a distribution system only. Please provide the name and licence no., if any, of the operator of the distribution system?
- ☐ Operation of a distribution system only. Please provide the name and licence no., if any, of the owner of the distribution system?

3. Applicant

Please provide the following information about the Applicant:

Full Legal Name of Applicant Great Lakes Power Distribution Inc. ("GLPDI")	Ontario Corporation Number 002196355	Date of Incorporation January 26, 2009	
Business Address: 2 Sackville Road			
City Sault Ste. Marie	Province Ontario	Country Canada	Postal/Zip Code P6B 6J6
Phone Number (705) 759-7600	FAX Number (705) 941-5600	E-Mail Address (if applicable)	

Primary Contact for this Application

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other:	Last Name: Lavoie	Full First Name: Tim	Initial:
	Position Held: General Manager		
Contact Address (if R.R., give Lot, Concession No. and Township) 2 Sackville Road			
City Sault Ste. Marie	Province Ontario	Country Canada	Postal/Zip Code P6B 6J6
Phone Number (705) 759-7600	FAX Number (705) 941-5600	E-mail Address (if applicable) tlavoie@glp.ca	

5. Service Area

Please indicate the location (name of municipality or unorganized territory) of the Applicant's distribution facilities and provide a description of the extent (size, length, coverage) of the distribution facilities involved in this Application. This description will be used for the purpose of stating a service area in which the licensee would be authorized to distribute electricity:

A description of the distribution facilities, including the size, length and coverage of the system, is provided at **Exhibit D, Tab 1, Schedule 3**.

The location of GLPDI's distribution facilities is the same as the location of the distribution facilities previously owned and operated by Great Lakes Power Ltd. ("GLPL"), which is depicted in the maps provided at **Exhibit D, Tab 1, Schedule 4**. GLPDI is acquiring the distribution system in its entirety from GLPL, as described in the omnibus application described at **Exhibit D, Tab 1, Schedule 1, Appendix C**. This licence application is one component of the omnibus application.

~~Facilities Use~~

Please indicate whether the distribution facilities are for exclusive use by the Applicant.

Yes

☐

No

☒

Distribution Facilities Information

7. Facilities Type

- ☐ Please indicate whether the Applicant's distribution facilities are: New assets to be constructed?

Proposed In-service date: _____

If Applicant is to be the owner, please attach a statement explaining the financing arrangements.

- ☐ Existing assets presently owned and/or operated by the Applicant?

- ☒ Existing assets not presently owned and/or operated by the Applicant (ie to be purchased)?

If Applicant is to be the owner please indicate:

a) from whom assets will be purchased:

As described in **Exhibit D, Tab 1, Schedule 1, Appendix C**, GLPDI will be acquiring the distribution assets from GLPL as part of an internal reorganization for purposes of achieving full compliance with s. 71 of the OEB Act.

b) when application for sale has/will be filed with the Board:

The application for sale was filed with the Board concurrent with this application, as part of the omnibus application described at **Exhibit D, Tab 1, Schedule 1, Appendix C**.

- ☐ Other (please describe):

8. Facilities Purpose

Please indicate the intended purpose(s) of the Applicant's distribution facilities:

- ☐ To provide a connection between a generator and a transmission/distribution system.
- ☐ To provide a connection between a transmission/distribution system and a load customer or customers.
- ☐ To provide a connection between a generator and a load customer or customers.
- ☒ To provide distribution services to the general public.
- ☐ Other (please describe):

9. Description of Facilities

Please describe the Applicant's distribution facilities indicating operating voltage(s) (kV), length of distribution line (km), number of substations and approximate total supply capacity (MW):

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault St. Marie serving approximately 11,600 customers. It consists of 1,705 pole km of lines and 1,823 circuit km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations. GLPDI's distribution business was, at the time the Application was filed, owned and operated by GLPL pursuant to licence ED-2008-0343, which is provided at **Exhibit D, Tab 1, Schedule 5**.

10. Location of Facilities

Please indicate whether the distribution facilities will be located on, over or under public streets or highways.

Yes No
☒ ☐

C. Supporting Information Organizational Information

11. Business Classification

Sole Proprietor	☐
Partnership	☐
Corporation	☒
Other	☐

12. Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant (attach a copy of 12(a) for each affiliate).

Full Legal Name of Affiliate Company: The affiliates of the Applicant are identified in **Exhibit D, Tab 1, Schedule 6**.

Business Address:

City	Province	Country	Postal/Zip Code
Tel. Number	FAX Number	E-Mail Address (if applicable)	

Description of Business Activities:

Descriptions of the business activities for the affiliates of the Applicant are provided in **Exhibit D, Tab 1, Schedule 6**.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Corporate charts for the Applicant and its affiliates are provided at **Exhibit D, Tab 1, Schedule 7**.

13. Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction?

Yes

No



Company Name	Business Activity	Licence No.
Great Lakes Power Limited	Generator	EG-2003-0175
Great Lakes Power Limited	Transmitter	ET-2008-0342
Great Lakes Power Limited	Distributor	ED-2008-0343
Great Lakes Power Transmission LP	Transmitter	ET-2007-0649
Brookfield Energy Marketing Inc.	Wholesaler	EW-2005-0471
Brookfield Energy Marketing Inc.	Retailer	ER-2005-0440
Brookfield Energy Marketing LP	Wholesaler	EW-2005-0300
Brookfield Power Wind Corporation	Generator	EG-2004-0426
Valerie Falls Limited Partnership	Generator	EG-2003-0177
Mississagi Power Trust	Generator	EG-2002-0276
Lake Superior Power Limited Partnership	Generator	EG-2003-0176
Beaver Power Corporation	Generator	EG-2002-0408
Carmichael Limited Partnership	Generator	EG-2006-0070
Algonquin Power (Nagagami) Limited Partnership	Generator	EG-2006-0072
Brookfield Power Wind Prince LP	Generator	EG-2006-0130

Company Name	Jurisdiction	Business Activity	Licence / Registration No.
Brookfield Energy Marketing Inc.	Canada and U.S.	Wholesaler	
Waltham Power and Company, Limited Partnership	Quebec	Generator	
Coulonge Power and Company, Limited Partnership	Quebec	Generator	
Lievre Power L.P.	Quebec	Generator	
Great Lakes Hydro America, LLC	U.S.	Generator	
Pontook Operating Limited Partnership	U.S.	Generator	
Brassua Hydroelectric Limited Partnership	U.S.	Generator	
Errol Hydroelectric Co., LLC	U.S.	Generator	
Catalyst Old River Hydroelectric Limited Partnership	U.S.	Generator	
Powell River Energy Inc.	British Columbia	Generator	
Pingston Power Inc. (operated by Pingston Creek Hydro Joint Venture)	British Columbia	Generator	
Erie Boulevard Hydropower, L.P.	U.S.	Generator	
Carr Street Generating Station, L.P.	U.S.	Generator	
Hydro Kennebec L.P.	U.S.	Generator	
West Delaware Hydro Associates L.P.	U.S.	Generator	
Hawks Nest Hydro LLC	U.S.	Generator	
Bear Swamp Power Company LLC	U.S.	Generator	
Brookfield Power Piney & Deek Creek LLC	U.S.	Generator	
Rumford Falls Hydro LLC	U.S.	Generator	
Brookfield Energy Marketing US LLC	U.S.	Marketer	

Technical Capability and Experience Information

14. Business Activities

Please provide a description of the Applicant's business activities:

GLPDI proposes to own and operate the distribution system that, at the time this Application was filed, was owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance and operation of the distribution system will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL ownership.

15. Technical Ability

b) Please describe the applicant's technical ability to carry out the activities applied for including the Applicant's specific experience in Ontario and in other jurisdictions.

GLPDI proposes to own and operate the distribution system that, at the time this Application was filed, was owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance and operation of the distribution system will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL ownership, and with the same technical abilities.

Other than various subcontracts that GLPDI may pursue from time to time, GLPDI will be ultimately responsible for carrying out and completing the activities listed in (b), below.

b) If the Applicant intends to utilize the capability of others by contracting distribution activities, please indicate below which activities and to whom they will be contracted:

☐	Design	Contracted to:
☐	Construction	Contracted to:
☐	Inspection & Maintenance	Contracted to:
☐	Operation	Contracted to:
☐	Customer Connection	Contracted to:
☐	Standard Supply Service	Contracted to:
☐	Metering & Metering Services	Contracted to:
☐	Settlement & Billing	Contracted to:
☐	Other (describe):	Contracted to:

6. Information About Each Key Individual

Information sheets for all directors and officers of GLPDI are provided in **Appendix A** to this schedule.

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name:	Full First Name:	Initial:
Position Held:			
Please explain the person's experience in the electrical distribution business and in the energy field in general.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> . Yes No			
If yes, provide business names and licence number(s) and describe the individuals specific related experience. ☐ ☐			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes No			
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience. ☐ ☐			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes No			
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence. ☐ ☐			

Financial Information

18. Financial Statements

Please attach financial statements of the Applicant for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information.

The Applicant is a newly created corporation and, as such, does not have financial statements for prior years. Accordingly, please find the 2007 financial statements for GLPL's distribution business at **Exhibit D, Tab 1, Schedule 8**. A copy of the 2008 audited financial statements for GLPL's distribution business will be filed when it becomes available.

Other Information

18. Delivery

Please indicate whether the Applicant's distribution facilities are to be used to deliver electricity to one or more parties other than the Applicant. If yes, please provide the following information:

Yes No

☒ ☐

- a) if the purpose of the Applicant's distribution facilities is to provide distribution services to specific generators or load customers rather than the general public (see question #8) please indicate the names of these participants:

Not applicable.

/ a summary of the business plans relating to the Applicant's proposed distribution business for the next five years. This should include the following:

- a forecast of annual growth in terms of factors such as the amount of electricity distributed (MW and/or MWH), number of customers served, amount of distribution facilities (lines and/or stations), etc.
- annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based.

The operation of the distribution system that is the subject of this application is not a new venture. It was previously owned and operated by GLPL. Business plans will continue as contemplated by GLPL in its 2007 Cost of Service application (Board File Number EB-2007-0744). The decision of the Board in EB-2007-0744 was released on October 30, 2008.

Under a separate application made pursuant to Section 18 of the OEB Act, GLPL has sought approval to transfer, to GLPDI, GLPL's rate order in EB-2007-0744. That application is part of the omnibus application described at **Exhibit D, Tab 1, Schedule 1, Appendix C**.

GLPDI pro forma financial statements are provided at **Exhibit D, Tab 1, Schedule 9**.

- c) estimates of net annual cash flows for subsequent periods to demonstrate financial feasibility and security.

See the response to (b) above.

- d) indication of the Applicant's plans to seek Ontario Energy Board approval for electricity distribution rates.

See the response to (b) above.

19. Proposed Business Transactions

Please provide a brief summary of the expected impact of the proposed business transactions on the Ontario electricity market under the following headings

a) Facilitate competition and enhance access to transmission/distribution services:

Not applicable.

b) Improve reliability and quality of supply:

Not applicable.

c) Promote economic and energy efficiency:

Not applicable.

20. Electricity Sector Activities

Please indicate whether the Applicant intends to be involved with electricity sector activities in the Ontario market other than distribution and provision of Standard Supply Service?

Buy or Sell (Wholesale) electricity

Yes No
☐ ☒

Transmit electricity

☐ ☒

Retail electricity

☐ ☒

Generate electricity

☐ ☒

If yes to any of the above:

a) If affiliates have not yet been established, please indicate when this is planned: _____

b) Has the Applicant or an affiliate applied for Ontario Energy Board Licences? If no, when planned?

Yes No
☐ ☐

D. Notice and Consent for Ontario Board to Collect Additional Information

AS REQUIRED BY THE FREEDOM OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY ACT

In order to complete or verify the information provided on this form, it may be necessary for the Ontario Energy Board to collect additional information from some or all of the following sources: federal, provincial/state and municipal governments; licensing bodies; banks; professional and industry associations; and former and current employers. **Only information relevant to your application will be collected.**

The public official who can answer questions about the collection of information is:

Board Secretary
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto, Ontario M4P 1E4

Note: The issuance of an electricity distribution licence does not guarantee accreditation by the IESO, or connection to a transmission or distribution system.

NOTE: This application must be signed by the proprietor or by at least one partner, officer or director of the organization.

WARNING: It is an offence to knowingly provide false information on this application.

Yes ☐

I/We consent to the collection of this information as authorized under the Ontario *Energy Board Act*, 1998.

Yes ☐

I/We understand that this information will be used to determine whether I am/we are and remain qualified for the licence for which I am/we are applying.

Print Name and Title

Signature of Applicant(s)

Date Signed

Tim Lavoie
General Manager



2009/03/05

E. Acknowledgement of Market Rules, Codes and Conditions

NOTE: This acknowledgement must be signed by the proprietor or by at least one partner, officer or director of the organization.

I understand and acknowledge that, as a licenced electricity distributor, I will be required, unless otherwise exempted: •To provide non-discriminatory access to all persons wishing to connect to the distribution system.

To comply with all licence conditions including the provisions of:

- Affiliate Relationships Code for Electricity Distributors and Transmitters
- Distribution System Code
- Retail Settlement Code
- Standard Supply Service Code
- Retail Metering Code
- Market Rules made under section 32 of the *Electricity Act, 1998*.

Print Name and Title

Tim Lavoie
General Manager

Signature of Applicant(s)



Date Signed

2009/03/05

CHECKLIST

Have You:

1.	Properly and fully completed this form? (Illegible, incomplete or improperly completed forms do not qualify for registration and will be delayed or returned.)	☐
2.	Enclosed a cheque or money order payable to the ONTARIO ENERGY BOARD in the amount prescribed (\$800.00 Cdn.)?	☐
3.	Attached Section D , the signed "Notice and Consent" form, as specified?	☐
4.	Attached Section E, the "Acknowledgement" form, as specified?	☐
5.	Submitted two copies of the application?	☐

Please send the completed form and all attachments to:

Board Secretary
Ontario Energy Board
2300 Yonge Street
P.O. Box 2319 , 26th Floor
Toronto, ON M4P 1E4

NOTE: You are not required to return the cover page or this checklist to the Ontario Energy Board.

APPENDIX A

SECTION 16 INFORMATION SHEETS FOR KEY INDIVIDUALS

APPENDIX A

SECTION 16 INFORMATION SHEETS FOR KEY INDIVIDUALS

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Carruthers	Full First Name: Basil	Initial:
Position Held: Director			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> .		Yes ☒	No ☐
If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Carruthers is a director of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342).			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?		Yes ☒	No ☐
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Carruthers is a director of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342).			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?		Yes ☐	No ☒
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Legault	Full First Name: Richard	Initial:
Position Held: President and Chief Executive Officer			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. If yes, provide business names and licence number(s) and describe the individuals specific related experience.		Yes ☒ No ☐	
Mr. Legault is a director and/or officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI), as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.		Yes ☒ No ☐	
Mr. Legault is a director and/or officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI), as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.		Yes ☒ No ☐	
Mr. Legault was a director and an officer of Superior Wind Prince Power Inc. ("SWPPI") (OEB Licence EG-2005-0265). SWPPI's licence was intentionally cancelled by an affiliate, because its licence was not serving any purpose. Prior to the cancellation, SWPPI had been part of an amalgamation of three companies and the assets owned by SWPPI were transferred to a newly licensed company. The cancellation became effective on November 22, 2006.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Goldgut	Full First Name: Harry	Initial:
Position Held: Director			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
c) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> .			Yes ☒ No ☐
If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Goldgut is a director and/or officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI) as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
d) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?			Yes ☒ No ☐
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Goldgut is a director and/or officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI) as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?			Yes ☒ No ☐
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			
Mr. Goldgut was a director of Superior Wind Prince Power Inc. ("SWPPI") (OEB Licence EG-2005-0265). SWPPI's licence was intentionally cancelled by an affiliate, because its licence was not serving any purpose. Prior to the cancellation, SWPPI had been part of an amalgamation of three companies and the assets owned by SWPPI were transferred to a newly licensed company. The cancellation became effective on November 22, 2006.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Kress	Full First Name: Ed	Initial:
Position Held: Director			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
e) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. If yes, provide business names and licence number(s) and describe the individuals specific related experience.			Yes ☒ No ☐
Mr. Kress is a director of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI) as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
f) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			Yes ☒ No ☐
Mr. Kress is a director of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI) as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? If yes, please provide company name and describe the situation, including the jurisdiction and type of licence. Mr. Kress was a director of Superior Wind Prince Power Inc. ("SWPPI") (OEB Licence EG-2005-0265). SWPPI's licence was intentionally cancelled by an affiliate, because its licence was not serving any purpose. Prior to the cancellation, SWPPI had been part of an amalgamation of three companies and the assets owned by SWPPI were transferred to a newly licensed company. The cancellation became effective on November 22, 2006.			Yes ☒ No ☐

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Tremblay	Full First Name: Donald	Initial:
Position Held: Executive Vice President			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Tremblay is an officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI) as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Tremblay is an officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI) as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☒ No ☐ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence. Mr. Tremblay was an officer of Superior Wind Prince Power Inc. ("SWPPI") (OEB Licence EG-2005-0265). SWPPI's licence was intentionally cancelled by an affiliate, because its licence was not serving any purpose. Prior to the cancellation, SWPPI had been part of an amalgamation of three companies and the assets owned by SWPPI were transferred to a newly licenced company. The cancellation became effective on November 22, 2006.			

Information About Each Key Individual

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☒ Other: _____	Last Name: Bood	Full First Name: Patricia	Initial: E
Position Held: Vice President and Secretary			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Ms. Bood is an officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI), as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Ms. Bood is an officer of all of the affiliated companies (or their general partner in the case of limited partnership) listed in Exhibit B (Description of Ontario Electricity Sector Affiliates of GLPL & BRPI), as well as of GLPL, BRPI and other affiliates of BRPI operating in jurisdictions other than Ontario.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☒ No ☐ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence. Ms. Bood was an officer of Superior Wind Prince Power Inc. ("SWPPI") (OEB Licence EG-2005-0265). SWPPI's licence was intentionally cancelled by an affiliate, because its licence was not serving any purpose. Prior to the cancellation, SWPPI had been part of an amalgamation of three companies and the assets owned by SWPPI were transferred to a newly licensed company. The cancellation became effective on November 22, 2006.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Lavoie	Full First Name: Tim	Initial:
Position Held: General Manager			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. If yes, provide business names and licence number(s) and describe the individuals specific related experience.		Yes ☒ No ☐	
Mr. Lavoie is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342).			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.		Yes ☒ No ☐	
Mr. Lavoie is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342).			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.		Yes ☐ No ☒	

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Faught	Full First Name: Mark	Initial:
Position Held: Business Controller			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Faught is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342).			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Faught is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342).			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☒ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Rosenthal	Full First Name: Jeff	Initial:
Position Held: Chief Operating Officer, Canadian Transmission and Distribution			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
b) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Rosenthal is an officer of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342) and until June 2008 was an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342).			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Rosenthal is an officer of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342) and until June 2008 was an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342).			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☒ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Fecteau	Full First Name: Duane	Initial:
Position Held: Director of Administration			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
c) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> .			Yes ☒ No ☐
If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Fecteau is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342).			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?			Yes ☒ No ☐
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Fecteau is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Transmission Inc. (ET-2007-0649 and EB-2008-0342).			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?			Yes ☐ No ☒
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

DESCRIPTION OF DISTRIBUTION FACILITIES

Subject to the exceptions described below, the Distribution Facilities include all property and assets, whether real, personal or mixed, tangible or intangible, of every kind and description, wherever located, that are owned or leased by Great Lakes Power Limited ("GLPL") and are related to, or used or required in respect of the distribution business, including all of GLPL's right, title and interest in and to the following assets:

- The 1705 pole kilometers of lines and 1823 circuit kilometers of lines of voltages ranging from 2.4 kV up to 44 kV currently operated by Great Lakes Power Limited ("GLPL"), including all lines, poles, wires and associated equipment and property;
- The real property including all plant, buildings, structures, improvements and fixtures (including all fixed machinery and fixed equipment) located thereon or forming part thereof (collectively, the "Owned Property");
- All easements, licences and permits relating to the distribution business (collectively, the "Real Property Rights");
- All subtransmission distribution stations used in connection with the distribution business, and all associated equipment and property;
- All warranties and all contracts, agreements and other legally binding instruments which have been entered into by GLPL in respect of the distribution business (collectively, the "Contracts");
- All trade accounts receivable and all trade debts due or accruing due to GLPL in respect of the distribution business;
- All plans, research, work, reports, studies, applications, documentation and material prepared by or for the benefit of GLPL in respect of the distribution business;
- All trade marks and trade mark applications, trade names, certification marks, patents and patent applications, copyrights, know-how, formulae, processes, inventions, technical expertise, research data, trade secrets, industrial designs and other similar property related to or used in respect of the distribution business;
- All inventories, work in process, raw materials, spare parts and other materials and supplies related to the distribution business; and
- All business and financial records and systems, including all accounting systems, lists of customers and suppliers, surveys, plans and specifications relating to the transmission business, and all operating manuals, engineering standards and specifications and other information used or required to effectively conduct the distribution business or operate the Distribution Facilities or any of them.

Exceptions

The Distribution Facilities do not include:

- The building at 2 Sackville Road, Sault Ste. Marie, which currently houses GLPL's transmission and distribution employees; and
- Some fleet vehicles.

MAPS OF GLPL DISTRIBUTION SYSTEM

Map "AB-10000, GLP Area Overview" contains a legend to provide context as to the location of the rest of the maps included with respect to the GLPL Distribution System. An index of these maps is set out below. The maps are provided in Folder 1 of the accompanying CD-ROM.

Please refer to the legend to determine the location of land areas depicted on the other maps of GLPL's Distribution System.

Map No.	Description
AB-10000	GLP Area Overview
DG-30106	Town of Wawa
DG-30110	Wawa Michipicoten
DG-30249	Hawk Junction, Goudreau, Lochalsh, Missinabie
DG-30305	Montreal River Area
DG-30444	Goulais Bay Area
DG-30445	Batchawana Bay Area
DG-35203	Garden River & Bar River Areas
DG-35204	Desbarats & Bruce Mines Areas
DG-35205	St. Joseph's Island



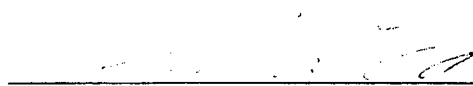
Electricity Distribution Licence

ED-2008-0343

Great Lakes Power Limited

Valid Until

February 2, 2011


Jennifer Lea
Counsel, Special Projects
Ontario Energy Board
Date of Issuance: February 2, 2009

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th. Floor
Toronto, ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

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Great Lakes Power Limited
Electricity Distribution Licence ED-2003-0343

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1 **Definitions**

In this Licence:

"Accounting Procedures Handbook" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"Act" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"Affiliate Relationships Code for Electricity Distributors and Transmitters" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"distribution services" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"Distribution System Code" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"Electricity Act" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"Licensee" means Great Lakes Power Limited

"Market Rules" means the rules made under section 32 of the Electricity Act;

"Performance Standards" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"Rate Order" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"regulation" means a regulation made under the Act or the Electricity Act;

"Retail Settlement Code" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"service area" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"Standard Supply Service Code" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"wholesaler" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:
- a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;
 - b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and
 - c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
- a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

- b) the Distribution System Code;
- c) the Retail Settlement Code; and
- d) the Standard Supply Service Code.

5.2 The Licensee shall:

- a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:

- a) the building lies along any of the lines of the distributor's distribution system; and
- b) the owner, occupant or other person in charge of the building requests the connection in writing.

- 7.2 The Licensee shall make an offer to connect a building to its distribution system if:

- a) the building is within the Licensee's service area as described in Schedule 1; and
- b) the owner, occupant or other person in charge of the building requests the connection in writing.

- 7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

- 7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

- 8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

- 9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

- 10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

- 11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

- 12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

- 13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.
- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.
- 15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

- 16.1 The Licensee shall:
- a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
 - b) publish information which will make its customers aware of and help them to use its dispute resolution process;
 - c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
 - d) give or send free of charge a copy of the process to any person who reasonably requests it; and
 - e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

- 17.1 This Licence shall take effect on February 2, 2009 and expire on February 1, 2011. The term of this Licence may be extended by the Board.

18 Fees and Assessments

- 18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

- 19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.
- 19.2 All official communication relating to this Licence shall be in writing.
- 19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:
- a) when delivered in person to the addressee by hand, by registered mail or by courier;
 - b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
 - c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

- 20.1 The Licensee shall:
- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The Licensee is licensed in respect to the geographic area comprised of the following list of townships:

Memaskwosh	Wishart	Miskokomon
Alanen	Herrick	Dulhut
Charbonneau	Tilley	Nebon
Dahl	Marne	Laronde
Dumas	Havilland	Redsky
Finan	Shields	Allouez
Riggs	Kars	Stone
Rennie	Vankoughnet	Alaire
Keating	Hodgins	Barager
Knically		Bray
Leclaire	Aweres	Broome
Aguonie	Anderson	Goodwillie
Bruyere		Grootenboer
Legarde Add'l	Garden River Reserve IR14	Labonte
Levesque	Chesley Add'l	Peever
Menzies	Aberdeen	Raatlaub
Corbiere		Smilsky
Debassige	Tarbutt & Tarbutt Add'l	Tronsen
Echum	Plummer Add'l	Nicolet
Warpula	Rose	Olsen
Michipicoten	St. Joseph	Palmer
Fiddler	Jocelyn	Brule
Keesickquayash	Ashley	Fisher
Groseilliers	Chapais	Archibald
Bostwick	Dambrossio	Ley
Lastheels		Tupper
Michano	Jacobson	Gaudette
Nadjiwon	West	Fenwick
Rabazo	Stover	Deroche

Nebonaionquet	Killins	Whitman
Peterson	Lalibert	Pennefather
Restoule	Abotossaway	Jarvis
Tieman	Bird	Chesley
Stoney	Copenace	Noganosh
Asselin	Legarde	Pawlis
Barnes	Macaskill	Quill
Brimacombe	Musquash	Giles
Bullock	Cowie	Rix
Greenwood	Dolson	Duncan
Labelle	St. Germain	Kehoe
Larson	Andre	MacDonald, Meredith & Aberdeen Add'l
Home	Esquega	Galbraith
Slater	Isaac	Laird
Tolmonen	Laforme	Johnson
Kincaid	Franchere	
Norberg	Michipicoten	Hilton
Ryan	Maness	Morin

2. Concessions 3, 4 and 5 of the Township of Dennis;
3. Approximately forty (40) square kilometres at the western limit of the former Township of Thessalon;
4. 5 rural customers in Kirkwood Township supplied off two short line taps into the Township;
5. Plus the following locations within the City of Sault Ste. Marie:
 - (a) 45 Third Line West as at March 14, 2003, excluding those areas of land within 45 Third Line West that are serviced by PUC Distribution Inc. (PUC) as identified in PUC's distribution licence, those being:
 - the areas of land on which the facilities on the northeast corner of 45 Third Line West are located, namely the "gatehouse" and "office";
 - (b) 77 Third Line West as at July 9, 2004;
 - (c) 3 Sackville Road;

- (d) 150 Conmee Avenue;
- (e) 429 Hudson Street, excluding those areas within 429 Hudson Street that are serviced by PUC as identified in PUC's distribution licence, those being:
 - (i) the area of land on which the facility near the northwest corner of Hudson Street and Wellington Street West is located, namely the "yard office";
 - (ii) the area of land on which the facility near the junction of Hudson Street and St. George Avenue West is located, namely the "skimmer shack";
and
 - (iii) the area of land on which the railroad crossing signals are located, near the junction of Hudson Street and St. Andrew Terrace; and
- (g) 2 Sackville Road.

The service area excludes the following locations west of Thessalon on the north side of Hwy. 17 which are supplied by Hydro One Networks Inc.:

- (a) 12564 Highway 17 West
- (b) 12600 Highway 17 West

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity

consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

**DESCRIPTION OF ONTARIO ELECTRICITY SECTOR AFFILIATES OF
GREAT LAKES POWER DISTRIBUTION INC**

Great Lakes Power Limited ("GLPL")

GLPL is a licensed generator and distributor of electricity pursuant to licences EG-2003-0175 and ED-2008-0343. GLPL is also a licensed transmission operator of the transmission system owned by Great Lakes Power Transmission LP, mentioned below, pursuant to operator licence ET-2008-0342. GLPL is owned 100% by BRPI.

GLPL's distributor licences (ED-1999-0277) and its transmission licence (ET-2002-0247) both expired on December 31, 2008. The Board granted GLPL an interim distributor licence (ED-2008-0343) and an interim transmission licence (ET-2008-0342).

GLPL's generation business consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. The generating stations are located on four river systems.

Address:
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6
Phone: 705-759-7600
Fax : 705-941-5600

Brookfield Asset Management Inc. ("BAM")

BAM is focused on property, power and infrastructure assets, with approximately US\$90 billion of assets under management. BAM's securities trade on the Toronto, New York and Euronext Amsterdam stock exchanges under the symbol BAM.A, BAM and BAMA respectively. BAM is the ultimate parent company to the electricity sector affiliates mentioned below.

Address:
Brookfield Place, Suite 300
181 Bay Street
Toronto, Ontario
M5J 2T3
Phone: 416-363-9491
Fax: 416-365-9642

Brookfield Renewable Power Inc. (“BRPI”)

BRPI, wholly-owned by BAM, has more than 100 years of experience as an owner, operator and developer of hydroelectric power facilities. Its total portfolio includes more than 160 generating facilities with approximately 4,000 megawatts of capacity. It also has a significant hydroelectric and wind project pipeline. BRPI's operations are primarily located in North America and Brazil and held through various subsidiaries. Some of its assets are owned through Great Lakes Hydro Income Fund, a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN).

Address:

480 Boulevard de la Cité
Gatineau, Québec
J8T 8R3
Ph: 819-561-2722
Fax: 819-561-7188

Great Lakes Power Transmission Inc. (“GLPT”)

GLPT is the general partner of Great Lakes Power Transmission LP (“GLPTLP”), a limited partner that owns transmission facilities in Northern Ontario that are operated by Great Lakes Power Limited (“GLPL”). GLPT and GLPTLP are indirect subsidiaries of Brookfield Infrastructure Partners L.P. (“BIP”). BAM is a major shareholder of BIP. BIP has securities trading on the New York Stock Exchange under the symbol BIP. GLPT is a licensed transmitter on behalf of GLPTLP pursuant to transmission licence ET-2007-0649. GLPL operates the GLPTLP transmission facilities pursuant to operator licence EB-2008-0342.

Address:

2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6
Phone: 705-759-7600
Fax: 705-941-5600

Brookfield Energy Marketing Inc. (“BEMI”)

BEMI, located in Gatineau, Quebec, is wholly owned by BRPI and conducts most of BRPI's wholesale energy marketing business in Canada and the United States. It manages the scheduling of BRPI's generating assets, sells power into the applicable wholesale electricity markets and enters into short-term financial contracts and power purchase agreements on behalf of the relevant entities. BEMI is a licensed energy wholesale marketer and retailer under OEB licences EW-2005-0471 and ER-2005-0440.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Brookfield Power Wind Prince LP ("BPWP LP")

BPWP LP owns the Prince Wind Energy Project, a wind farm west of Sault Ste. Marie located in the townships of Dennis, Pennefather, Korah, Aweres and Prince, in the District of Algoma in the Province of Ontario. It is owned by BRPI's publicly traded subsidiary, Great Lakes Hydro Income Fund. It is a licensed electricity generator (EG-2006-0130).

Address:
Ontario Wind Operations
400 Allen Side Road
Sault Ste. Marie, Ontario
P6A 6K4
Phone: 705-941-5659
Fax: 705-946-5574

Brookfield Power Wind Corporation ("Brookfield Wind")

Brookfield Wind has been actively involved in the development of wind power projects in Ontario for many years. Brookfield Wind is a licensed electricity generator (EG-2004-0426), but does not currently have any operating generation.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Valerie Falls General Partner Limited (“Valerie GP”)

Valerie GP is the general partner of Valerie Falls Limited Partnership (“Valerie LP”), a limited partnership generating electricity through its 10 MW hydroelectric station on the Seine River at Valerie Falls, three miles north of Atikokan in northwestern Ontario. Valerie GP is a licensed generator on behalf of Valerie LP pursuant to licence EG-2003-0177. Brookfield Renewable Power holds a 65% controlling interest in Valerie GP. The other 35% interest in Valerie GP is held by Seine River Power Inc. (“Seine”), a wholly owned subsidiary of Brookfield Renewable Power. Valerie LP is held 99.99% by Brookfield Renewable Power and 0.01% by Valerie GP.

Address:

Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Mississagi Power Trust (“MPT”)

MPT generates electricity through four hydroelectric facilities: the Aubrey Falls Generating Station, the George W. Rayner Generating Station, the Wells Generating Station and the Red Rock Falls Generating Station. It is owned by Brookfield Renewable Power’s publicly traded subsidiary, Great Lakes Hydro Income Fund. MPT is a licensed generator pursuant to OEB licence EG-2002-0276.

Address:

Mississagi Operations
R.R. #3, 4917 Highway 129
Thessalon, Ontario
P0R 1L0
Phone: 705-842-3377
Fax: 705-842-2086

Lake Superior Power Inc. (“LSPI”)

LSPI’s cogeneration facility is located in Sault Ste. Marie, Ontario. Lake Superior Power Limited Partnership (“Lake Superior Power LP”) is a limited partnership formed to develop and operate a 110 MW natural gas-fired cogeneration plant in Sault Ste. Marie, Ontario. Brookfield Renewable Power is the sole limited partner in the Lake Superior Power LP. The general partner is LSPI, which holds a 1% interest in the project. Brookfield Renewable Power is the sole shareholder of LSPI. LSPI is a licensed generator on behalf of Lake Superior Power LP pursuant to OEB licence EG-2003-0176.

Address:
Lake Superior Operations
102 West Street, P.O. Box 1198
Sault Ste. Marie, Ontario
P6A 5N7
Phone: 705-942-8804
Fax: 705-942-8939

Beaver Power Corporation (“Beaver Power”)

The hydroelectric facilities of Beaver Power are located in northern Ontario. Beaver Power directly and indirectly owns three run-of-river hydro-electric generating facilities. It directly owns the Serpent River Project (7 MW) and the Aux Sables Project (4 MW). It also holds a 99.99% limited partnership interest in Algonquin Power (Nagagami) Limited Partnership (“Algonquin LP”) which owns the Nagagami Project (19 MW). The remaining 0.01% of Algonquin LP is held by Algonquin Power General Partner (Nagagami) Inc. (“Algonquin GP”), which is 75% held by Algonquin Power Financial Services (Nagagami) Inc., which is a wholly owned subsidiary of Beaver Power. The balance of Algonquin GP is held by the Matawa First Nations Economic Development Corporation.

Beaver Power and Algonquin LP are licensed generators pursuant respectively to licences EG-2002-0408 and EG-2006-0072.

Address (Serpent River & Aux Sables Projects): Mississagi Operations R.R. #3, 4917 Highway 129 Thessalon, Ontario P0R 1L0 Phone: 705-842-3377 Fax: 705-842-2086	Address (Nagagami Project): Wawa Hydro Operations 105 Mills Drive, P.O. Box 320 Wawa, Ontario P0S 1K0 Phone: 705-856-2632 Fax: 705-856-1338

Carmichael Limited Partnership (“Carmichael LP”)

The hydroelectric facility of Carmichael LP is located in northern Ontario. Carmichael LP directly owns Carmichael Falls, a 20 MW generating station on Groundhog River. Carmichael LP is held 99.99% by Great Lakes Power Trust, a wholly-owned subsidiary of Great Lakes Hydro Income Fund, and 0.01% by its general partner, Carmichael GP Inc., which is also wholly-owned by Great Lakes Power Trust. Carmichael LP is a licensed generator pursuant to licence EG-2006-0070.

Address:
Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Brookfield Energy Marketing LP (“BEMLP”)

Brookfield Energy Marketing LP (“BEMLP”), located in Gatineau, Quebec, is a limited partnership which acts in the same capacity as BEMI. Brookfield Wind is its sole limited partner holding a 99.999% interest and BEMI is its general partner with a 0.001% interest. BEMLP is a licensed energy wholesale marketer under OEB licence EW-2005-0300.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

ONTARIO OPERATIONS - CORPORATE STRUCTURE - CURRENT



(2) Brookfield Renewable Power Inc. owns 46.21% of GLHIF, but through its shares of Great Lakes Power Holding Corporation, which shares are exchangeable on a one-for-one into trust units of the Fund, on a fully exchanged basis, Brookfield Renewable Power holds a 50.01% ownership interest in the Fund.

Financial Statements

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
December 31, 2007



Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6151
www.deloitte.ca

Auditors' Report

To the Directors of
Great Lakes Power Limited

We have audited the balance sheet of Great Lakes Power Limited Distribution Division (the "Division") as at December 31, 2007 and the statements of capital account, operations and comprehensive loss, and cash flows for the year then ended. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Division as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
March 14, 2008

Member of
Deloitte Touche Tohmatsu

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
BALANCE SHEET
As at December 31

<i>thousands of CDN dollars</i>	<i>Notes</i>	2007	2006
Assets			
Current assets			
Cash		\$ 100	\$ 1,215
Accounts and interest receivable	9	6,007	7,053
Due from related parties	5	1,781	657
Prepaid expenses and other		118	85
Materials and supplies		1,301	1,280
		9,307	10,290
Regulatory assets	9	1,265	1,266
Rate mitigation accrual	9, 12	13,690	11,070
Property, plant and equipment	6	57,503	52,467
		\$ 81,765	\$ 75,093
Liabilities and Capital Account			
Current liabilities			
Accounts and other payables		\$ 3,527	\$ 3,910
Taxes payable		4,474	4,356
		8,001	8,266
Due to related parties	5	19,313	12,394
Regulatory liabilities	9	767	560
Operating debt facility	5	12,000	12,000
Capital debt facility	5	20,500	20,500
		60,581	53,720
Capital account		21,184	21,373
		\$ 81,765	\$ 75,093

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
STATEMENT OF CAPITAL ACCOUNT
Year ended December 31

<i>thousands of CDN dollars</i>	2007	2006
Balance, beginning of year	\$ 21,373	\$ 21,630
Net loss	(189)	(257)
Balance, end of year	\$ 21,184	\$ 21,373

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS
Year ended December 31

<i>thousands of CDN dollars</i>	<i>Notes</i>	2007	2006
Revenues		\$ 13,182	\$ 12,885
Operating expenses			
Operating and administration		4,768	4,881
Depreciation		3,559	3,465
Maintenance		3,368	2,871
Taxes, other than income taxes		320	348
		1,167	1,320
Expenses			
Interest, net	5	1,257	1,178
Loss on disposal of property, plant and equipment		22	155
Income taxes - current		77	244
		1,356	1,577
Net loss and comprehensive loss		\$ (189)	\$ (257)

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION
STATEMENT OF CASH FLOWS
Year ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Operating activities			
Net loss		\$ (189)	\$ (257)
Items not affecting cash			
Depreciation		3,559	3,465
Loss on disposal of property, plant and equipment		22	155
Net change in non-cash working capital and other	8	(10,884)	(3,681)
		(7,492)	(318)
Investing activities			
Due from related party		(1,150)	-
Additions to property, plant and equipment		(8,872)	(7,051)
		(10,022)	(7,051)
Financing activities			
Due to related parties		16,399	7,998
		16,399	7,998
Increase in cash		(1,115)	629
Cash, beginning of year		1,215	586
Cash, end of year		\$ 100	\$ 1,215
Supplementary Information			
Income taxes paid during the year		\$ -	\$ -

See accompanying notes to the financial statements.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on the basis that the Distribution Division (the "Division") of Great Lakes Power Limited operates as a separate legal entity. The Division is engaged in the distribution of electricity to the area adjacent to Sault Ste. Marie, Canada and is subject to the regulations of the Ontario Energy Board (the "OEB"). These divisional statements have been prepared, for the purpose of complying with Section 2.1.6 of the Electricity Reporting and Record Keeping Requirements, in accordance with the accounting principles prescribed in the OEB Accounting Procedures Handbook (the "OEB Handbook") and, in circumstances where the OEB Handbook is not prescriptive, in accordance with Canadian generally accepted accounting principles. These financial statements do not include all of the assets, liabilities, revenues and expenses of Great Lakes Power Limited ("GLPL").

The following accounting policies have been applied in the preparation of these financial statements:

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Depreciation has been calculated on the cost of the distribution assets on a straight-line basis at rates prescribed in the OEB Handbook as follows:

	Method	Rate
Buildings	Straight-line	5 to 50 years
Equipment	Straight-line	5 to 25 years
Distribution stations, towers and related fixtures	Straight-line	25 to 40 years

Impairment of long lived assets

The Division reviews long-lived assets for other than temporary impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The determination of whether impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. Should an asset be considered to be impaired, an impairment loss is recognized in an amount equal to the excess of the asset's carrying value over its fair value.

Pension and Employee Future Benefits

The cost of retirement benefits for the Division's defined benefit pension plan and post-employment benefits is recognized as the benefits are earned by employees. The Division uses the projected benefit method pro-rated on the length of service and management's best estimate assumptions to value its pension and other retirement benefits. Assets are valued at fair value for purposes of calculating the expected return on plan assets. Past service costs resulting from plan amendments are being amortized on a linear basis over the average remaining service period of active members expected to receive the benefits under the plan. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan. The average remaining service lives under the defined benefit pension plan as at December 31, 2007 varies from 12.0 to 16.0 years (2006 – 12.0 to 16.5 years). The average remaining service

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

life under the post-employment benefit plan as at December 31, 2007 is 17.0 years (2006 – 17.0 years).

Capitalization of Interest

Interest on funds used during construction is charged to construction work in progress at the prescribed rate of return applicable to the rate base.

Revenue recognition

Revenue from the delivery of electricity is recorded on a basis of cyclical billings and includes unbilled revenue accrued in respect of electricity delivered but not yet billed.

Purchased power

Purchased power represents all pass through charges billed to the Division by the Independent Electricity System Operator ("IESO"). This expense is comprised of Energy, Transmission, and Wholesale Market Service charges.

Interest expense

Interest expense has been calculated using the approved rate order debt amounts and rates.

Income taxes

The Division's income taxes are calculated on a separate tax return basis. However, GLPL was managing its tax position for the benefit of its business as a whole, and its tax strategies are not necessarily reflective of the tax strategies that the Division would have followed as a stand-alone company.

Use of estimates

The preparation of financial statements in conformity with the accounting principles prescribed in the OEB handbook and Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. During the years presented, management has made a number of estimates and valuation assumptions including accruals, depreciation, asset impairment and those relevant to the defined benefit pension plan. 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 estimates.

Rate Regulation

On January 1, 2005, the Division adopted CICA Handbook Accounting Guideline 19, "Disclosure by Entities Subject to Rate Regulation". The Division is regulated by the OEB. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred costs will be recovered in the future, the Division may defer these costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

future, the Division reports a regulatory liability. Also, if the regulation provides for lesser or greater planned revenue to be received or returned by the Division through future rates, the Division recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities are subject to certain estimates and assumptions, including assumptions made in the interpretation of the relevant regulation.

2. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Division adopted the following new accounting standards for Canadian generally accepted accounting principles:

Handbook Section 1530, Comprehensive Income

This section establishes standards for reporting and presenting comprehensive income (loss), which is defined as the change in owners' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income (loss) until it is considered appropriate to recognize such amounts into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. There was no impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

Handbook Section 3251, Equity

The Division adopted Section 3251, Equity replacing Section 3250, Surplus. This section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive Income. There was no impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

Handbook Section 3855, Financial Instruments – Recognition and Measurement

Under Section 3855, all financial instruments are classified as one of the following: held-for-trading, held-to-maturity investments, loans and receivables, other financial liabilities, or available-for-sale financial assets. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost using the effective interest method of amortization. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

The Division has implemented the following classification:

- (a) Cash is designated as a financial asset held-for-trading and is measured at fair value through net income at each period end.
- (b) Accounts receivable, interest receivable and due from related parties are classified as loans and receivables. Accounts and other payables and due to related parties are classified as other financial liabilities. These accounts are measured at fair value at inception and are subsequently measured at amortized cost.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

- (c) The operating and capital debt facilities are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost.

There was no material impact on the Division's financial statements as a result of the adoption of the above accounting standard.

3. FUTURE ACCOUNTING POLICY CHANGES

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation.

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

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

The Division does not expect the adoption of these new standards to have a material impact on the financial statements.

4. INCOME TAXES

The Division's future income tax liability of \$843 (2006 - \$1,183) as at December 31, 2007 and the Division's future income tax recovery of \$356 (2006 - recovery \$318) for the year ended December 31, 2007 have not been recorded in the financial statements. When unrecorded future income taxes become payable, it is expected that they will be included in the rates approved by the OEB and recovered from the customers of the regulated business at that time. As these financial statements report the results for the Division, the amounts presented for current income taxes represent the amounts that would be payable if the Division was a separate corporate entity.

5. RELATED PARTY TRANSACTIONS

- (a) The Division has provided advances to and received advances from entities under common control and other divisions of GLPL in the normal course of operations. These advances are non-interest bearing and unsecured. It is management's understanding that the advances due to related parties will not come due during the following year.
- (b) In the normal course of operations, Riskcorp Inc., a broker company affiliated with Brookfield Asset Management Inc., GLPL's ultimate parent, entered into transactions with GLPL to provide insurance. These transactions have been measured at exchange value. The total cost allocated

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

to the Division in 2007 for these services was \$111 (2006 - \$107) and no amount remains outstanding at year end (2006 - \$nil).

- (c) Operating debt facility in the amount of \$12,000 (2006 - \$12,000) represents funds due to another division of GLPL and is non-interest bearing, unsecured and due on demand. It is management's expectation that this loan will not come due during the following year.
- (d) Capital debt facility in the amount of \$20,500 (2006 - \$20,500) represents the amount of debt permitted under the application with the OEB, as adjusted, to be allocated to fund the ownership of property, plant and equipment and is unsecured. These funds are due to another division of GLPL. Interest charged to income on these funds is prescribed by regulation in the amount of 6.25% (2006 - 6.25%). Net interest expense on the capital debt facility during the year was as follows:

	2007	2006
Interest expense incurred	\$ 1,295	\$ 1,293
Capitalized interest	(38)	(115)
	\$ 1,257	\$ 1,178

- (e) As a result, the following balances are receivable (payable) at December 31:

	2007	2006
Advances to other divisions of GLPL	\$ 1,298	\$ 158
Advances to entities under common control	483	499
	\$ 1,781	\$ 657
Advances from other divisions of GLPL	\$ (19,285)	\$ (12,394)
Advances from entities under common control	(28)	-
	\$ (19,313)	\$ (12,394)

6. PROPERTY, PLANT AND EQUIPMENT

			2007	2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 842	\$ -	\$ 842	\$ 842
Buildings	7,236	2,201	5,035	5,157
Equipment	22,245	13,943	8,302	515
Distribution stations, towers and related fixtures	71,846	29,336	42,510	45,531
Capital work in progress	814	-	814	422
	\$ 102,983	\$ 45,480	\$ 57,503	\$ 52,467

Cost and accumulated depreciation as at December 31, 2006 were \$94,921 and \$42,454, respectively.

Throughout the year the Division disposed of assets for total net proceeds of \$nil, resulting in a loss on disposal of \$22.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

7. PENSION AND EMPLOYEE FUTURE BENEFITS

GLPL maintains a multiemployer registered defined benefit, final pay pension plan and an unfunded non-pension benefit plan (the "Plans") for all of its employees. The non-pension plan includes benefits such as health and dental care, retirement bonuses and life insurance. The obligation under these plans is determined periodically through the preparation of actuarial valuations. The benefit plan contribution allocated to the Division for 2007 was \$946 (2006 - \$783). The investment rate of return was 6.75% (2006 - 7.00%). The discount rate used was 5.25% (2006 - 5.00%) with a rate of compensation increase of 3.50% (2006 - 3.50%).

GLPL also offers a defined contribution pension plan to certain employees. GLPL contributes amounts based on the level of employee contributions for this plan.

The defined benefit pension plan and post employment benefits information provided in the following table relates to the consolidated financial statements of GLPL.

	2007		2006	
	Defined Benefit Pension Plan	Non-Pension Benefits Plan	Defined Benefit Pension Plan ¹	Non-Pension Benefits Plan
Weighted average assumptions				
Benefit obligation				
Discount rate	5.50%	5.50%	5.25%	5.25%
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Initial health care trend rate	-	5.91%	-	6.47%
Ultimate trend rate	-	4.27%	-	4.24%
Year ultimate rate reached	-	2016	-	2016
Benefit expense				
Discount rate	5.25%	5.25%	5.00%	5.00%
Long-term rate of return on plan assets	6.75%	-	7.00%	-
Rate of compensation increase	3.50%	3.50%	3.50%	3.50%
Initial health care trend rate	-	6.47%	-	6.69%
Ultimate trend rate	-	4.24%	-	4.24%
Year ultimate rate reached	-	2016	-	2016
Accrued benefit obligations				
Balance, beginning of year	\$ 49,771	\$ 7,598	\$ 46,974	\$ 11,890
Current service cost	979	304	947	280
Interest cost	2,700	435	2,362	384
Employee contributions	381	-	372	-
Net benefit payments	(2,521)	(261)	(1,943)	(234)
Actuarial (gain) loss	(308)	147	(1,627)	(4,722)
Balance, end of year	\$ 51,002	\$ 8,223	\$ 47,085	\$ 7,598

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2007

(in thousands of CDN dollars)

	2007		2006	
	Defined Benefit Pension Plan	Non-Pension Benefits Plan	Defined Benefit Pension Plan ¹	Non-Pension Benefits Plan
Fair value plan assets				
Balance, beginning of year	\$ 47,976	\$ -	\$ 43,550	\$ -
Employer contributions	2,398	261	1,583	234
Employee contributions	381	-	372	-
Actual return on plan assets	2,041	-	4,414	-
Benefits paid	(2,521)	(261)	(1,943)	(234)
Balance, end of year	\$ 50,275	\$ -	\$ 47,976	\$ -
Reconciliation of accrued benefit liability				
Plan (deficit) surplus	\$ (727)	\$ (8,223)	\$ 890	\$ (7,598)
Unamortized transitional obligation	3,342	3,989	1,549	4,487
Unamortized net actuarial loss (gain)	2,567	(1,421)	1,411	(1,583)
Valuation allowance	(252)	-	(227)	-
Accrued benefit asset (liability)	\$ 4,930	\$ (5,655)	\$ 3,623	\$ (4,694)
Expense				
Current service costs	\$ 979	\$ 304	\$ 947	\$ 280
Interest cost	2,700	435	2,362	384
Actual return on plan assets	(2,041)	-	(4,414)	-
Actuarial (gain) loss	(308)	147	(1,627)	(4,722)
Costs arising in the year	1,330	886	(2,732)	(4,058)
Differences between costs arising in the period and costs recognized in the period in respect of:				
Actuarial (gain) loss	308	(162)	1,627	4,691
Return on plan assets	(1,206)	-	1,367	-
Transitional obligation	520	499	310	499
Increase in valuation allowance provided against accrued benefit asset	26	-	227	-
Net expense	\$ 978	\$ 1,223	\$ 799	\$ 1,132

¹ The fiscal year ended December 31, 2006 figures did not include the GLPL Supplemental Plan. If this was included, the deficit would increase by \$2,685, unamortized transitional obligation would increase by \$2,313, the unamortized net actuarial loss would increase by \$258, and the accrued benefit asset would decrease by \$114.

The accrued benefit liability allocated to the Division as at December 31, 2007 and 2006 is \$280 and \$153, respectively and has been recorded in accounts and other payables.

In 2007, the total employer expense for the Division's defined contribution pension plan was \$128 (2006 - \$132).

Actuarial valuations

Actuarial valuations for these plans are required every three years. The most recent actuarial valuations for the pension and non-pension benefit plans ranged from June 1, 2006 to December 31, 2006. GLPL measures its accrued benefit obligations and the fair value of plan assets for

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

accounting purposes as at December 31 of each year. The valuations include an indexation of pension payments of 2.00% per year (2006 – 2.00% per year). GLPL may choose to perform valuations for these plans prior to the earliest required dates.

Sensitivity analysis

GLPL's sensitivity in the non-pension benefit plan to a 1% change in the health care cost trend rate, for the year ended December 31, 2007, is summarized as follows:

	Benefit Obligation	Benefit Expense
Impact of a 1% increase in health care cost trend rate	\$ 1,761	\$ 205
Impact of a 1% decrease in health care cost trend rate	\$ (1,350)	\$ (150)

Asset category

GLPL's defined benefit pension plan asset allocations at December 31, by asset category are as follows:

	2007	2006
Equity securities	60%	60%
Debt securities	40%	40%
Total	100%	100%

Cash payments

All employer contributions were fully paid during the year and as such, no balance owing remains outstanding as at year-end.

8. STATEMENT OF CASH FLOWS

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

	2007	2006
Accounts and interest receivable	\$ 1,046	\$ (621)
Due from related parties	26	(678)
Prepaid expenses and other	(33)	6
Materials and supplies	(21)	(213)
Long-term portion of rate mitigation accrual	(2,620)	(2,584)
Accounts and other payables	(128)	1,553
Due to related parties	(9,480)	-
Taxes payable	118	330
Regulatory assets and liabilities (net)	208	(1,474)
	\$ (10,884)	\$ (3,681)

Capital asset additions totaling \$773 which were included in accruals at December 31, 2006, have been included in the statement of cash flows for 2007, as they resulted in a cash outflow during the year. Similarly, capital asset additions totaling \$518 included in accruals at December 31,

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(In thousands of CDN dollars)

2007, have been excluded from the statement of cash flows for 2007, as they did not result in a cash outflow during the year.

9. EFFECTS OF RATE REGULATION

The Division operates in accordance with the regulations of the OEB. Regulatory assets and liabilities represent certain revenues earned or costs incurred in the current year or in prior years that have been or are expected to be recovered from customers upon approval from the OEB. In the absence of rate regulation, these balances would have been recorded as revenues or expenses in the statement of operations and other comprehensive loss.

The recovery period for these regulatory accounts is not determinable until the application filed by the Division on August 31, 2007 is approved by the OEB. The OEB has guaranteed approval of the variance accounts as per Article 490 of the Accounting Procedures Handbook.

a) The Division recorded the following regulatory assets and liabilities as at December 31:

	2007	2006
<i>Regulatory assets</i>		
OEB variance accounts	\$ 1,109	\$ 1,110
OEB cost assessment fees	156	156
	\$ 1,265	\$ 1,266
<i>Regulatory liabilities</i>		
Transition costs recovery	\$ 767	\$ 560
	\$ 767	\$ 560

OEB variance accounts

As prescribed by regulatory order, OEB variance accounts are used to record the net amounts charged by the IESO and the amount billed to customers, resulting in a regulatory asset or liability. These balances will be recovered or refunded through rates as approved by the OEB.

OEB cost assessment fees

As prescribed by regulatory order, this regulatory account relates to the recovery of cost assessment fees in 2004 and 2005. The recovery period for this balance is unknown at this time. This balance has been included with the 2007 rate application and upon approval, a recovery period will be determined. The risk of non-approval of this balance is negligible because this balance has been recorded as a regulatory asset as prescribed by regulatory order.

Transition costs recovery

As prescribed by regulatory order, this regulatory account relates to the recovery of certain allowed transition costs based on the OEB interim regulatory asset recovery order. During 2007, \$207 (2006 - \$295) was recovered relating to this account through rates. Upon approval from the OEB, this balance will be netted against property, plant and equipment.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

b) Rate mitigation accrual

The rate mitigation accrual relates to the return on equity portion of the revenue requirement from the 2002 rate application to the OEB. Distribution revenue in the amount of \$14,436 (2006 - \$11,927) has been accrued in accordance with the mitigation strategy submitted with the 2002 rate application, with the current portion in the amount \$1,066 (2006 - \$1,066) recorded in accounts and interest receivable. In 2007, \$320 (2006 - \$209) was included in the rate mitigation accrual relating to the cash shortfall that will be collected in future years due to the re-classification of customers to a class with a lower rate, as per the direction from the OEB. The application to the OEB to collect the accrual balance as at December 31, 2003 in the amount of \$4,053 has been approved and as of December 31, 2007, \$2,429 has been collected (2006 - \$1,470). On August 31, 2007, management filed an application to the OEB to continue recovery of its rate mitigation accrual balance up to the date the proposed rates become effective. This revenue has been accrued on the basis that it is collectible through future rates. Management assesses the collectibility of this amount periodically. Collectibility of this balance is supported by the fact that the OEB has approved the rate mitigation accrual at December 31, 2003 and therefore, management believes that the current balances will be approved by the OEB upon submission of the respective applications.

The methodology relating to the calculation of the rate mitigation accrual has been revised (change in accounting estimate). Refer to note 12 for more information.

c) Customer reclassification accrual

The customer reclassification accrual relates to a deficiency arising from the reclassification of one of the Division's customers. As prescribed by regulatory order (RP-2005-0013, EB-2005-0031), the Division is to record the deficiency and apply for recovery at a future date. In accordance with this order, distribution revenue in the amount of \$320 (2006 - \$209) has been recorded as part of the rate mitigation accrual.

10. FINANCIAL INSTRUMENTS

a) Fair value

The carrying amounts in the balance sheet of accounts and interest receivable, due from related parties, accounts and other payables, and taxes payable approximate their fair values, reflecting their short maturities.

The fair values of the operating and capital debt facilities with GLPL Investment Division and the amounts due to related parties are not determinable by management due to the related party nature of the balances.

b) Interest rate risk

The Division's capital debt facility debt bears interest at a rate set periodically by the OEB. Consequently, there is cash flow exposure.

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

(In thousands of CDN dollars)

c) Credit risk

Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Division would incur a loss in replacing the defaulted transaction. The Division's financial instruments that are potentially exposed to credit risks are accounts and interest receivable. The Division actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures.

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

11. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, the Division executes agreements that provide for indemnification and guarantees to third parties in transactions such as debt issuances. The nature of substantially all of the indemnification undertakings prevents the Division from making a reasonable estimate of the maximum potential amount the Division could be required to pay third parties as the agreements do not 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, the Division has not made significant payments under such indemnification agreements.

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

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

12. CHANGE IN ACCOUNTING ESTIMATE

The Division records the rate mitigation accrual using management's best estimate based on the latest available, reliable information. During 2007, management revised the methodology for recording the rate mitigation accrual to record a fixed annual amount, which places all volume variance risk on the Division. This method of estimation is generally accepted by the OEB.

The change in the accounting estimate for the recording of the rate mitigation accrual resulted in a change in the amount of the accrual recorded on the balance sheet during the year. The net effect of the difference of the change in estimate for the recording of the rate mitigation accrual for the current year is:

Accrual balance with revised estimate as of December 31, 2007	Balance with previous estimate as of December 31, 2007	Net effect
\$ 14,436	\$ 14,358	\$ (78)

GREAT LAKES POWER LIMITED DISTRIBUTION DIVISION NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

It is impracticable to estimate the net effect of the change in the accounting estimate on the future periods due to the outstanding rate application with the OEB.

GREAT LAKES POWER DISTRIBUTION

Pro-forma Statement of Income

Years ended December 31

	<i>Forecast</i>	<i>Forecast</i>
(dollars in thousands)	2010	2009
Revenues	\$ 17,614	\$ 17,630
Expenses		
Operating and administrative	6,191	6,011
Maintenance	3,634	3,528
Interest	2,725	2,378
Depreciation	4,560	3,876
Taxes, other than income taxes	220	283
	17,330	16,076
Net operating Income	284	1,554
Net income before income taxes	284	1,554
Income taxes - current	231	(267)
Net income	\$ 515	\$ 1,287

Income Tax Calculation		
EBT	\$ 284	\$ 1,554
add: Depreciation	4,560	3,876
less: CCA	(5,392)	(4,528)
less: Capitalized Interest	(152)	(106)
Taxable Income	(701)	796
Current Income Tax (33.5% & 33.0%)	\$ (231)	\$ 267

GREAT LAKES POWER DISTRIBUTION

Pro-forma Balance Sheet

December 31

(dollars in thousands)	Forecast 2010	Forecast 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 1,955	\$ 2,748
Accounts receivable	3,952	3,954
Prepaid expenses and other	100	100
Materials and supplies	1,206	1,206
	7,213	8,008
Regulatory asset	3,468	3,084
Rate mitigation accrual	13,127	14,440
Property, plant and equipment (Note 1)	77,440	66,772
	\$ 101,248	\$ 92,304

Liabilities and Capital account		
Current liabilities		
Accounts payable and accruals	\$ 3,566	\$ 3,333
	3,566	3,333
Capital debt facility (allocated debt)	44,673	38,977
	48,239	42,310
Capital account	53,009	49,994
	\$ 101,248	\$ 92,304

Notes:

- 1 Fixed Asset additions for 2009 are based on the division's 2009 Capital Expenditures budget. The 2010 Fixed Asset additions are based on the division's 20 year outlook.

GREAT LAKES POWER DISTRIBUTION

Pro-forma Statement of Retained Earnings

Years ended December 31

(dollars in thousands)	<i>Forecast 2010</i>	<i>Forecast 2009</i>
Balance, beginning of year	\$ 49,994	\$ 24,684
Net income	515	1,287
Dividends / investments (Note 1)	2,500	24,023
Balance, end of year	\$ 53,009	\$ 49,994

Note:

- 1 Dividends / Investment acts as a revolving debt that funds the capital spending and operations of the division.

GREAT LAKES POWER DISTRIBUTION

Pro-forma Statement of Cash Flows

Years ended December 31

(dollars in thousands)	<i>Forecast</i>	<i>Forecast</i>
	<i>2010</i>	<i>2009</i>
Operating activities		
Net Income	\$ 515	\$ 1,287
Add non cash item:		
Depreciation	4,560	3,876
Net change in non-cash working capital	1,164	6,931
	6,239	12,094
Investing activities		
Due from/(to) related parties	-	2,080
Proceeds on disposition of property, plant and equipment, net	-	4,889
Property, plant and equipment additions	(15,228)	(10,644)
	(15,228)	(3,675)
Financing activities		
Due to related parties	-	(26,949)
Operating debt facility	-	(12,000)
Capital debt facility (allocated debt)	5,696	2,977
Dividends / investments	2,500	24,023
	8,196	(11,949)
Increase (decrease)	(793)	(3,530)
Balance, beginning of year	2,748	6,278
Balance, end of year	\$ 1,955	\$ 2,748

REQUEST FOR LICENCE CANCELLATION

To: Ontario Energy Board

Attention: Ms. Kirsten Walli, Board Secretary

From: Great Lakes Power Limited

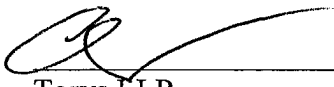
Re: *Request to Cancel Distribution Licence (ED-2008-0343)*

On behalf of Great Lakes Power Limited ("GLPL"), we are filing this request in connection with an omnibus application for leave to transfer GLPL's distribution system in its entirety to Great Lakes Power Distribution Inc. ("GLPDI"), along with various requests ancillary to this internal reorganization, all of which are necessary for GLPL and its affiliates to be compliant with section 71 of the *Ontario Energy Board Act* (the "Act").

Therefore, on behalf of GLPL, we are hereby requesting the cancellation of GLPL's electricity distribution licence ED-2008-0343 (the "Licence", which is attached as **Appendix A**) pursuant to subsection 77(5) of the Act, such *cancellation to become effective as of the closing of the asset sale transaction* in respect of which GLPL has sought leave under section 86(1)(a) as part of its omnibus application (the "Asset Sale Transaction"). The Asset Sale Transaction is described more particularly in the attached omnibus application (see **Appendix B**) and summary of the omnibus application (see **Appendix C**).

As described in Appendices B and C in the context of the omnibus application, an application has been made pursuant to section 57 of the Act for GLPDI to obtain an electricity distribution licence to allow it to own and operate the distribution system.

GLPL, by its Counsel



Torys LLP
per Charles Keizer

APPENDIX A

GLPL's Electricity Distribution Licence (ED-2008-0343)

APPENDIX B
Omnibus Application

APPENDIX C

Summary of the Omnibus Application

APPENDIX A

GLPL's Electricity Distribution Licence (ED-2008-0343)



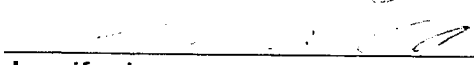
Electricity Distribution Licence

ED-2008-0343

Great Lakes Power Limited

Valid Until

February 2, 2011


Jennifer Lea
Counsel, Special Projects
Ontario Energy Board
Date of Issuance: February 2, 2009

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th. Floor
Toronto, ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

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1 Definitions

In this Licence:

"Accounting Procedures Handbook" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"Act" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"Affiliate Relationships Code for Electricity Distributors and Transmitters" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"distribution services" means services related to the distribution of electricity and the services the Board has required distributors to carry out, including the sales of electricity to consumers under section 29 of the Act, for which a charge or rate has been established in the Rate Order;

"Distribution System Code" means the code approved by the Board which, among other things, establishes the obligations of the distributor with respect to the services and terms of service to be offered to customers and retailers and provides minimum, technical operating standards of distribution systems;

"Electricity Act" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"Licensee" means Great Lakes Power Limited

"Market Rules" means the rules made under section 32 of the Electricity Act;

"Performance Standards" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"Rate Order" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"regulation" means a regulation made under the Act or the Electricity Act;

"Retail Settlement Code" means the code approved by the Board which, among other things, establishes a distributor's obligations and responsibilities associated with financial settlement among retailers and consumers and provides for tracking and facilitating consumer transfers among competitive retailers;

"service area" with respect to a distributor, means the area in which the distributor is authorized by its licence to distribute electricity;

"Standard Supply Service Code" means the code approved by the Board which, among other things, establishes the minimum conditions that a distributor must meet in carrying out its obligations to sell electricity under section 29 of the Electricity Act;

"wholesaler" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this Licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens and where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence:
- a) to own and operate a distribution system in the service area described in Schedule 1 of this Licence;
 - b) to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act in the manner specified in Schedule 2 of this Licence; and
 - c) to act as a wholesaler for the purposes of fulfilling its obligations under the Retail Settlement Code or under section 29 of the Electricity Act.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the licensee are set out in Schedule 3 of this Licence. The following Codes apply to this Licence:
- a) the Affiliate Relationships Code for Electricity Distributors and Transmitters;

- b) the Distribution System Code;
- c) the Retail Settlement Code; and
- d) the Standard Supply Service Code.

5.2 The Licensee shall:

- a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Obligation to Provide Non-discriminatory Access

- 6.1 The Licensee shall, upon the request of a consumer, generator or retailer, provide such consumer, generator or retailer with access to the Licensee's distribution system and shall convey electricity on behalf of such consumer, generator or retailer in accordance with the terms of this Licence.

7 Obligation to Connect

- 7.1 The Licensee shall connect a building to its distribution system if:

- a) the building lies along any of the lines of the distributor's distribution system; and
- b) the owner, occupant or other person in charge of the building requests the connection in writing.

- 7.2 The Licensee shall make an offer to connect a building to its distribution system if:

- a) the building is within the Licensee's service area as described in Schedule 1; and
- b) the owner, occupant or other person in charge of the building requests the connection in writing.

- 7.3 The terms of such connection or offer to connect shall be fair and reasonable and made in accordance with the Distribution System Code, and the Licensee's Rate Order as approved by the Board.

- 7.4 The Licensee shall not refuse to connect or refuse to make an offer to connect unless it is permitted to do so by the Act or a regulation or any Codes to which the Licensee is obligated to comply with as a condition of this Licence.

8 Obligation to Sell Electricity

- 8.1 The Licensee shall fulfill its obligation under section 29 of the Electricity Act to sell electricity in accordance with the requirements established in the Standard Supply Service Code, the Retail Settlement Code and the Licensee's Rate Order as approved by the Board.

9 Obligation to Maintain System Integrity

- 9.1 The Licensee shall maintain its distribution system in accordance with the standards established in the Distribution System Code and Market Rules, and have regard to any other recognized industry operating or planning standards adopted by the Board.

10 Market Power Mitigation Rebates

- 10.1 The Licensee shall comply with the pass through of Ontario Power Generation rebate conditions set out in Appendix A of this Licence.

11 Distribution Rates

- 11.1 The Licensee shall not charge for connection to the distribution system, the distribution of electricity or the retailing of electricity to meet its obligation under section 29 of the Electricity Act except in accordance with a Rate Order of the Board.

12 Separation of Business Activities

- 12.1 The Licensee shall keep financial records associated with distributing electricity separate from its financial records associated with transmitting electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

13 Expansion of Distribution System

- 13.1 The Licensee shall not construct, expand or reinforce an electricity distribution system or make an interconnection except in accordance with the Act and Regulations, the Distribution System Code and applicable provisions of the Market Rules.
- 13.2 In order to ensure and maintain system integrity or reliable and adequate capacity and supply of electricity, the Board may order the Licensee to expand or reinforce its distribution system in accordance with Market Rules and the Distribution System Code, or in such a manner as the Board may determine.

14 Provision of Information to the Board

- 14.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 14.2 Without limiting the generality of paragraph 14.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) days past the date upon which such change occurs.

15 Restrictions on Provision of Information

- 15.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.

- 15.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.
- 15.3 The Licensee may disclose information regarding consumers, retailers, wholesalers or generators where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 15.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 15.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information provided will not be used for any other purpose except the purpose for which it was disclosed.

16 Customer Complaint and Dispute Resolution

- 16.1 The Licensee shall:
- a) have a process for resolving disputes with customers that deals with disputes in a fair, reasonable and timely manner;
 - b) publish information which will make its customers aware of and help them to use its dispute resolution process;
 - c) make a copy of the dispute resolution process available for inspection by members of the public at each of the Licensee's premises during normal business hours;
 - d) give or send free of charge a copy of the process to any person who reasonably requests it; and
 - e) subscribe to and refer unresolved complaints to an independent third party complaints resolution service provider selected by the Board. This condition will become effective on a date to be determined by the Board. The Board will provide reasonable notice to the Licensee of the date this condition becomes effective.

17 Term of Licence

- 17.1 This Licence shall take effect on February 2, 2009 and expire on February 1, 2011. The term of this Licence may be extended by the Board.

18 Fees and Assessments

- 18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

- 19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.
- 19.2 All official communication relating to this Licence shall be in writing.
- 19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:
- a) when delivered in person to the addressee by hand, by registered mail or by courier;
 - b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
 - c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

- 20.1 The Licensee shall:
- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

SCHEDULE 1 DEFINITION OF DISTRIBUTION SERVICE AREA

This Schedule specifies the area in which the Licensee is authorized to distribute and sell electricity in accordance with paragraph 8.1 of this Licence.

1. The Licensee is licensed in respect to the geographic area comprised of the following list of townships:

Memaskwosh	Wishart	Miskokomon
Alanen	Herrick	Dulhut
Charbonneau	Tilley	Nebon
Dahl	Marne	Laronde
Dumas	Havilland	Redsky
Finan	Shields	Allouez
Riggs	Kars	Stone
Rennie	Vankoughnet	Alaire
Keating	Hodgins	Barager
Knicely		Bray
Leclaire	Aweres	Broome
Aguonie	Anderson	Goodwillie
Bruyere		Grootenboer
Legarde Add'l	Garden River Reserve IR 14	Labonte
Levesque	Chesley Add'l	Peever
Menzies	Aberdeen	Raaflaub
Corbiere		Smilsky
Debassige	Tarbutt & Tarbutt Add'l	Tronsen
Echum	Plummer Add'l	Nicolet
Warpula	Rose	Olsen
Michipicoten	St. Joseph	Palmer
Fiddler	Jocelyn	Brule
Keesickquayash	Ashley	Fisher
Groseilliers	Chapais	Archibald
Bostwick	Dambrossio	Ley
Lastheels		Tupper
Michano	Jacobson	Gaudette
Nadjiwon	West	Fenwick
Rabazo	Stover	Deroche

Nebonaionquet	Killins	Whitman
Peterson	Lalibert	Pennefather
Restoule	Abotossaway	Jarvis
Tieman	Bird	Chesley
Stoney	Copenace	Noganosh
Asselin	Legarde	Pawlis
Barnes	Macaskill	Quill
Brimacombe	Musquash	Giles
Bullock	Cowie	Rix
Greenwood	Dolson	Duncan
Labelle	St. Germain	Kehoe
Larson	Andre	MacDonald, Meredith & Aberdeen Add'l
Home	Esquega	Galbraith
Slater	Isaac	Laird
Tolmonen	Laforme	Johnson
Kincaid	Franchere	
Norberg	Michipicoten	Hilton
Ryan	Maness	Morin

2. Concessions 3, 4 and 5 of the Township of Dennis;
3. Approximately forty (40) square kilometres at the western limit of the former Township of Thessalon;
4. 5 rural customers in Kirkwood Township supplied off two short line taps into the Township;
5. Plus the following locations within the City of Sault Ste. Marie:
 - (a) 45 Third Line West as at March 14, 2003, excluding those areas of land within 45 Third Line West that are serviced by PUC Distribution Inc. (PUC) as identified in PUC's distribution licence, those being:
 - the areas of land on which the facilities on the northeast corner of 45 Third Line West are located, namely the "gatehouse" and "office";
 - (b) 77 Third Line West as at July 9, 2004;
 - (c) 3 Sackville Road;

- (d) 150 Conmee Avenue;
- (e) 429 Hudson Street, excluding those areas within 429 Hudson Street that are serviced by PUC as identified in PUC's distribution licence, those being:
 - (i) the area of land on which the facility near the northwest corner of Hudson Street and Wellington Street West is located, namely the "yard office";
 - (ii) the area of land on which the facility near the junction of Hudson Street and St. George Avenue West is located, namely the "skimmer shack"; and
 - (iii) the area of land on which the railroad crossing signals are located, near the junction of Hudson Street and St. Andrew Terrace; and
- (g) 2 Sackville Road.

The service area excludes the following locations west of Thessalon on the north side of Hwy.17 which are supplied by Hydro One Networks Inc.:

- (a) 12564 Highway 17 West
- (b) 12600 Highway 17 West

SCHEDULE 2 PROVISION OF STANDARD SUPPLY SERVICE

This Schedule specifies the manner in which the Licensee is authorized to retail electricity for the purposes of fulfilling its obligation under section 29 of the Electricity Act.

The Licensee is authorized to retail electricity directly to consumers within its service area in accordance with paragraph 8.1 of this Licence, any applicable exemptions to this Licence, and at the rates set out in the Rate Orders.

SCHEDULE 3 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the Licensee has been exempted.

The Licensee is exempt from the requirements of section 2.5.3 of the Standard Supply Service Code with respect to the price for small volume/residential consumers, subject to the Licensee offering an equal billing plan as described in its application for exemption from Fixed Reference Price, and meeting all other undertakings and material representations contained in the application and the materials filed in connection with it

APPENDIX A

MARKET POWER MITIGATION REBATES

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity

consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

ONTARIO POWER GENERATION INC. REBATES

For the payments that relate to the period from May 1, 2006 to April 30, 2009, the rules set out below shall apply.

1. Definitions and Interpretations

In this Licence

"embedded distributor" means a distributor who is not a market participant and to whom a host distributor distributes electricity;

"embedded generator" means a generator who is not a market participant and whose generation facility is connected to a distribution system of a distributor, but does not include a generator who consumes more electricity than it generates;

"host distributor" means a distributor who is a market participant and who distributes electricity to another distributor who is not a market participant.

In this Licence, a reference to the payment of a rebate amount by the IESO includes interim payments made by the IESO.

2. Information Given to IESO

- a Prior to the payment of a rebate amount by the IESO to a distributor, the distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with information in respect of the volumes of electricity withdrawn by the distributor from the IESO-controlled grid during the rebate period and distributed by the distributor in the distributor's service area to:
 - i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- b Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the embedded distributor shall provide the host distributor, in the form specified by the IESO and before the expiry of the period specified in the Retail Settlement Code, with the volumes of electricity distributed during the rebate period by the embedded distributor's host distributor to the embedded distributor net of any electricity distributed to the embedded distributor which is attributable to embedded generation and distributed by the embedded distributor in the embedded distributor's service area to:

- i consumers served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
 - ii consumers other than consumers referred to in clause (i) who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*.
- c Prior to the payment of a rebate amount by the IESO to a distributor which relates to electricity consumed in the service area of an embedded distributor, the host distributor shall provide the IESO, in the form specified by the IESO and before the expiry of the period specified by the IESO, with the information provided to the host distributor by the embedded distributor in accordance with section 2.

The IESO may issue instructions or directions providing for any information to be given under this section. The IESO shall rely on the information provided to it by distributors and there shall be no opportunity to correct any such information or provide any additional information and all amounts paid shall be final and binding and not subject to any adjustment.

For the purposes of attributing electricity distributed to an embedded distributor to embedded generation, the volume of electricity distributed by a host distributor to an embedded distributor shall be deemed to consist of electricity withdrawn from the IESO-controlled grid or supplied to the host distributor by an embedded generator in the same proportion as the total volume of electricity withdrawn from the IESO-controlled grid by the distributor in the rebate period bears to the total volume of electricity supplied to the distributor by embedded generators during the rebate period.

3. Pass Through of Rebate

A distributor shall promptly pass through, with the next regular bill or settlement statement after the rebate amount is received, any rebate received from the IESO, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt, to:

- a retailers who serve one or more consumers in the distributor's service area where a service transaction request as defined in the Retail Settlement Code has been implemented and the consumer is not receiving the prices established under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998*;
- b consumers who are not receiving the fixed price under sections 79.4, 79.5 and 79.16 of the *Ontario Energy Board Act, 1998* and who are not served by a retailer where a service transaction request as defined in the Retail Settlement Code has been implemented; and
- c embedded distributors to whom the distributor distributes electricity.

The amounts paid out to the recipients listed above shall be based on energy consumed and calculated in accordance with the rules set out in the Retail Settlement Code. These payments may be made by way of set off at the option of the distributor.

If requested in writing by OPGI, the distributor shall ensure that all rebates are identified as coming from OPGI in the following form on or with each applicable bill or settlement statement:

"ONTARIO POWER GENERATION INC. rebate"

Any rebate amount which cannot be distributed as provided above or which is returned by a retailer to the distributor in accordance with its licence shall be promptly returned to the host distributor or IESO as applicable, together with interest at the Prime Rate, calculated and accrued daily, on such amount from the date of receipt.

Nothing shall preclude an agreement whereby a consumer assigns the benefit of a rebate payment to a retailer or another party.

Pending pass-through or return to the IESO of any rebate received, the distributor shall hold the funds received in trust for the beneficiaries thereof in a segregated account.

APPENDIX B
Omnibus Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDF") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

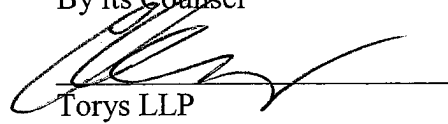
and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.

By its Counsel

A handwritten signature in black ink, appearing to be 'Charles Keizer', is written over a horizontal line.

Torys LLP

per Charles Keizer

APPENDIX C

Summary of the Omnibus Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

The following charts show the steps of the reorganization:

The diagram illustrates the ownership structure of Brookfield Infrastructure Partners L.P. (BIP). At the top, 'Public' ownership flows into BIP. BIP is a partnership with 'Managing General Partner' (BAM) and 'Infrastructure GP LP'. BAM holds a 100% interest in BRPI, which in turn holds 100% in GLPL. GLPL owns three entities: Gen, Dx, and Tx Operator. The Tx Operator is linked to GLPTLP via an 'OM & A Agreement'. GLPTLP is owned by GLPT (100%) and GLPL (99.99% LP Interest). GLPT is owned by BIH (100%). BIH also holds a 0.01% GP Interest in GLPTLP. Infrastructure GP LP holds a GP Interest in Infrastructure Partnership. Infrastructure Partnership is owned by BIP (LP Interest), Brookfield Infrastructure Partners L.P. (LP Interest), and Other Infrastructure Holdings (Chile/Brazil). Brookfield Infrastructure Partners L.P. is also owned by Public. Finally, Infrastructure Partnership owns Island Timberlands Limited Partnership and Transmission Assets.

Figure 2: Current Organizational Structure Relating to GLPL

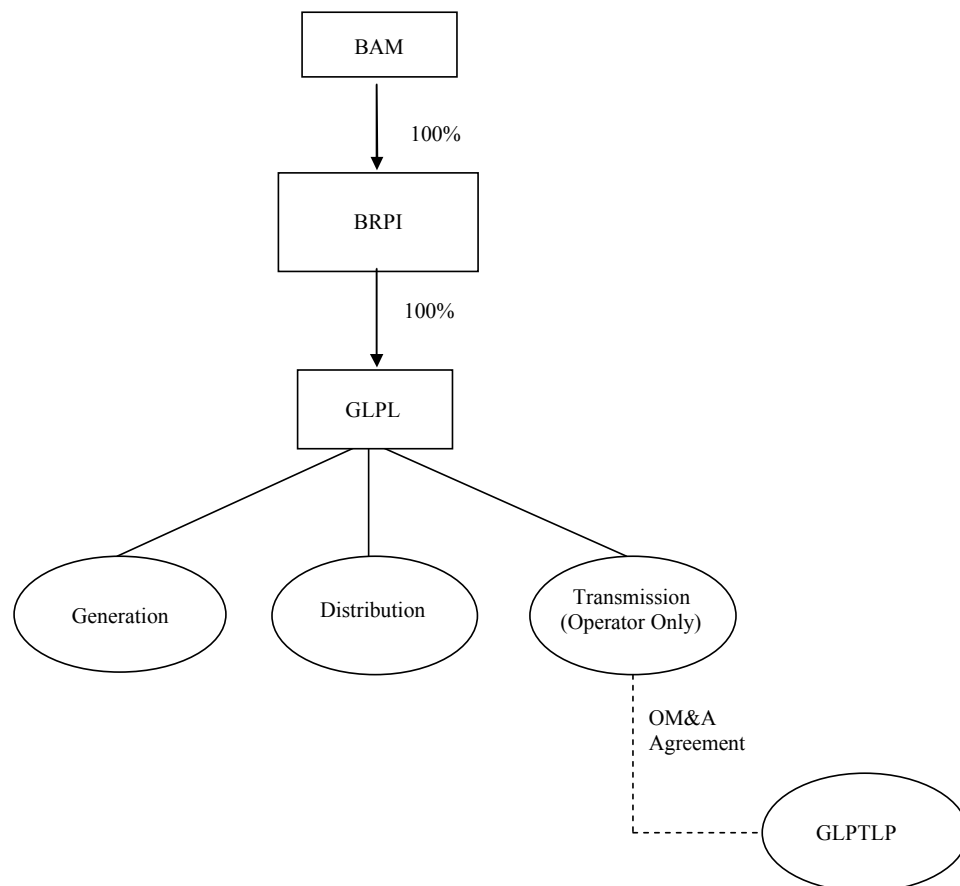
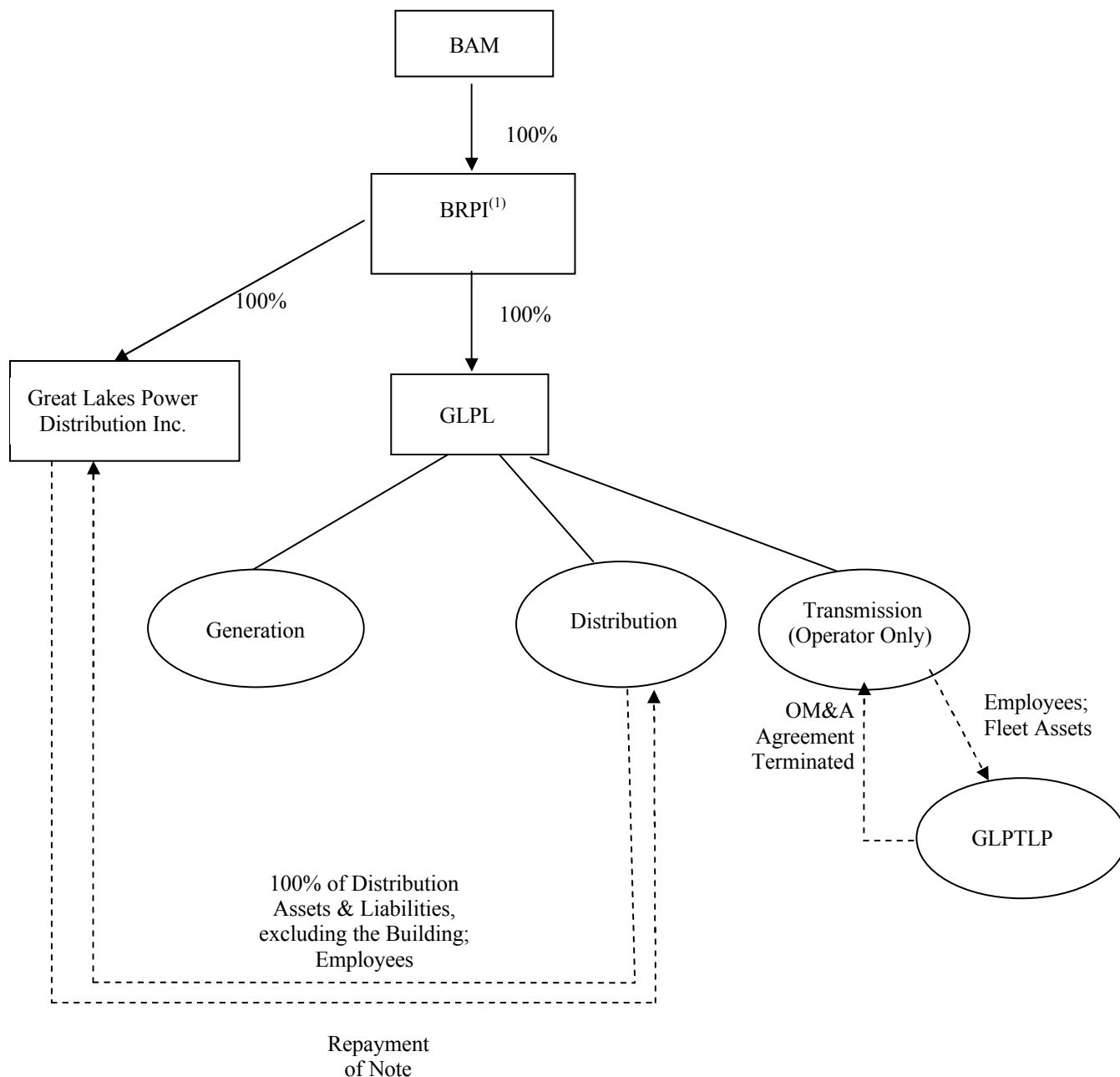


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

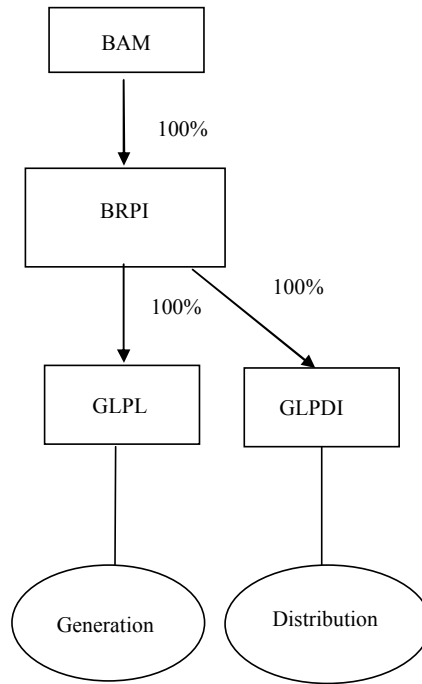
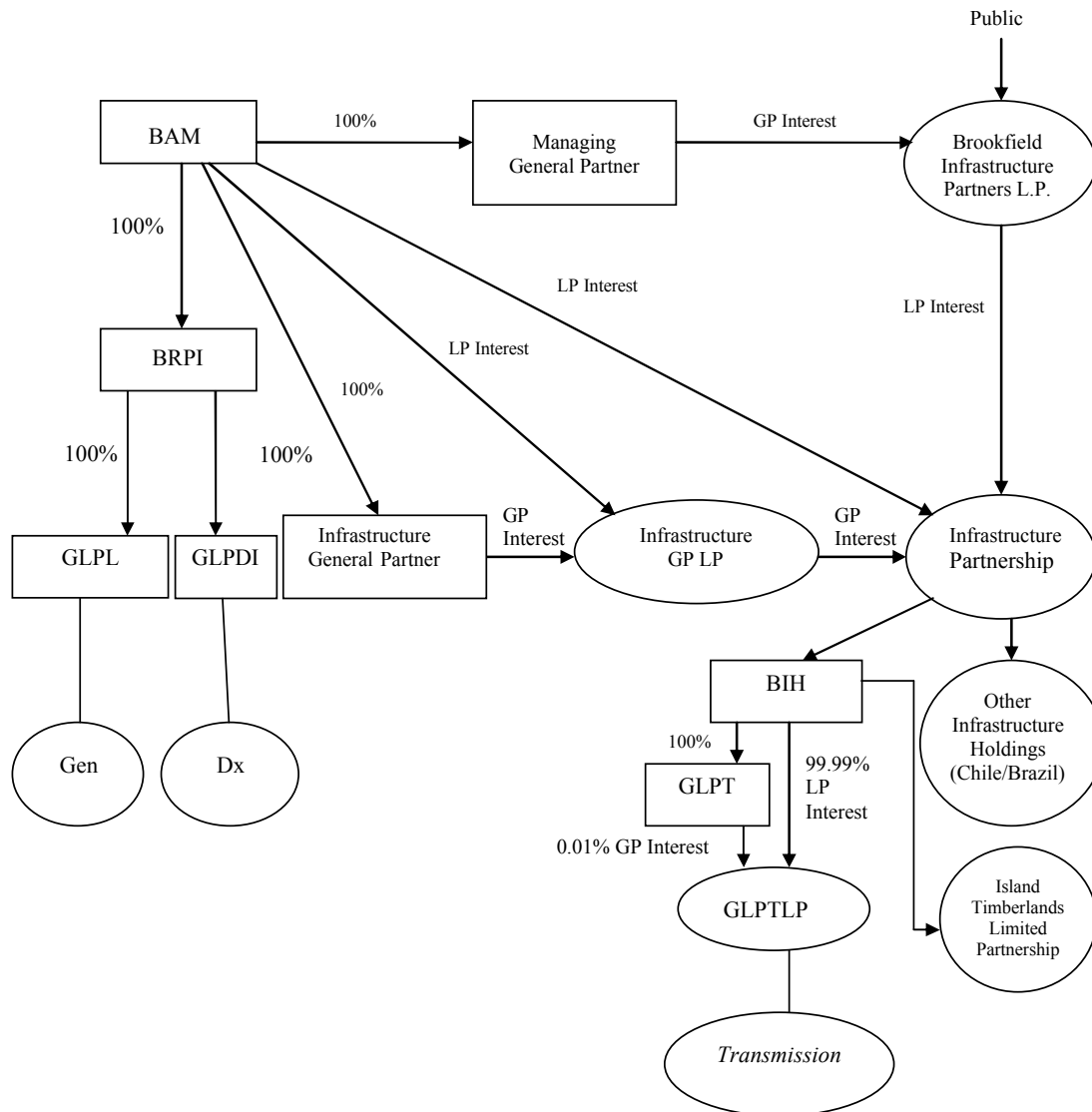


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.

SUMMARY OF EXHIBIT E

The purpose of this summary is to describe the nature of the evidence and materials that are set out in Exhibit E and how this evidence relates to the broader Omnibus Application that these materials have been filed in connection with.

The materials included in Exhibit E are filed in support of the following requests, pursuant to Section 18 of the *Ontario Energy Board Act* (“OEB Act”):

- Great Lakes Power Limited’s (“GLPL”) request for leave to transfer to Great Lakes Power Distribution Inc (“GLPDI”), its distribution rate order (EB-2005-0031);
- GLPL’s request for leave to transfer to Great Lakes Power Transmission LP (“GLPTLP”), its approved Customer Delivery Point Performance Standards (CDPPS) (EB-2006-0201); and
- GLPL’s request for leave to transfer to GLPTLP its approved Customer Connections Procedures (CCP) (EB-2006-0200).

In light of GLPL's outstanding appeal to the Ontario Superior Court of Justice (Divisional Court) of the Board's Decision and Order in EB-2007-0744 regarding GLPL's recovery of balances in account 1574 (Court File No. 610/08), GLPL further requests that, in the event the appeal is ultimately determined in GLPL's favour subsequent to the transfer of the rate order to GLPDI, the Board's Order transferring the rate order to GLPDI specify that any amendments to the GLPL distribution rate order arising from the appeal will be given effect even if the rate order has already been transferred to GLPDI.

A copy of GLPL’s current rate order is provided at **Exhibit E, Tab 1, Schedule 2**. The CDPPS approval (EB-2006-0201) is provided in **Exhibit E, Tab 1, Schedule 3**. The CCP approval (EB-2006-0200) is provided in **Exhibit E, Tab 1, Schedule 4**.

These Section 18 requests for leave to transfer are being filed in connection with an Omnibus Application, the central element of which is an application under Section 86 of the OEB Act related to an internal reorganization involving the transfer of distribution assets (the “MAAD Application”). The Omnibus Application also includes various requests and applications that are ancillary to the internal reorganization. The primary purpose of the Omnibus Application, and particularly the MAAD Application, is to support the efforts of GLPL and its affiliates to ensure full compliance with Section 71 of the OEB Act.

The MAAD Application, which is provided at **Exhibit B, Tab 1, Schedule 2**, is brought by GLPL, a licensed distributor (ED-2008-0343) under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system assets to Great Lakes Power Distribution Inc. (“GLPDI”). This is referred to throughout the MAAD Application as the “Asset Sale Transaction”. This transaction is depicted in Figure 3 of Appendix C to this Exhibit. The Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business.

In addition to the requests under Section 18 of the OEB Act to transfer GLPL’s distribution rate order, its CDPPS approval and its CCP approval, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application and internal reorganization:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution system effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application).
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and transmitter the Omnibus Application includes an application by GLPTLP under s. 74 of the OEB Act for an amendment to its electricity transmission licence so as to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity transmission licence, under which GLPL has been operating GLPTLP’s

transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

To facilitate review of the materials in Exhibit E, the following background information on the broader Omnibus Application provided as appendices to this summary:

- Exhibit List (**Appendix A**);
- Application (**Appendix B**); and
- Summary of the Application (**Appendix C**).

APPENDIX A

Exhibit List

APPENDIX B

Application

APPENDIX C

Summary of the Application

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APPENDIX A
Exhibit List

EXHIBIT LIST

Ex. Tab Sch. Contents of Schedule

A - ADMINISTRATIVE

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		3	Summary of the Application
		4	Orders Sought

B - MAAD APPLICATION – SECTIONS 86(1)(a) & 86(2)

B	1	1	Summary of Exhibit B ▪ Appendix A – Exhibit List ▪ Appendix B – Application ▪ Appendix C – Summary of the Application
		2	Preliminary Filing Requirements for Applications under Section 86 of the <i>Ontario Energy Board Act, 1998</i>
		3	Description of the Distribution Facilities
		4	Corporate Charts for the Parties and Their Electricity Sector Affiliates
		5	Description of GLPL's Electricity Sector Affiliates
		6	Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates
		7	GLPL Distribution's 2007 and 2008 Financial Statements
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C - NOTICE OF PROPOSAL – SECTION 81

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- Appendix A – Exhibit List
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- 3 Description of the Distribution Facilities
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APPENDIX B

Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

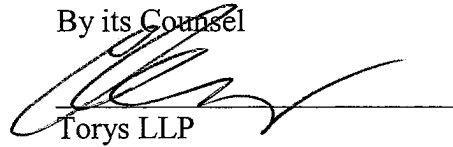
and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.

By its Counsel

A handwritten signature in black ink, appearing to be 'Charles Keizer', is written over a horizontal line.

Torys LLP

per Charles Keizer

APPENDIX C

Summary of the Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

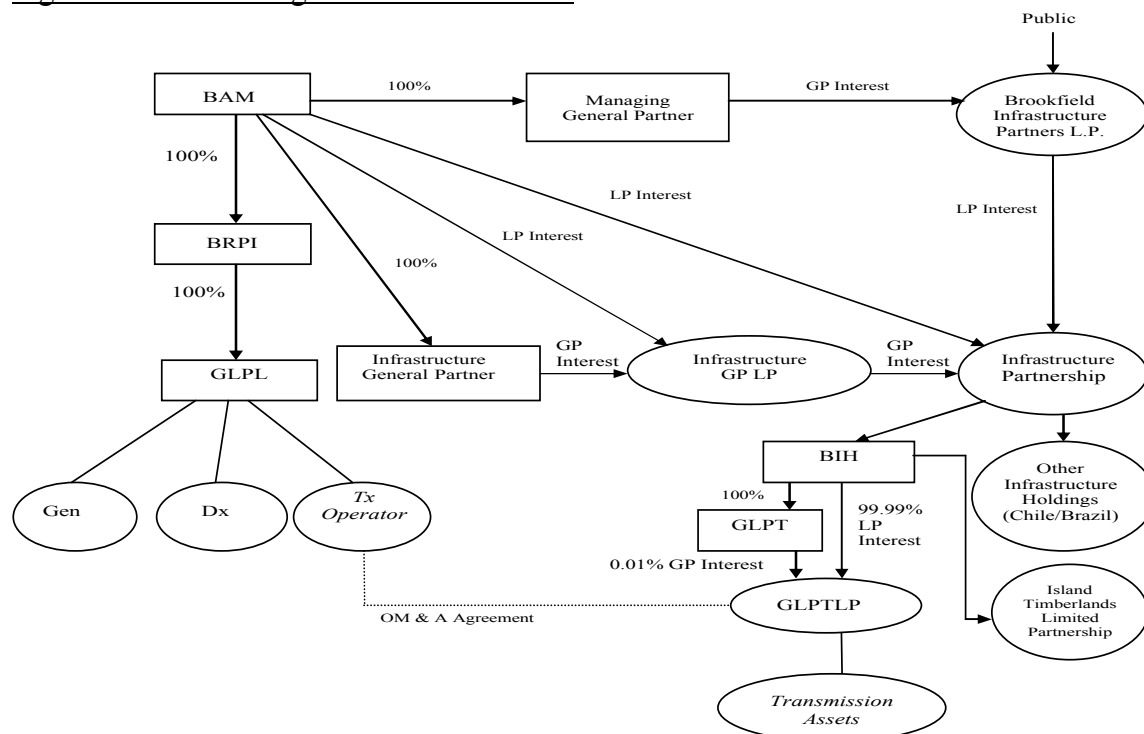


Figure 2: Current Organizational Structure Relating to GLPL

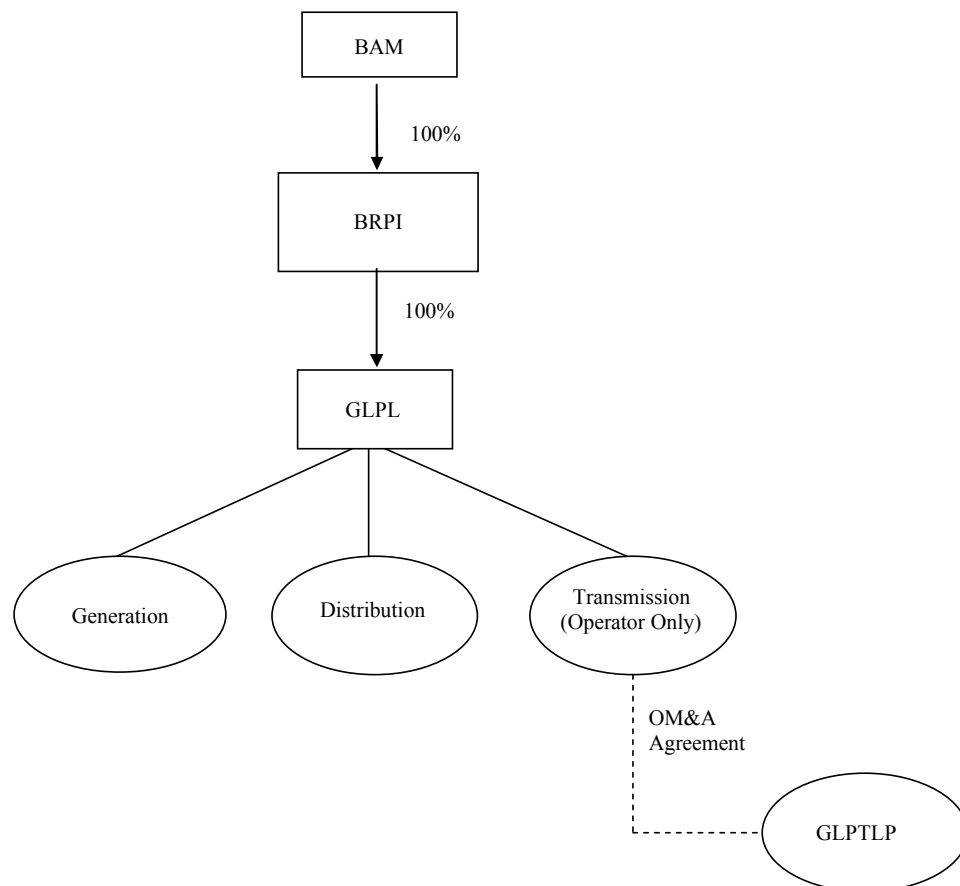
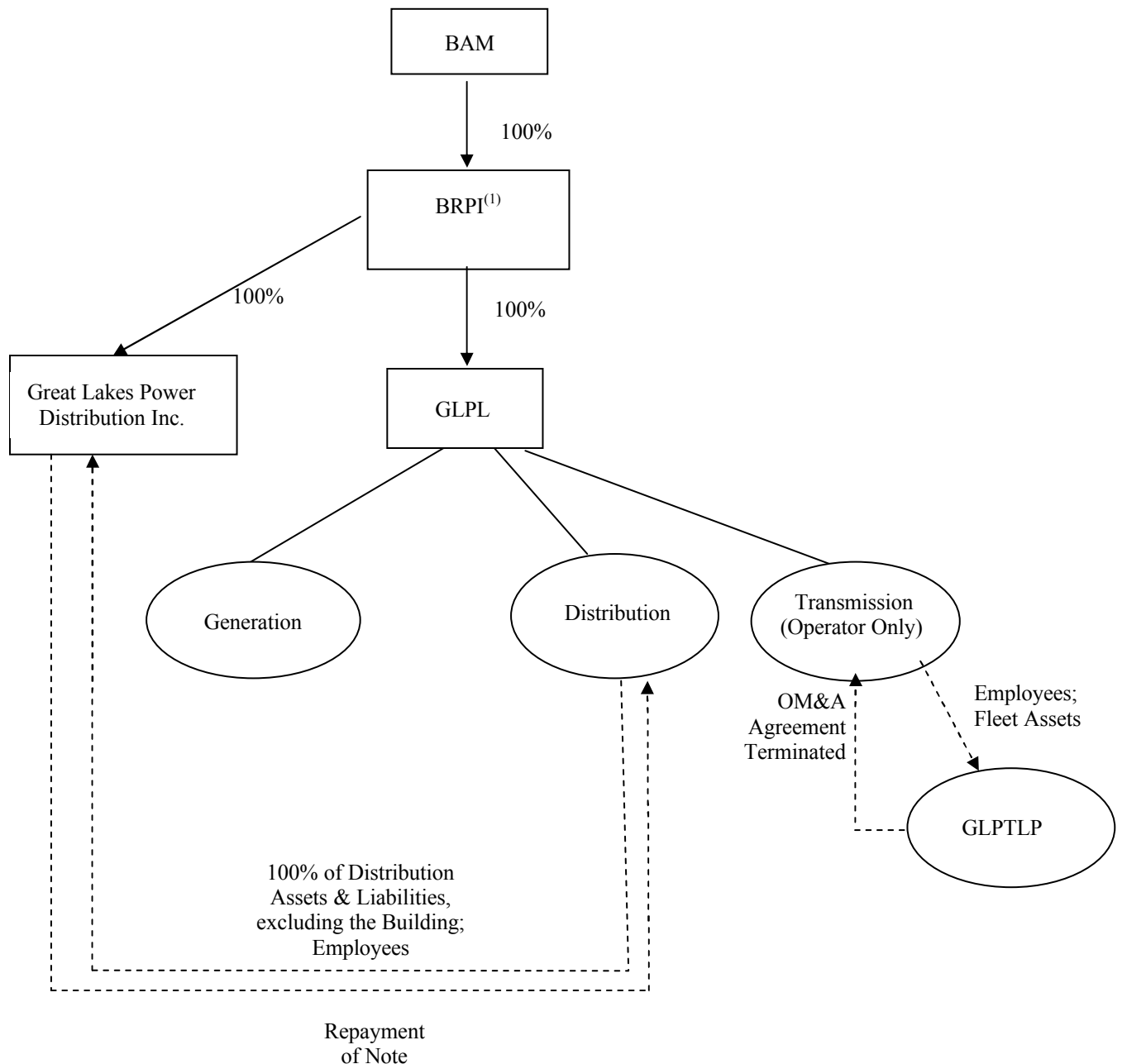


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

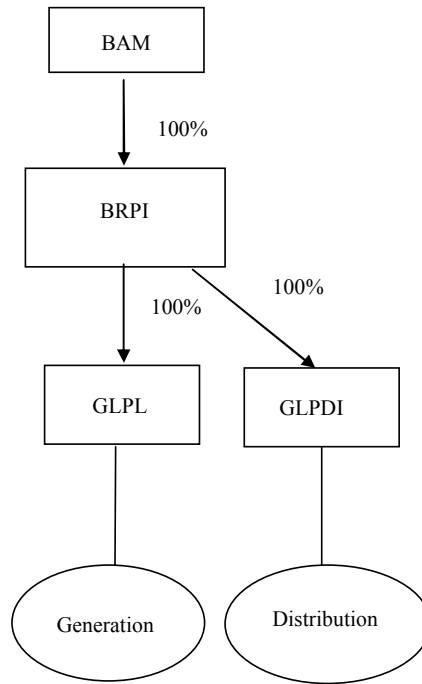
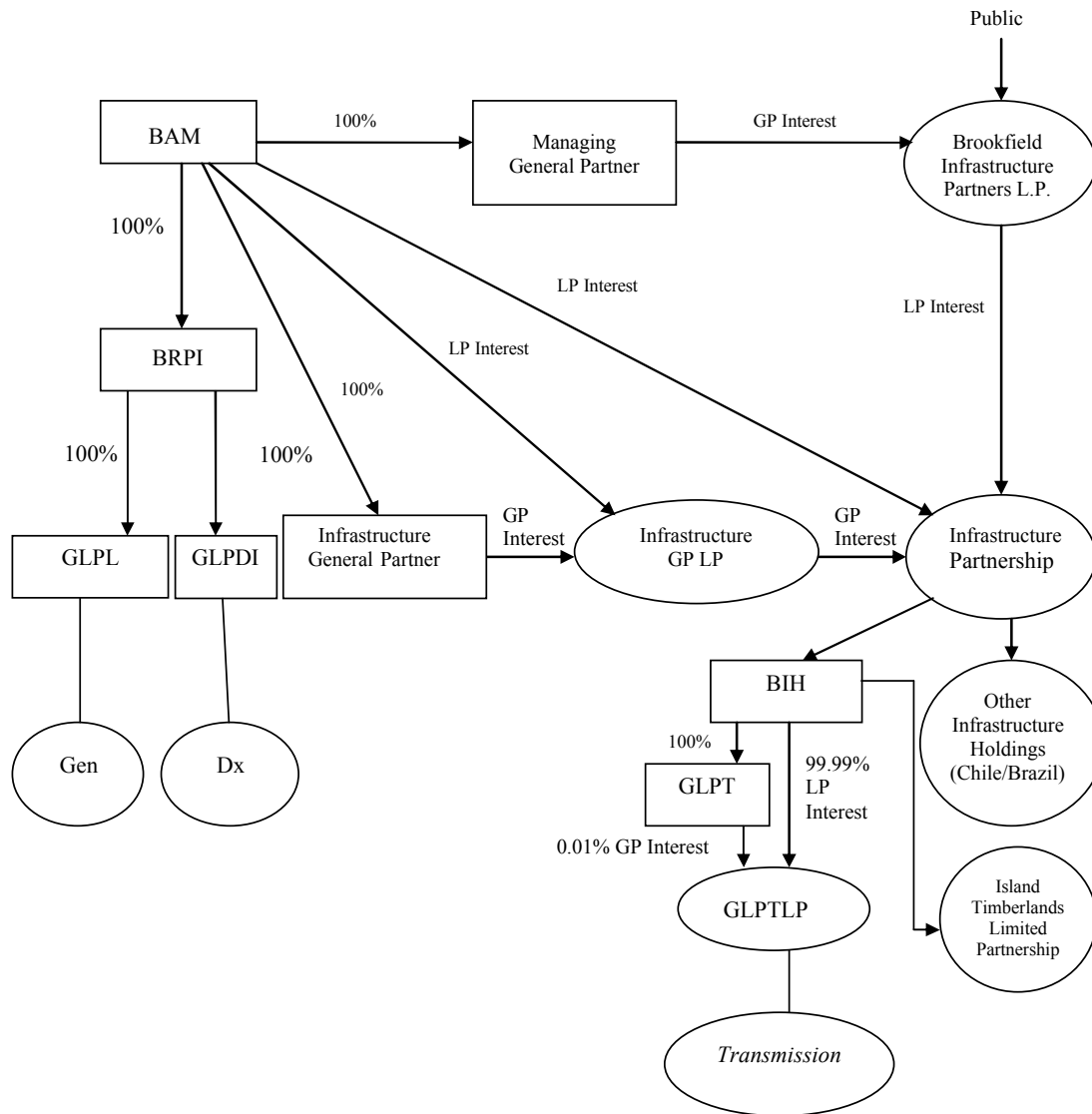


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.



EB-2007-0744

IN THE MATTER OF the *Ontario Energy Board Act*,
1998, S.O. 1998, c. 15, (Schedule B);

AND IN THE MATTER OF an application by Great
Lakes Power Limited for an order approving or fixing
just and reasonable rates and other charges for the
distribution of electricity to be effective September 1,
2007.

BEFORE: Paul Sommerville
Presiding Member

Cathy Spoel
Member

RATE ORDER

Great Lakes Power Limited ("GLPL") is a licensed distributor of electricity providing service to consumers within its licensed service area. GLPL filed an application with the Ontario Energy Board for an order or orders approving or fixing just and reasonable rates for the distribution of electricity and other charges, to be effective September 1, 2007. The Board assigned file number EB-2007-0744 to the application.

The intervenors in this proceeding were the Vulnerable Energy Consumers Coalition ("VECC"), the Algoma Coalition, Hydro One Networks Inc. and Dubreuil Forest Products Limited ("Dubreuil").

On March 20, 2008, the Board issued a Decision on the Motion to Review (EB-2008-0016) and declared GLPL's current rates interim as of September 1, 2007.

The Board issued its Decision and Order on GLPL's rates application on October 30, 2008 and directed GLPL to file a Draft Rate Order reflecting the Board's findings. The Board ordered the rates to be effective September 1, 2007 and to be implemented at

the earliest reasonable date when GLPL can implement the Decision. The Board invited comments from intervenors on the Draft Rate Order.

GLPL filed its Draft Rate Order on November 13, 2008. GLPL identified January 1, 2009 as a reasonable implementation date. VECC filed a letter of comment on November 18, 2008, in which it disagreed with the method GLPL had used to apportion the transitional revenue shortfall. Dubreuil filed a letter of comment on November 19, 2008, in which it supported GLPL's apportioning of the transitional revenue shortfall. The Algoma Coalition filed a letter of comment on November 19, 2008, which included a request for GLPL to clarify the clearance of Account 1574. GLPL responded on November 25, 2008, to the letters of comment and provided calculations and rationale to support its apportioning of the transitional revenue account, and provided clarification regarding the clearance of Account 1574.

The Board has reviewed the Draft Rate Order and the resulting Tariff of Rates and Charges and is satisfied that the material accurately reflects the Board's October 30, 2008 Decision and Order. The Board finds the method that GLPL used to apportion the transitional revenue shortfall to be satisfactory.

In its Decision and Order the Board disallowed the disposition of Account 1574 Deferred Rate Impact – Sub Account Rate Mitigation and notes that disposition of no part of this sub account is reflected in the Draft Rate Order. While the Decision and Order approved the use of Account 1574 for the Seasonal customers' rate mitigation plan, this Rate Order does not approve the amount to be recorded in Account 1574. Further evidence will require to be provided in a future application.

The rates contained in Appendix A to this Rate Order are made final September 1, 2007 until April 30, 2009, after which they will become interim. The Board further approves the January 1, 2009, implementation date as proposed by GLPL.

The Board finds that the amount of Rural or Remote Electricity Rate Protection ("RRRP") of \$8,861,847 for the year 2007 (\$738,487 per month) is an accurate determination based on GLPL's 2007 revenue, GLPL's 2007 revenue requirement, the average adjustment in rates for other distributors, and the RRRP regulations. The RRRP Regulations are Ontario Regulation 445/07, *Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the Act*, filed August 2,

2007; and Ontario Regulation 442/01, *Rural or Remote Electricity Rate Protection*, filed November 30, 2001, as amended by Ontario Regulation 335/07, filed July 5, 2007.

The Board recognizes that GLPL has already received RRRP payments for 2007 totalling \$2.3 million. The additional amount of RRRP payable as a result of this Rate Order for the period from September 1, 2007 to December 31, 2007 amounts to \$2,187,300.

In the absence of a rates application, it is the Board's expectation that the total RRRP amount approved by this Rate Order will remain in effect until changed by a subsequent order of the Board. While GLPL may make application for approval of rates and RRRP amount at any time, the Board requires GLPL, as a minimum, to make its request for RRRP funds annually by letter. GLPL shall make request for its 2009 RRRP funds, no later than April 30, 2009.

As an administrative matter, and for completeness of the regulated charges, the Board has included in the Tariff of Rates and Charges the charges pertaining to services provided to retailers or consumers regarding the supply of competitive electricity, which are referenced in Chapter 12 of the 2006 Electricity Distribution Rate Handbook.

THE BOARD ORDERS THAT:

1. The Tariff of Rates and Charges set out in Appendix A of this Rate Order is approved, effective September 1, 2007, but implemented January 1, 2009, for electricity consumed or estimated to have been consumed on and after January 1, 2009.
2. The Tariff of Rates and Charges set out in Appendix A of this Order supersedes all previous distribution rate schedules approved by the Ontario Energy Board for Great Lakes Power Limited and is final in all respects for the period from September 1, 2007 until April 30, 2009, after which the Tariff will become interim.
3. Great Lakes Power Limited shall notify its customers of the rate changes no later than with the first bill reflecting the new rates.

DATED at Toronto, December 24, 2008

ONTARIO ENERGY BOARD

Kirsten Walli
Board Secretary

Appendix A

**To The Rate Order Arising from Decision
EB-2007-0744**

**Great Lakes Power Limited
December 24, 2008**

Great Lakes Power Limited – Distribution Division

TARIFF OF RATES AND CHARGES

Effective September 1, 2007

Implementation January 1, 2009

Rates and Charges become Interim May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2007-0744

APPLICATION

- The application of these rates and charges shall be in accordance with the Licence of the Distributor and any Codes, Guidelines or Orders of the Board, and amendments thereto as approved by the Board, which may be applicable to the administration of this schedule.
- No rates and charges for the distribution of electricity and charges to meet the costs of any work or service done or furnished for the purpose of the distribution of electricity shall be made except as permitted by this schedule, unless required by the Distributor's Licence or a Code, Guideline or Order of the Board, and amendments thereto as approved by the Board, or as specified herein.
- This schedule does not contain any rates and charges relating to the electricity commodity (e.g. the Regulated Price Plan).

IMPLEMENTATION DATES

DISTRIBUTION RATES – January 1, 2009 for all consumption or deemed consumption service used on or after that date.

SPECIFIC SERVICE CHARGES – January 1, 2009 for all charges incurred by customers on or after that date.

RETAIL SERVICE CHARGES – January 1, 2009 for all charges incurred by retailers or customers on or after that date.

LOSS FACTOR ADJUSTMENT – January 1, 2009 unless the distributor is not capable of prorating changed loss factors jointly with distribution rates. In that case, the revised loss factors will be implemented upon the first subsequent billing for each billing cycle.

SERVICE CLASSIFICATIONS

Residential Customers

For the purposes of rates and charges, a residential service is defined in two ways:

- i) a dwelling occupied as a residence continuously for at least eight months of the year and, where the residential premises is located on a farm, includes other farm premises associated with the residential electricity meter, and
- ii) consumers who are treated as residential-rate class customers under Ontario Regulation 445/07 (Reclassifying Certain Classes of Consumers as Residential-Rate Class Customers: Section 78 of the *Ontario Energy Board Act, 1998*) made under the *Ontario Energy Board Act, 1998*.

Residential – R1

This classification refers to a Residential service with a demand of less than, or is forecast to be less than, 50 kilowatts, and which is billed on an energy basis.

Residential – R2

This classification refers to a Residential service with a demand equal to or greater than, or is forecast to be equal to or greater than, 50 kilowatts, and which is billed on a demand basis.

Seasonal Customers

This classification includes all services supplied to single-family dwelling units for domestic purposes, which are occupied on a seasonal/intermittent basis. A service is defined as Seasonal if occupancy is for a period of less than eight months of the year.

Street Lighting

This classification refers to an account for roadway lighting. The consumption for these unmetered accounts will be based on the calculated connection load times the calculated hours of use established in the approved OEB street lighting load shape template.

Great Lakes Power Limited – Distribution Division

TARIFF OF RATES AND CHARGES

Effective September 1, 2007

Implementation January 1, 2009

Rates and Charges become Interim May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2007-0744

MONTHLY RATES AND CHARGES

Residential – R1

Service Charge	\$	20.41
Distribution Volumetric Rate	\$/kWh	0.0287
Deferral Account Rate Rider – effective until December 31, 2010	\$/kWh	(0.0041)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Residential – R2

Service Charge	\$	596.12
Distribution Volumetric Rate	\$/kW	2.4549
Deferral Account Rate Rider – effective until December 31, 2010	\$/kW	(0.2025)
Retail Transmission Rate – Network Service Rate	\$/kW	2.1218
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.7882
Retail Transmission Rate – Network Service Rate – Interval Metered >1,000 kW	\$/kW	2.2508
Retail Transmission Rate – Line and Transformation Connection Service Rate – Interval Metered >1,000 kW	\$/kW	1.9763
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Seasonal

Service Charge	\$	24.00
Distribution Volumetric Rate	\$/kWh	0.0700
Deferral Account Rate Rider – effective until December 31, 2010	\$/kWh	(0.0041)
Retail Transmission Rate – Network Service Rate	\$/kWh	0.0057
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kWh	0.0050
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Street Lighting

Service Charge	\$	0.00
Distribution Volumetric Rate	\$/kWh	0.0496
Deferral Account Rate Rider – effective until December 31, 2010	\$/kWh	(0.0016)
Retail Transmission Rate – Network Service Rate	\$/kW	1.6002
Retail Transmission Rate – Line and Transformation Connection Service Rate	\$/kW	1.3824
Wholesale Market Service Rate	\$/kWh	0.0052
Rural Rate Protection Charge	\$/kWh	0.0010
Standard Supply Service – Administrative Charge (if applicable)	\$	0.25

Great Lakes Power Limited – Distribution Division

TARIFF OF RATES AND CHARGES

Effective September 1, 2007

Implementation January 1, 2009

Rates and Charges become Interim May 1, 2009

This schedule supersedes and replaces all previously approved schedules of Rates, Charges and Loss Factors

EB-2007-0744

Specific Service Charges

Customer Administration		
Arrears certificate (credit reference)	\$	15.00
Returned cheque charge (plus bank charges)	\$	15.00
Notification charge	\$	15.00
Legal letter charge	\$	15.00
Account set up charge/change of occupancy charge (plus credit agency costs if applicable)	\$	30.00
Special meter reads	\$	30.00
Meter dispute charge plus Measurement Canada fees (if meter found correct)	\$	30.00
Non-Payment of Account		
Late Payment - per month	%	1.50
Late Payment - per annum	%	19.56
Collection of account charge – no disconnection	\$	30.00
Disconnect/Reconnect at meter – during regular hours	\$	65.00
Disconnect/Reconnect at pole – during regular hours	\$	185.00
Install/Remove load control device – during regular hours	\$	65.00
Specific Charge for Access to the Power Poles \$/pole/year	\$	22.35

Allowances

Transformer Allowance for Ownership – per kW of billing demand/month	\$/kW	(0.60)
Primary Metering Allowance for transformer losses – applied to measured demand and energy	%	(1.00)

Retail Service Charges (if applicable)

Retail Service Charges refer to services provided by a distributor to retailers or customers related to the supply of competitive electricity

One-time charge, per retailer, to establish the service agreement between the distributor and the retailer	\$	100.00
Monthly Fixed Charge, per retailer	\$	20.00
Monthly Variable Charge, per customer, per retailer	\$/cust.	0.50
Distributor-consolidated billing charge, per customer, per retailer	\$/cust.	0.30
Retailer-consolidated billing credit, per customer, per retailer	\$/cust.	(0.30)
Service Transaction Requests (STR)		
Request fee, per request, applied to the requesting party	\$	0.25
Processing fee, per request, applied to the requesting party	\$	0.50
Request for customer information as outlined in Section 10.6.3 and Chapter 11 of the Retail Settlement Code directly to retailers and customers, if not delivered electronically through the Electronic Business Transaction (EBT) system, applied to the requesting party		
Up to twice a year		no charge
More than twice a year, per request (plus incremental delivery costs)	\$	2.00

LOSS FACTORS

Total Loss Factor – Secondary Metered Customer	1.1025
Total Loss Factor – Primary Metered Customer	1.0915



EB-2006-0201

IN THE MATTER OF the *Ontario Energy Board Act, 1998*,
S.O. 1998, c. 15, Schedule B;

AND IN THE MATTER OF an application by Great Lakes
Power Limited for approval of customer delivery point
performance standards developed pursuant to section 4.5
of the Transmission System Code.

BEFORE: Bill Rupert
Presiding Member

Paul Sommerville
Member

DECISION AND ORDER

Under section 4.5.2 of the Board's Transmission System Code (the "TSC"), transmitters are required to develop performance standards at the customer delivery point level and to file those standards for approval by the Board. On September 28, 2006, Great Lakes Power Limited ("GLPL") filed its proposed customer delivery point performance standards ("CDPPS") for Board approval.

The history of this proceeding is described in the Board's Decision and Order of June 6, 2007, in which the Board also ordered GLPL to revise its CDPPS and file a revised version with the Board. Specifically, the Board ordered GLPL to revise its CDPPS to incorporate proposals made by GLPL in its March 30, 2007 submissions made in response to submissions by Board staff and Hydro One Networks Inc., the sole intervenor in this proceeding.

On July 27, 2007, GLPL filed its revised CDPPS with the Board.

A discussion between GLPL and Board staff aimed at clarifying one aspect of GLPL's revised CDPPS resulted in GLPL filing a minor amendment to its July 27, 2007 CDPPS document on December 13, 2007. The amendment modifies the second sentence on page 4 by deleting the word "and" before the words "in 2009", such that the sentence would read as follows:

GLPL is committed to compare GLPL delivery point performance against the Hydro One delivery point performance standards in 2009, when GLPL has five (5) years of data.

The Board has reviewed GLPL's revised CDPPS, including the amendment made on December 13, 2007, and has determined that the revised document reflects and complies with the direction set out in the Board's June 6, 2007 Decision and Order. The Board therefore approves GLPL's CDPPS as revised on July 27, 2007 and as further revised on December 13, 2007. The Board reminds GLPL that its CDPPS, as approved, must now be posted on GLPL's website as required by section 4.5.5 of the TSC. The Board also reminds GLPL that, in accordance with the Board's June 6, 2007 Decision and Order, GLPL must report to the Board no later than the end of the first quarter of 2010 on the results of its assessment of its minimum performance standards and on whether GLPL intends to propose any material changes for review and approval by the Board.

THEREFORE THE BOARD ORDERS THAT:

The "Customer Delivery Point Standards ("CDPPS")" filed by Great Lakes Power Limited on July 27, 2007 and amended on December 13, 2007 are approved.

ISSUED at Toronto, December 18, 2007

Original signed by

Kirsten Walli
Board Secretary



EB-2006-0189

EB-2006-0200

IN THE MATTER OF section 6.1.5 of the Ontario Energy Board's Transmission System Code;

AND IN THE MATTER OF an application by Hydro One Networks Inc. for the review and approval of connection procedures;

AND IN THE MATTER OF an application by Great Lakes Power Limited for the review and approval of connection procedures.

BEFORE: Paul Sommerville
Presiding Member

DECISION AND ORDER

The Proceeding

On August 18, 2006, Hydro One Networks Inc. ("Hydro One") filed a document entitled "Transmission Connection Procedures" for review and approval by the Board under section 6.1.5 of the Transmission System Code (the "Code"). On August 21, 2006, Great Lakes Power Limited ("GLPL") filed a document entitled "Customer Connections Process" for review and approval by the Board under the same section of the Code. The documents filed by the transmitters embody their respective connection procedures. The two applications were considered together in a combined proceeding. The procedural history of the combined proceeding is described in detail in the Board's September 6, 2007 Decision and Order (the "Connection Procedures Decision") and will not be repeated here.

In its Connection Procedures Decision, the Board directed each of Hydro One and GLPL to revise their respective connection procedures and associated Connection and

Cost Recovery Agreement (“CCRA”) templates in accordance with the findings set out in the Connection Procedures Decision. The transmitters were also directed to file revised versions of their respective materials by October 12, 2007.

GLPL and Hydro One each filed revised connection procedures and CCRA templates on that date. However, Hydro One’s revised materials did not reflect the findings of the Board contained in two sections of the Connection Procedures Decision (sections 3.3 and 3.5), which were then the subject of a motion to review filed by Hydro One on October 9, 2007. On November 26, 2007, the Board issued its Decision and Order denying Hydro One’s motion. In that Decision and Order, the Board also directed Hydro One to revise those portions of its connection procedures and CCRA templates that are affected by sections 3.3 and 3.5 of the Connection Procedures Decision in accordance with the findings set out in the Connection Procedures Decision. The revised materials were filed by Hydro One on December 7, 2007, in advance of the December 10, 2007 deadline established by the Board for that purpose. Further to an inquiry by Board staff, Hydro One subsequently filed on January 11, 2008 a further revision to one section of the generator version of its CCRA template (section 26) that deals with dispute resolution.

Board Findings

The Board has reviewed the revised connection procedures and associated CCRA templates filed by each of Hydro One and GLPL, and is satisfied that they reflect and comply with the findings set out in the Connection Procedures Decision. The Board therefore approves the revised connection procedures, and reminds Hydro One and GLPL that their respective connection procedures, as approved, must now be posted on their respective websites as required by section 6.1.3 of the Code.

For the reasons set out in the Connection Procedures Decision, the Board does not consider it necessary at this time to require that the template CCRA be specifically approved by the Board. The Board does expect that each of Hydro One and GLPL will post their respective CCRA templates on their respective websites, and that they will notify the Board of any material changes to those templates as and when they are developed.

The Board also takes this opportunity to comment on one element of GLPL’s CCRA templates. Specifically, in the Connection Procedures Decision the Board encouraged

GLPL to review one section of its templates (section 20.1) regarding disputes relating to cost allocation, to ensure that there is no inconsistency with the dispute resolution provisions of its connection procedures or likelihood of confusion for connecting parties regarding the scope and reach of the section. In its letter of October 12, 2007, GLPL indicated that in its view there is no potential confusion or perceived inconsistency. The Board does not intend to further pursue this issue at this time, but may revisit the matter if it appears that the section of the template CCRA is being implemented in a manner that raises concerns about consistency with GLPL's connection procedures or is giving rise to confusion.

On December 24, 2007, the Board issued a Decision and Order granting a number of applications associated with GLPL's planned restructuring (proceeding EB-2007-0647/EB-2007-0649/EB-2007-0650/EB-2007-0651/EB-2007-0652). When the relevant transaction closes, two entities will be licensed as transmitters in relation to the transmission system that is currently owned and operated by GLPL. GLPL will remain licensed as the operator of the transmission system. The licensed owner of the transmission system will be Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP. The Board notes that, as a licensed transmitter, the new owner of the transmission system will also need to file connection procedures for review and approval by the Board as required by the Code.

THE BOARD THEREFORE ORDERS THAT:

1. The document entitled "Customer Connection Process" filed by Great Lakes Power Limited on October 12, 2007, and containing its connection procedures, is approved.
2. The document entitled "Transmission Connection Procedures" filed by Hydro One Networks Inc. on October 12, 2007, as revised on December 7, 2007 and containing its connection procedures, is approved.

ISSUED at Toronto, February 12, 2008.

ONTARIO ENERGY BOARD

Original signed by

Kirsten Walli
Board Secretary

SUMMARY OF EXHIBIT F

The purpose of this summary is to describe the nature of the evidence and materials that are set out in Exhibit F and how this evidence relates to the broader omnibus application that these materials have been filed in connection with.

The materials included in Exhibit F are filed strictly in connection with:

- an application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission L.P. (“GLPTLP”) for an amendment to its electricity transmission licence (ET-2007-0649), pursuant to Section 74 of the *Ontario Energy Board Act, 1998* (“OEB Act”); and
- a request by Great Lakes Power Limited (“GLPL”) pursuant to Section 77(5) of the OEB Act for cancellation of its electricity transmission licence (ET-2008-0342).

GLPTLP requires the amendment so as to allow it to own *and operate* its transmission assets (GLPTLP is now only permitted to own the assets), which are currently operated on GLPTLP’s behalf by GLPL under an OM&A agreement. Upon the planned termination of the OM&A agreement, GLPL will no longer require its transmission licence (ET-2008-0342). As such, GLPL requests cancellation of its transmission licence *effective upon the closing of the Asset Sale Transaction*, which is described below. These measures are in support of efforts under the omnibus application to ensure full compliance with Section 71 of the OEB Act. GLPTLP’s current transmission licence is provided at **Exhibit F, Tab 1, Schedule 3**. GLPL’s current transmission licence is provided at **Exhibit F, Tab 1, Schedule 10, Appendix A**.

The GLPTLP licence amendment application (see **Exhibit F, Tab 1, Schedule 2**) and the request to cancel GLPL’s transmission licence (see **Exhibit F, Tab 1, Schedule 10**), are being filed in connection with an omnibus application, the central element of which is an application under Section 86 of the OEB Act related to an internal reorganization involving the transfer of

distribution assets (the “MAAD Application”). The omnibus application also includes various requests and applications that are ancillary to the internal reorganization. The primary purpose of the omnibus application, and particularly the MAAD Application, is to support the efforts of Great Lakes Power Ltd. (“GLPL”) and its affiliates, including GLPTLP, to ensure full compliance with Section 71 of the OEB Act.

The MAAD Application, which is provided at **Exhibit B, Tab 1, Schedule 2**, is brought by GLPL, a licensed distributor (ED-2008-0343) under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system assets to Great Lakes Power Distribution Inc. (“GLPDI”). This is referred to throughout the MAAD Application as the “Asset Sale Transaction”. This transaction is depicted in Figure 3 of Appendix C to this Exhibit. The Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business.

In addition to the application to amend GLPTLP’s transmission licence pursuant to Section 74 of the OEB Act and the request to cancel GLPL’s transmission licence pursuant to Section 77(5) of the OEB Act, the omnibus application addresses the following matters that are ancillary to the MAAD Application and internal reorganization:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI, (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution system effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application).
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application); and
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to “GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application); and

To facilitate review of the materials in Exhibit F, the following background information on the broader omnibus application provided as appendices to this summary:

- Exhibit List (**Appendix A**);
- Application (**Appendix B**); and
- Summary of the Application (**Appendix C**).

APPENDIX A

Exhibit List

APPENDIX B

Application

APPENDIX C

Summary of the Application

APPENDIX A
Exhibit List

EXHIBIT LIST

Ex. Tab Sch. Contents of Schedule

A - ADMINISTRATIVE

A	1	1	Exhibit List
		2	Application
		3	Summary of the Application
		4	Orders Sought

B - MAAD APPLICATION – SECTIONS 86(1)(a) & 86(2)

B	1	1	Summary of Exhibit B ▪ Appendix A – Exhibit List ▪ Appendix B – Application ▪ Appendix C – Summary of the Application
		2	Preliminary Filing Requirements for Applications under Section 86 of the <i>Ontario Energy Board Act, 1998</i>
		3	Description of the Distribution Facilities
		4	Corporate Charts for the Parties and Their Electricity Sector Affiliates
		5	Description of GLPL's Electricity Sector Affiliates
		6	Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates
		7	GLPL Distribution's 2007 and 2008 Financial Statements
		8	GLPDI's 2009 and 2010 Pro-Forma Financial Statements
		9	Brookfield Asset Management's 2007 and 2008 Annual Reports

C - NOTICE OF PROPOSAL – SECTION 81

- C 1 1 Summary of Exhibit C
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Preliminary Filing Requirements for a Notice of Proposal under Sections 80 and 81 of the *Ontario Energy Board Act, 1998*
- 3 Description of the Distribution Facilities
- 4 Corporate Charts for the Parties and Their Electricity Sector Affiliates
- 5 Description of GLPL’s Electricity Sector Affiliates
- 6 Maps of the Geographic Territories Served by GLPL and its Electricity Sector Affiliates

D - APPLICATION FOR GLPDI’S DISTRIBUTION LICENCE (SECTION 57) & REQUEST TO CANCEL GLPL DISTRIBUTION LICENCE (SECTION 77(5))

- D 1 1 Summary of Exhibit D in the Context of the Omnibus Filing
- Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 *Application for Electricity Distribution Licence*
- 3 Description of the Distribution Facilities
- 4 Maps of the Geographic Territories Served by the Distribution System
- 5 GLPL’s Electricity Distribution Licence
- 6 Description of GLPDI’s Electricity Sector Affiliates
- 7 Corporate Charts for the Applicant and its Electricity Sector Affiliates
- 8 GLPL Distribution’s 2007 and 2008 Financial Reports

- 9 GLPDI's 2009 and 2010 Pro-Forma Financial Statements
- 10 Request to Cancel Distribution Licence
 - Appendix A – Distribution Licence
 - Appendix B – Application
 - Appendix C – Summary of the Application

E - REQUEST TO TRANSFER BOARD ORDERS AND APPROVALS – SECTION 18

- E 1 1 Summary of Exhibit E
 - Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 GLPL's Current Distribution Rate Order
- 3 GLPL's Customer Delivery Point Performance Standards (CDPPS) Approval
- 4 GLPL's Customer Connections Procedures (CCP) Approval

F - APPLICATION TO AMEND GLPTLP'S TRANSMISSION LICENCE (SECTION 74) & REQUEST TO CANCEL GLPL'S TRANSMISSION LICENCE (SECTION 77(5))

- F 1 1 Summary of Exhibit F in the Context of the Omnibus Filing
 - Appendix A – Exhibit List
 - Appendix B – Application
 - Appendix C – Summary of the Application
- 2 Licence Amendment Application
- 3 GLPTLP's Current Electricity Transmission Licence
- 4 Description of the Transmission Facilities
- 5 Description of GLPTLP's Electricity Sector Affiliates
- 6 Corporate Charts for the Applicant and its Electricity Sector

Affiliates

- 7 GLPL Transmission's 2007 and 2008 Financial Statements
- 8 Maps of the Geographic Territories Served by GLPTLP's
Transmission Facilities
- 9 Single-line Diagram of the Transmission Facilities
- 10 Request to Cancel Transmission Licence
 - Appendix A – Transmission Licence
 - Appendix B – Application
 - Appendix C – Summary of the Application

APPENDIX B

Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

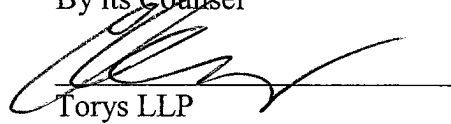
and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.

By its Counsel

A handwritten signature in black ink, appearing to be 'Charles Keizer', is written over a horizontal line.

Torys LLP

per Charles Keizer

APPENDIX C

Summary of the Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL’s operations, the OEB, in GLPL’s 2002 transmission licence proceeding, included unique conditions in GLPL’s transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

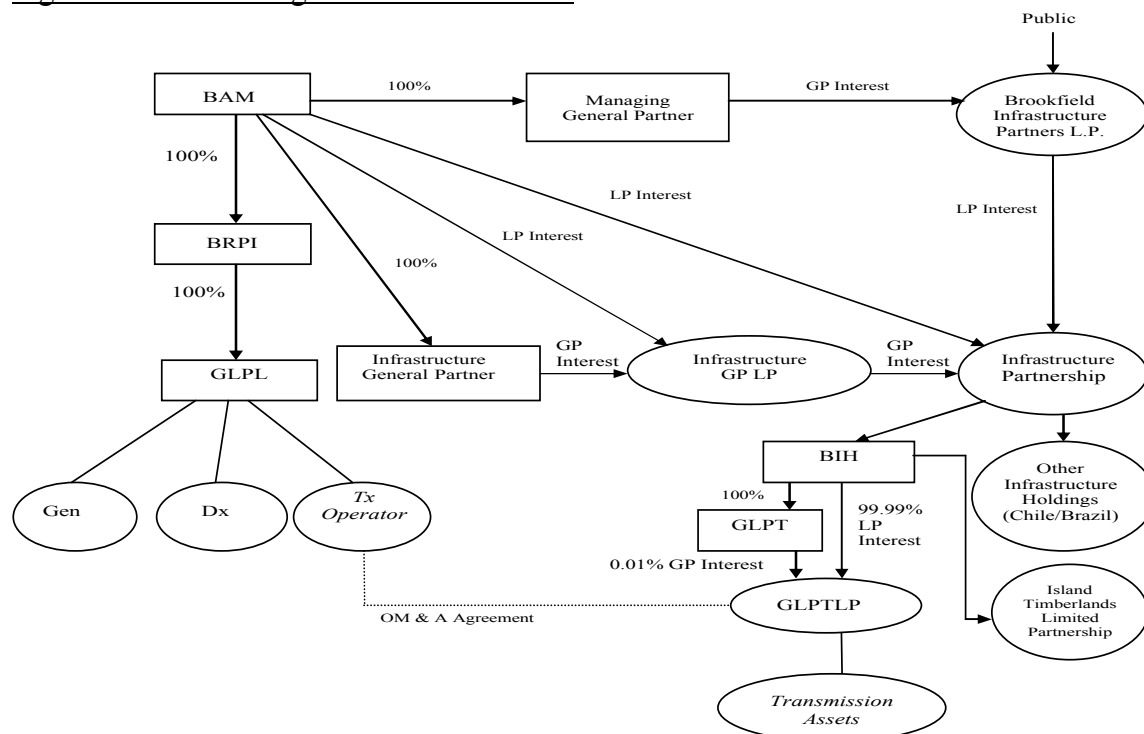


Figure 2: Current Organizational Structure Relating to GLPL

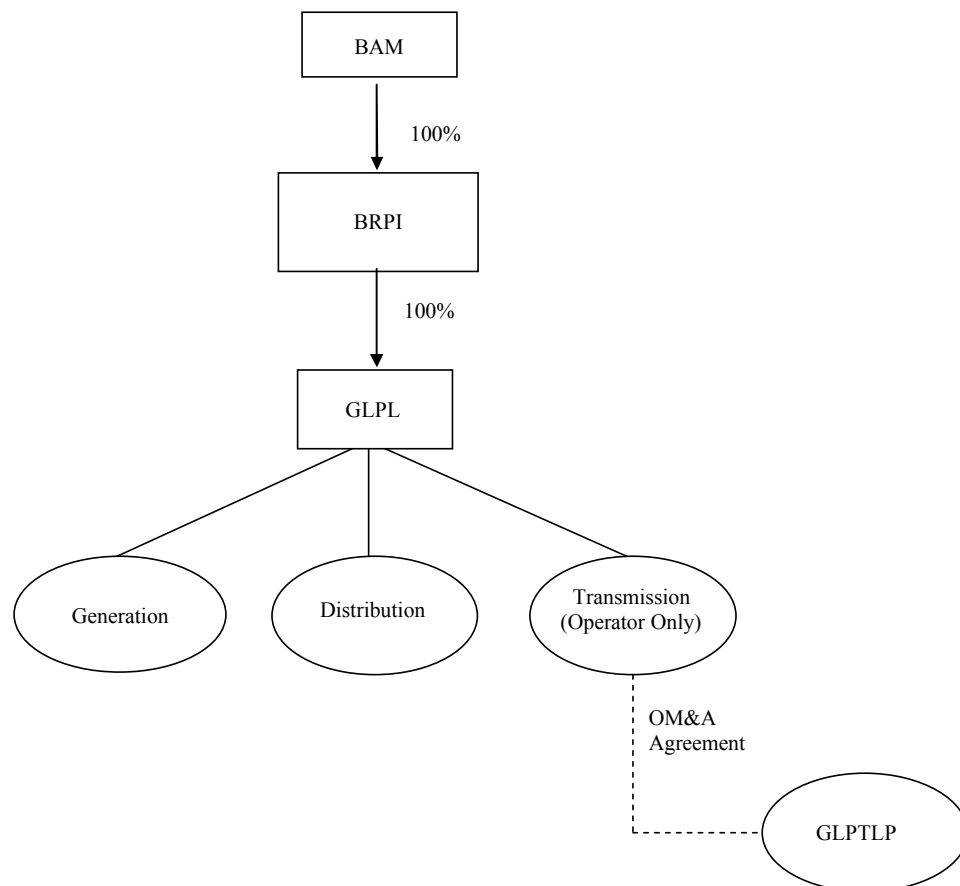
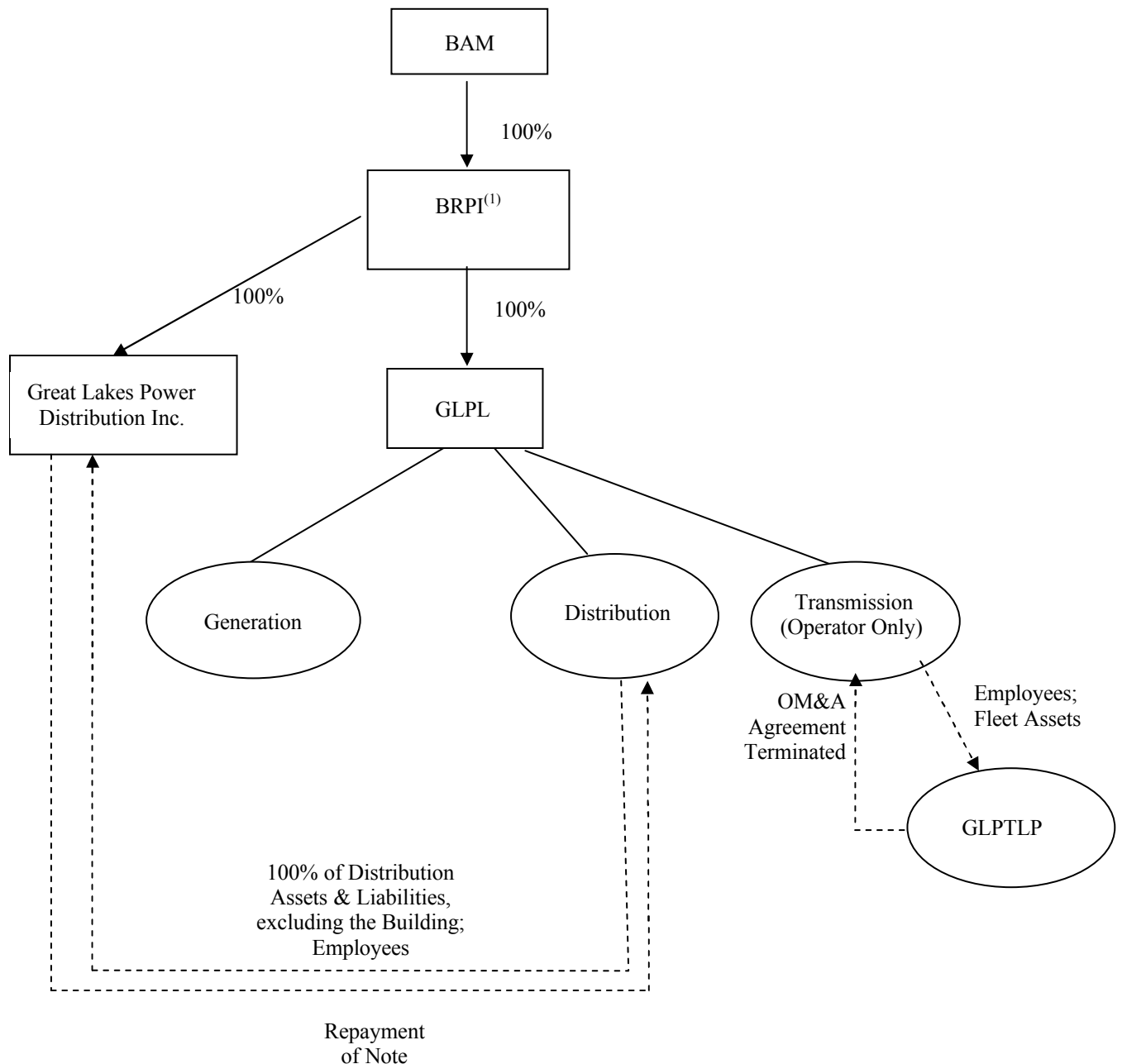


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

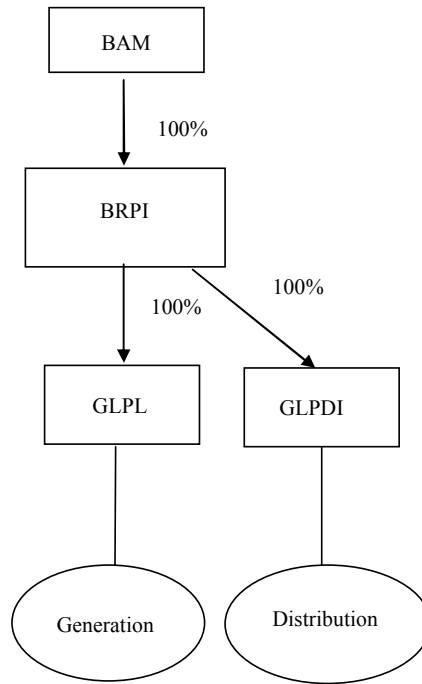
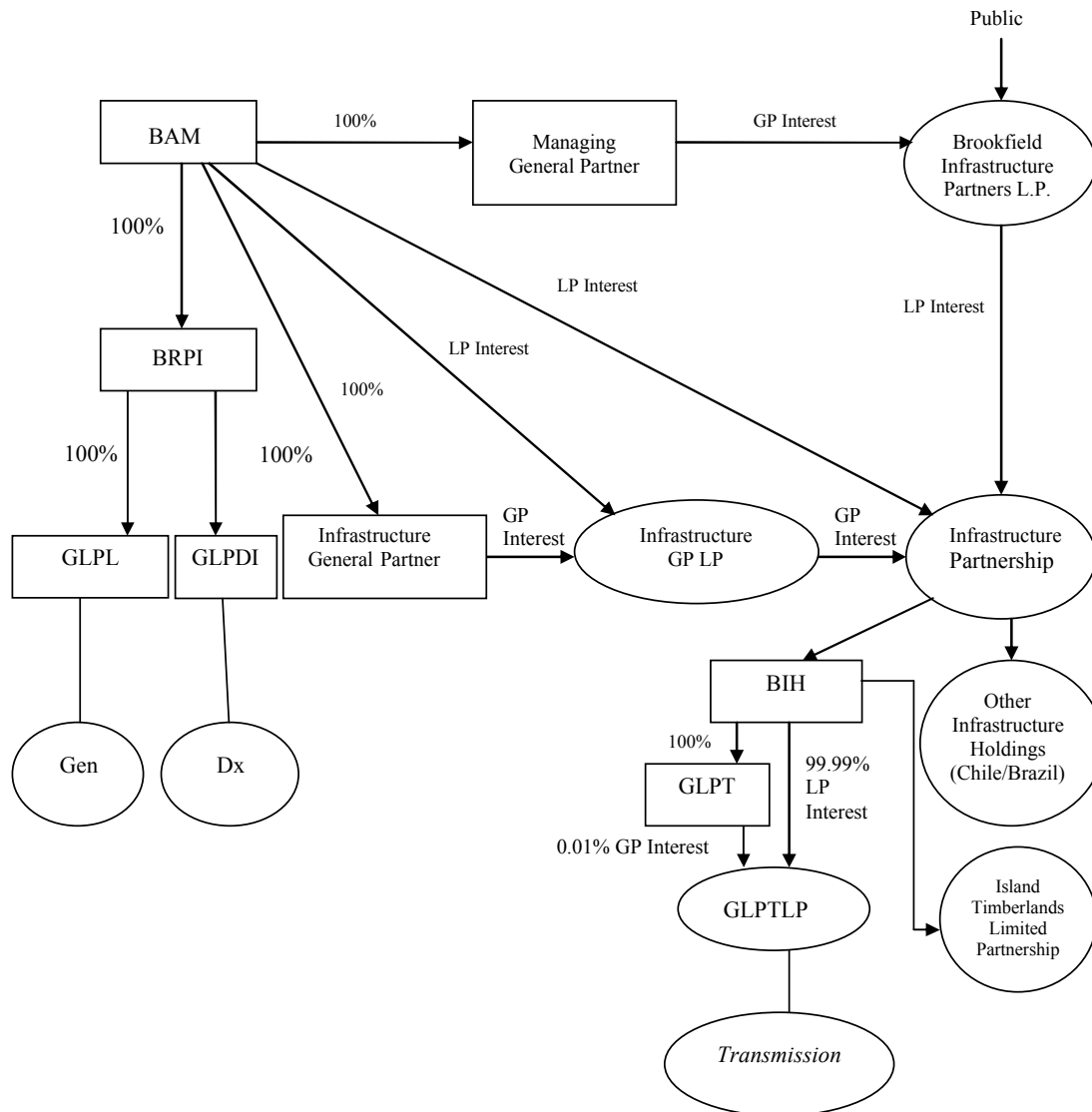


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.



Ontario Energy Board
Commission de l'Énergie de l'Ontario

**Application for Electricity Transmission
Licence**

Ontario Energy Board
2300 Yonge Street
P.O. Box 2319
Toronto, ON M4P 1E4
Telephone: 1-888-632-6273
Facsimile: (416) 440-7656

Commission de l'Énergie de
l'Ontario
2300 rue Yonge
C.P. 2319
Toronto, ON M4P 1E4
Téléphone: 1-888-632-6273

For Office Use Only	
Application Number	
Date Received	

A. General information

1. Type of Application

New licence	☐	
Renewal	☐	
Amendment to an existing Licence	☒	Amendment to ET-2007-0649

(See current licence at **Exhibit F, Tab 1, Schedule 3**)

2. Applicant

Please provide the following information about the Applicant			
Full Legal Name of Applicant Great Lakes Power Transmission Inc. ("GLPT") on behalf of Great Lakes Power Transmission LP ("GLPTLP")	Ontario Corporation Number, Canadian Corporation Number or Business Registration Number 1735103	Date of Formation or Incorporation May 16, 2007	
Business Address: 2 Sackville Road			
City Sault Ste. Marie	Prov. Ontario	Country Canada	Postal/Zip Code P6B 6J6
Phone Number (705) 759-7600	FAX Number (705) 941-5600	E-Mail Address (if applicable)	

3. Primary Contact for this Application

Please provide the following information about the Primary Contact for this Application:			
Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Lavoie	Full First Name: Tim	Initial:
Position Held: General Manager			
Contact Address (if R.R., give Lot, Concession No. and Township)			
2 Sackville Road			
City Sault Ste. Marie	Province Ontario	Country Canada	Postal/Zip Code P6B 6J6
Phone Number (705) 941-5697	FAX Number (705) 941-5600	E-mail Address (if applicable) tlavoie@glp.ca	

4. Transmission Facilities

Please provide a description of the transmission facilities involved in this Application:
Please see Exhibit F, Tab 1, Schedule 4 for a description of the Transmission Facilities.

B. Corporate Information

Organizational

5. Business Classification

Please indicate the Applicant's Business Classification (check appropriate type below):

- ☐ Sole Proprietor
- ☐ Partnership
- ☒ Corporation
- ☐ Other (describe) _____

6. Business Activities

Please provide a description of the Applicant's business activities:

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. GLPTLP is the owner of the Transmission Facilities described at **Exhibit F, Tab 1, Schedule 4** and, with the Board's approval, GLPTLP will also be the operator of these facilities. The Transmission Facilities are currently operated on behalf of GLPTLP by Great Lakes Power Ltd. under an OM&A agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities.

7. Affiliates of the Applicant

a) Please provide the following information for all Affiliates of the Applicant:

Full Legal Name of Affiliate Company:

Please see **Exhibit F, Tab 1, Schedule 5** for information on the Applicant's affiliates.

Business Address:

City	Prov.	Country	Postal/Zip Code
Phone Number	FAX Number	E-Mail Address (if applicable)	

Description of Business Activities:

Please see **Exhibit F, Tab 1, Schedule 5** for information on the Applicant's affiliates, including descriptions of their business activities.

b) Please attach a Corporate organization chart describing the relationships between the Applicant and its Affiliates and, if applicable, the respective ownership percentages by the Applicant in each Affiliate.

Please see **Exhibit F, Tab 1, Schedule 6** for corporate charts of the Applicant and its affiliates.

8. Energy Sector Activities

Has the Applicant or an Affiliate undertaken any energy sector activities in Ontario or any other jurisdiction? Yes ☒ No ☐ 		
If yes, please provide the following information for each:		
Company Name	Business Activity	Licence No.
Great Lakes Power Limited	Generator	EG-2003-0175
Great Lakes Power Limited	Transmitter	ET-2008-0342
Great Lakes Power Limited	Distributor	ED-2008-0343
Brookfield Energy Marketing Inc.	Wholesaler	EW-2005-0471
Brookfield Energy Marketing Inc.	Retailer	ER-2005-0440
Brookfield Energy Marketing LP	Wholesaler	EW-2005-0300
Brookfield Power Wind Corporation	Generator	EG-2004-0426
Valerie Falls Limited Partnership	Generator	EG-2003-0177
Mississagi Power Trust	Generator	EG-2002-0276
Lake Superior Power Limited Partnership	Generator	EG-2003-0176
Beaver Power Corporation	Generator	EG-2002-0408
Carmichael Limited Partnership	Generator	EG-2006-0070
Algonquin Power (Nagagami) Limited Partnership	Generator	EG-2006-0072
Brookfield Power Wind Prince LP	Generator	EG-2006-0130

2) Has the Applicant or an affiliate undertaken any electricity sector activities in any other jurisdiction? If yes, provide the following information:			Yes No X
Company Name	Jurisdiction	Business Activity	Licence / Registration No.
Brookfield Energy Marketing Inc.	Canada and U.S.	Wholesaler	
Waltham Power and Company, Limited Partnership	Quebec	Generator	
Coulange Power and Company, Limited Partnership	Quebec	Generator	
Lievre Power L.P.	Quebec	Generator	
Great Lakes Hydro America, LLC	U.S.	Generator	
Pontook Operating Limited Partnership	U.S.	Generator	
Brassua Hydroelectric Limited Partnership	U.S.	Generator	
Errol Hydroelectric Co., LC	U.S.	Generator	
Catalyst Old River Hydroelectric Limited Partnership	U.S.	Generator	
Powell River Energy Inc.	British Columbia	Generator	
Pingston Power Inc. (operated by Pingston Creek Hydro Joint Venture)	British Columbia	Generator	
Erie Boulevard Hydropower, L.P.	U.S.	Generator	
Carr Street Generating Station, L.P.	U.S.	Generator	
Hydro Kennebec L.P.	U.S.	Generator	
West Delaware Hydro Associates L.P.	U.S.	Generator	
Hawks Nest Hydro LLC	U.S.	Generator	
Bear Swamp Power Company LLC	U.S.	Generator	
Brookfield Power Piney & Deek Creek LLC	U.S.	Generator	
Rumford Falls Hydro LLC	U.S.	Generator	
Brookfield Energy Marketing US LLC	U.S.	Marketer	

Technical Capability and Experience

9. Technical Ability

1. Please describe the applicant's technical ability to carry out the activities applied for including the Applicant's specific experience in Ontario and in other jurisdictions.

GLPTLP proposes to operate the transmission system that it owns but which, at the time this Application was filed, was operated by GLPL in accordance with an OM&A Agreement between GLPTLP and GLPL. The Applicant intends to terminate the OM&A Agreement effective upon the transfer of distribution assets from GLPL to Great Lakes Power Distribution Inc.. Coincident to the transfer of distribution assets from GLPL to Great Lakes Power Distribution Inc., the employees of GLPL responsible for the maintenance and operation of the transmission system will be transferred to GLPTLP such that GLPTLP will carry on the operation of the transmission business in the same manner as was the case with GLPL operating the system under the OM&A Agreement, and with the same technical abilities.

2. If the Applicant intends to utilize the capability of others by contracting transmission activities, please indicate below which activities and to whom they will be contracted:

In the normal course of business, GLPDI will carry out the activities applied for using internal resources and expertise. However, in circumstances that may arise from time to time where GLPDI does not have sufficient internal resources or expertise to perform certain activities, GLPDI would likely utilize the capabilities of others by contracting out those activities.

☒ Design	Contracted to:
☐ Construction	Contracted to:
☐ Customer Connection	Contracted to:
☐ Inspection & Maintenance	Contracted to:
☐ Operation	Contracted to:
☐ Other (describe) _____	Contracted to:

10. Information About Each Key Individual

Information sheets for all directors and officers of GLPT are provided in **Appendix A** to this schedule.

Mr. ☐ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: _____	Full First Name: _____	Initial: _____
Position Held: _____			
Please explain the person's experience in the electrical transmission business and in the energy field in general.			
a. Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> .		Yes ☐	No ☐
If yes, provide business names and licence number(2) and describe the individuals specific related experience.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?		Yes ☐	No ☐
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?		Yes ☐	No ☐
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

11. Financial Information

Please attach financial statements of the Applicant for each of the past two fiscal years. This may include audited financial statements, annual reports, prospectuses or other such information.

GLPTLP's financial statements for 2007 are provided at **Exhibit F, Tab 1, Schedule 7**. A copy of GLPTLP's audited financial statements for 2008 will be filed once they are available.

Transmission Facilities Information

12. Facilities

Please indicate whether the Applicant's transmission facilities are:

☐ New assets to be constructed?

Proposed In-service date: _____

Please attach a statement explaining the financing arrangements.

☒ Existing assets presently owned by the Applicant?

☐ Existing assets not presently owned by the applicant (i.e. to be purchased)?

Please indicate from whom assets will be purchased:

☐ Other (describe)

13. Purpose of Facilities

Please indicate the intended purpose(s) of the Applicant's transmission facilities:

- ☐ To provide a connection between a generator and a transmission system.
- ☐ To provide a connection between a transmission system and a load customer.
- ☐ To provide a connection between a generator and a load customer.
- ☐ To provide a connection between one transmission system and another
- ☐ To import or export power

☒ Other (please describe):

The Transmission Facilities at issue make up an entire transmission system that forms part of the IESO controlled grid.

If parties other than the Applicant are involved, please indicate the specific names of the participants (generator, load customer, transmission system(s):

This Application is in support of efforts by the Applicant and its affiliates to ensure full compliance with section 71 of the OEB Act. For a summary of the omnibus application that this licence amendment application is being filed in connection with, please see **Exhibit F, Tab 1, Schedule 1, Appendix C**.

14. Location of Facilities

Please indicate the location (township or other such description as appropriate) of the Applicant's transmission facilities and attach a single-line diagram indicating the length (km), capacity (MW) and operating voltage (kV) of each element.

Maps of the geographic territories served by GLPTLP's Transmission Facilities are provided at **Exhibit F, Tab 1, Schedule 8**. A single-line diagram of the Transmission Facilities is provided at **Exhibit F, Tab 1, Schedule 9**.

15. Licensing History

Has the Applicant obtained Ontario Energy Board, National Energy Board, Federal Energy Regulatory Commission or any other regulatory approvals required for the acquisition, construction or operation of the transmission facilities?

Yes	No
☒	☐

If no, please indicate the status and plans for seeking these approvals.

GLPTLP is bringing this application in connection with the omnibus application described at **Exhibit F, Tab 1, Schedule 1, Appendix C**. The omnibus application includes a request by Great Lakes Power Ltd. for cancellation of its transmission licence, under which Great Lakes Power Ltd. currently operates the GLPTLP-owned Transmission Facilities.

Service to other parties

If the transmission facilities are to be used to deliver electricity to a party other than the Applicant please attach the following:

- a) a summary of business plans relating to the Applicant's proposed transmission business for the next five years. This should include the following:
 - a forecast of annual peak demand (MW) and energy (MWH) transmitted and/or transformed.
 - annual pro forma financial statements including forecasts of costs, revenues and project financing indicating the underlying assumptions on which the forecasts are based.
- b) estimates of net annual cash flows for subsequent periods to demonstrate financial feasibility and security.
- c) indication of the Applicant's plans to seek Ontario Energy Board approval for rates for transmission services.

The operation of the Transmission Facilities that are the subject of this application is not a new venture. The facilities are already owned by GLPTLP and are currently operated on GLPTLP's behalf by Great Lakes Power Ltd. ("GLPL") under an OM&A Agreement. Pursuant to the terms of the OM&A Agreement, all costs to operate the transmission facilities are passed from GLPL directly through to GLPTLP with no mark up or return being earned by GLPL. As such, the annual net revenue for GLPL will always be zero. Through the proposed amendment, GLPTLP will become the operator of the facilities. In so doing, GLPTLP will continue operation of the transmission assets as per current operations. GLPTLP therefore requests that the Board process this Licence Renewal Application without the detailed information set out in questions 16.

17. Proposed business transactions impact

Please provide a brief summary of the expected impact of the proposed business transactions on the Ontario electricity market under the following headings:

- Facilitate competition and enhance access to transmission services
- Improve reliability and quality of supply
- Promote economic and efficient electrical energy supply

There will be no impact on the electricity market as a result of this proposed licence amendment.

Other Information

18. Ontario market activities

Please indicate whether the Applicant intends to be involved with other electricity sector activities in the Ontario market?

☐ Buy or Sell (Wholesale) electricity

Yes No

☐ ☒

☐ Distribute electricity

Yes No

☐ ☒

☐ Retail electricity

Yes No

☐ ☒

☐ Generate electricity

Yes No

☐ ☒

If yes to any of the above:

a) If affiliates have not yet been established, please indicate when this is planned

b) Has Applicant or an affiliate applied for an Ontario Energy Board Licences?

Yes No

- If no, when planned? _____

☐ ☐

C. Notice and Consent

AS REQUIRED BY THE FREEDOM OF INFORMATION AND PROTECTION OF INDIVIDUAL PRIVACY ACT

In order to complete or verify the information provided on this form, it may be necessary for the Ontario Energy Board to collect additional information from some or all of the following sources: federal, provincial/state and municipal governments; licensing bodies; banks; professional and industry associations; and former and current employers. **Only information relevant to your application will be collected.**

The public official who can answer questions about the collection of information is:

Board Secretary
Ontario Energy Board
2300 Yonge Street, P.O. Box 2319
Toronto, Ontario M4P 1E4

Note: The issuance of an electricity transmitter licence does not guarantee accreditation by the IESO, or connection to a transmission or distribution system.

WARNING: It is an offence to knowingly provide false information on this application.

I/We consent to the collection of this information as authorized under the *Ontario Energy Board Act, 1998*. Yes ☐

I/We understand that this information will be used to determine whether I am/we are and remain qualified for the licence for which I am/we are applying. Yes ☐

Print Name and Title

Tim Lavoie
General Manager

Signature of Applicant(s)



Date Signed

2009/03/05

D. Acknowledgement

I understand and acknowledge that, as a licenced electricity transmitter, I will be required, unless otherwise exempted:

- To provide non-discriminatory access to all persons wishing to connect to the transmission system.
- To comply with all licence conditions including the provisions of:
 - The Ontario Energy Board Affiliate Relationships Code for Electricity Distributors and Transmitters
 - The Ontario Energy Board Transmission System Code
 - The Market Rules made under section 32 of the Electricity Act.

Print Name and Title	Signature of Applicant(s)	Date Signed
Tim Lavoie General Manager		2009/03/05

APPENDIX A

SECTION 10 INFORMATION SHEETS FOR KEY INDIVIDUALS

APPENDIX A

SECTION 10 INFORMATION SHEETS FOR KEY INDIVIDUALS

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Rosenthal	Full First Name: Jeff	Initial:
Position Held: Director and President			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Rosenthal is an officer of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application. Until June 2008, Mr. Rosenthal was an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342).			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Rosenthal is an officer of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application. Until June 2008, Mr. Rosenthal was an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342).			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☒ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Buckman	Full First Name: Fred	Initial:
Position Held: Director			
Please explain the person's experience in the electrical transmission business and in the energy field in general.			
b) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☐ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☐ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☐ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Keizer	Full First Name: Charles	Initial:
Position Held: Director			
Please explain the person's experience in the electrical transmission business and in the energy field in general. Mr. Keizer is a partner in the Infrastructure and Energy Practice at Torys LLP, where his practice focuses on administrative and corporate/commercial law in the energy sector. Mr. Keizer has provided advice to various energy sector participants, including generators, transmitters, distributors, and gas and power marketers. He has also advised clients on financing, project development, regulatory and contractual matters. Prior to entering the legal profession, Charles was a financial project manager with the Ontario Energy Board.			
c) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> .		Yes ☐	No ☒
If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?		Yes ☐	No ☒
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?		Yes ☐	No ☒
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Bettle	Full First Name: Peter	Initial:
Position Held: Vice-President			
Please explain the person's experience in the electrical transmission business and in the energy field in general. Mr. Bettle has been employed in positions of increasing responsibility by electricity distribution, generation and transmission companies in the United Kingdom and Ontario since 1988. He represented electricity generators on the Technical Panel of the board of the Independent Electricity System Operator from 2004 to 2007. He is currently employed as vice president, business development.			
d) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i> .		Yes ☐	No ☒
If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation?		Yes ☐	No ☒
If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled?		Yes ☐	No ☒
If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Lavoie	Full First Name: Tim	Initial:
Position Held: Secretary			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
b) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Lavoie is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Lavoie is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☒ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Faught	Full First Name: Mark	Initial:
Position Held: Business Controller			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
a) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. If yes, provide business names and licence number(s) and describe the individuals specific related experience.			Yes ☒ No ☐
Mr. Faught is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Faught is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			Yes ☐ No ☒

Information About Each Key Individual

Mr. ☒ Mrs. ☐ Miss ☐ Ms. ☐ Other: _____	Last Name: Fecteau	Full First Name: Duane	Initial:
Position Held: Director of Administration			
Please explain the person's experience in the electrical transmission business and in the energy field in general. See below.			
b) Has this person been a proprietor, partner, officer or director of a business that was granted a licence under Part IV or Part V of the <i>Ontario Energy Board Act, 1998</i>. Yes ☒ No ☐ If yes, provide business names and licence number(s) and describe the individuals specific related experience.			
Mr. Fecteau is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application.			
b) Has this person been a proprietor, partner, officer, or director of a business that was registered or licenced under this or any other acts or legislation? Yes ☒ No ☐ If yes, identify the business name, the legislation, licence number(s), date of the licencing or registration and the individual's specific related experience.			
Mr. Fecteau is an officer of Great Lakes Power Limited (EG-2003-0175, ED-2008-0343 and ET-2008-0342) and of Great Lakes Power Distribution Inc., for which a licence is being sought as part of the Omnibus Application.			
c) Has this person been a proprietor, partner, officer or director of a business that had a registration or licence of any kind refused, suspended, revoked or cancelled? Yes ☐ No ☒ If yes, please provide company name and describe the situation, including the jurisdiction and type of licence.			



Electricity Transmission Licence

ET-2007-0649

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP

Original signed by

Kirsten Walli

Board Secretary

Ontario Energy Board

Date of Issuance: December 24, 2007

Date of Sch.1 Correction: March 13, 2008

Effective Date: Date the Commercial Transaction Closes (as defined in section 1 of this licence)

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP
Electricity Transmission Licence ET-2007-0649

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Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP
Electricity Transmission Licence ET-2007-0649

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1 Definitions

In this Licence:

"Accounting Procedures Handbook" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"Act" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"Affiliate Relationships Code for Electricity Distributors and Transmitters" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"Board" means the Ontario Energy Board;

"commercial transaction" means the transfer of ownership of all of Great Lakes Power Limited's transmission facilities and any related assets, rights and obligations in respect of its transmission business to Great Lakes Power Transmission LP;

"Electricity Act" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"Licensee" means Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP

"Market Rules" means the rules made under section 32 of the Electricity Act;

"Performance Standards" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"Rate Order" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"transmission services" means services related to the transmission of electricity and the services the Board has required transmitters to carry out for which a charge or rate has been established in the Rate Order;

"Transmission System Code" means the code approved by the Board and in effect at the relevant time, which, among other things, establishes the obligations of a transmitter with respect to the services and terms of service to be offered to customers and provides minimum technical operating standards of transmission systems;

"wholesaler" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens. Where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence to own a transmission system consisting of the facilities described in Schedule 1 of this Licence, including all associated transmission equipment.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the Licensee are set out in Schedule 2 of this Licence. The following Codes apply to this Licence:
- a) the Affiliate Relationships Code for Electricity Distributors and Transmitters; and
 - b) the Transmission System Code.
- 5.2 The Licensee shall:
- a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

6 Requirement to Enter into an Operating Agreement

- 6.1 The Licensee shall enter into an agreement ("Operating Agreement") with the IESO providing for the direction by the IESO of the operation of the Licensee's transmission system. Following a request made by the IESO, the Licensee and the IESO shall enter into an Operating Agreement

within a period of 90 business days, unless extended with leave of the Board. The Operating Agreement shall be filed with the Board within ten (10) business days of its completion.

- 6.2 Where there is a dispute that cannot be resolved between the parties with respect to any of the terms and conditions of the Operating Agreement, the IESO or the Licensee may apply to the Board to determine the matter.

7 Obligation to Provide Non-discriminatory Access

- 7.1 The Licensee shall, upon the request of a consumer, generator, distributor or retailer, provide such consumer, generator, distributor or retailer, as the case may be, with access to the Licensee's transmission system and shall convey electricity on behalf of such consumer, generator, distributor or retailer in accordance with the terms of this Licence, the Transmission System Code and the Market Rules.

8 Obligation to Connect

- 8.1 If a request is made for connection to the Licensee's transmission system or for a change in the capacity of an existing connection, the Licensee shall respond to the request within 30 business days.
- 8.2 The Licensee shall process connection requests in accordance with published connection procedures and participate with the customer in the IESO's Connection Assessment and approval process in accordance with the Market Rules, its Rate Order(s) and the Transmission System Code.
- 8.3 An offer of connection shall be consistent with the terms of this Licence, the Market Rules, the Rate Order, and the Transmission System Code.
- 8.4 The terms of such offer to connect shall be fair and reasonable.
- 8.5 The Licensee shall not refuse to make an offer to connect unless it is permitted to do so by the Act or any Codes, standards or rules to which the Licensee is obligated to comply with as a condition of this Licence.

9 Obligation to Maintain System Integrity

- 9.1 The Licensee shall maintain its transmission system to the standards established in the Transmission System Code and Market Rules, and have regard to any other recognized industry operating or planning standards required by the Board.

10 Transmission Rates and Charges

- 10.1 The Licensee shall not charge for the connection of customers or the transmission of electricity except in accordance with the Licensee's Rate Order(s) as approved by the Board and the Transmission System Code

11 Separation of Business Activities

- 11.1 The Licensee shall keep financial records associated with transmitting electricity separate from its financial records associated with distributing electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

12 Expansion of Transmission System

- 12.1 The Licensee shall not construct, expand or reinforce an electricity transmission system or make an interconnection except in accordance with the Act and Regulations, the Transmission System Code and the Market Rules.

13 Provision of Information to the Board

- 13.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 13.2 Without limiting the generality of paragraph 13.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) business days past the date upon which such change occurs.

14 Restrictions on Provision of Information

- 14.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator, obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.
- 14.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.
- 14.3 Information regarding consumers, retailers, wholesalers or generators may be disclosed where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 14.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 14.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information is not be used for any other purpose except the purpose for which it was disclosed.

15 Term of Licence

- 15.1 Subject to section 15.2, this Licence shall take effect on the date the commercial transaction closes and expire 20 years from that date. The term of this Licence may be extended by the Board.
- 15.2 In order for this licence to take effect, the commercial transaction must close on or before December 31, 2008.

16 Transfer of Licence

- 16.1 In accordance with subsection 18(2) of the Act, this Licence is not transferable or assignable without leave of the Board.

17 Amendment of Licence

- 17.1 The Board may amend this Licence in accordance with section 74 of the Act or section 38 of the Electricity Act.

18 Fees and Assessments

- 18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

- 19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.
- 19.2 All official communication relating to this Licence shall be in writing.
- 19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:
- a) when delivered in person to the addressee by hand, by registered mail or by courier;
 - b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
 - c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

- 20.1 The Licensee shall:
- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

SCHEDULE 1 SPECIFICATION OF TRANSMISSION FACILITIES

This Schedule specifies the facilities over which the Licensee is authorized to transmit electricity in accordance with paragraph 3 of this Licence.

1. Great Lakes Power Inc. on behalf of Great Lakes Power Transmission LP's transmission facilities consist of:
 - 318.25 circuit km of 230 kV line and associated equipment;
 - 232.37 circuit km of 115 kV line and associated equipment; and
 - 11 circuit km of 44 kV line and associated equipment which was deemed by the Board as serving a transmission function under section 84 of the Act.

SCHEDULE 2 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the licensee has been exempted.

DESCRIPTION OF TRANSMISSION FACILITIES

The Transmission Facilities include all property and assets, whether real, personal or mixed, tangible or intangible, of every kind and description, wherever located, that are owned or leased by Great Lakes Power Transmission Inc. ("GLPTI") on behalf of Great Lakes Power Transmission L.P. ("GLPTLP") and are related to, or used or required in respect of the transmission business, including all of GLPTLP's right, title and interest in and to the following assets:

- The 318.25 circuit km of 230 kV line, 232.37 circuit km of 115 kV line, and 11 circuit km of 44 kV line currently operated by Great Lakes Power Limited ("GLPL"), including all lines, poles, wires and associated equipment and property;
- All interconnection lines and facilities linking GLPTLP's customers (consisting of 12 generators, 5 industrial customers and 2 local distribution companies) to its Transmission Facilities, and linking its Transmission Facilities to the Ontario power grid;
- The real property including all plant, buildings, structures, improvements and fixtures (including all fixed machinery and fixed equipment) located thereon or forming part thereof (collectively, the "Owned Property");
- All easements, licences and permits relating to the transmission business (collectively, the "Real Property Rights");
- All transmission stations used in connection with the transmission business, and all associated equipment and property;
- All warranties and all contracts, agreements and other legally binding instruments which have been entered into by GLPTI on behalf of GLPTLP in respect of the transmission business (collectively, the "Contracts");
- All trade accounts receivable and all trade debts due or accruing due to GLPTI on behalf of GLPTLP in respect of the transmission business;
- All plans, research, work, reports, studies, applications, documentation and material prepared by or for the benefit of GLPTLP in respect of the transmission business;
- All trade marks and trade mark applications, trade names, certification marks, patents and patent applications, copyrights, know-how, formulae, processes, inventions, technical expertise, research data, trade secrets, industrial designs and other similar property related to or used in respect of the transmission business;
- All inventories, work in process, raw materials, spare parts and other materials and supplies related to the transmission business; and

- All business and financial records and systems, including all accounting systems, lists of customers and suppliers, surveys, plans and specifications relating to the transmission business, and all operating manuals, engineering standards and specifications and other information used or required to effectively conduct the transmission business or operate the Transmission Facilities or any of them.

**DESCRIPTION OF ONTARIO ELECTRICITY SECTOR AFFILIATES OF
GLPTLP**

Great Lakes Power Limited ("GLPL")

GLPL is a licensed generator and distributor of electricity pursuant to licenses EG-2003-0175 and ED-2008-0343. GLPL is also a licensed transmission operator of the transmission system owned by Great Lakes Power Transmission LP, mentioned below, pursuant to operator license ET-2008-0342. GLPL is owned 100% by BRPI.

GLPL's distributor licences (ED-1999-0277) and its transmission licence (ET-2002-0247) both expired on December 31, 2008. The Board granted GLPL an interim distributor licence (ED-2008-0343) and an interim transmission licence (ET-2008-0342).

GLPL's generation business consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. The generating stations are located on four river systems.

Address:
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6
Phone: 705-759-7600
Fax : 705-941-5600

Brookfield Asset Management Inc. ("BAM")

BAM is focused on property, power and infrastructure assets, with approximately US\$90 billion of assets under management. BAM's securities trade on the Toronto, New York and Euronext Amsterdam stock exchanges under the symbol BAM.A, BAM and BAMA respectively. BAM is the ultimate parent company to the electricity sector affiliates mentioned below.

Address:
Brookfield Place, Suite 300
181 Bay Street
Toronto, Ontario
M5J 2T3
Phone: 416-363-9491
Fax: 416-365-9642

Brookfield Renewable Power Inc. (“BRPI”)

BRPI, wholly-owned by BAM, has more than 100 years of experience as an owner, operator and developer of hydroelectric power facilities. Its total portfolio includes more than 160 generating facilities with approximately 4,000 megawatts of capacity. It also has a significant hydroelectric and wind project pipeline. BRPI's operations are primarily located in North America and Brazil and held through various subsidiaries. Some of its assets are owned through Great Lakes Hydro Income Fund, a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN).

Address:

480 Boulevard de la Cité
Gatineau, Québec
J8T 8R3
Ph: 819-561-2722
Fax: 819-561-7188

Great Lakes Power Transmission Inc. (“GLPT”)

GLPT is the general partner of Great Lakes Power Transmission LP (“GLPTLP”), a limited partner that owns transmission facilities in Northern Ontario that are operated by Great Lakes Power Limited (“GLPL”). GLPT and GLPTLP are indirect subsidiaries of Brookfield Infrastructure Partners L.P. (“BIP”). BAM is a major shareholder of BIP. BIP has securities trading on the New York Stock Exchange under the symbol BIP. GLPT is a licensed transmitter on behalf of GLPTLP pursuant to transmission licence ET-2007-0649. GLPL operates the GLPTLP transmission facilities pursuant to operator licence EB-2008-0342.

Address:

2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6
Phone: 705-759-7600
Fax: 705-941-5600

Brookfield Energy Marketing Inc. (“BEMI”)

BEMI, located in Gatineau, Quebec, is wholly owned by BRPI and conducts most of BRPI's wholesale energy marketing business in Canada and the United States. It manages the scheduling of BRPI's generating assets, sells power into the applicable wholesale electricity markets and enters into short-term financial contracts and power purchase agreements on behalf of the relevant entities. BEMI is a licensed energy wholesale marketer and retailer under OEB licences EW-2005-0471 and ER-2005-0440.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Brookfield Power Wind Prince LP ("BPWP LP")

BPWP LP owns the Prince Wind Energy Project, a wind farm west of Sault Ste. Marie located in the townships of Dennis, Pennefather, Korah, Aweres and Prince, in the District of Algoma in the Province of Ontario. It is owned by BRPI's publicly traded subsidiary, Great Lakes Hydro Income Fund. It is a licensed electricity generator (EG-2006-0130).

Address:
Ontario Wind Operations
400 Allen Side Road
Sault Ste. Marie, Ontario
P6A 6K4
Phone: 705-941-5659
Fax: 705-946-5574

Brookfield Power Wind Corporation ("Brookfield Wind")

Brookfield Wind has been actively involved in the development of wind power projects in Ontario for many years. Brookfield Wind is a licensed electricity generator (EG-2004-0426), but does not currently have any operating generation.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

Valerie Falls General Partner Limited (“Valerie GP”)

Valerie GP is the general partner of Valerie Falls Limited Partnership (“Valerie LP”), a limited partnership generating electricity through its 10 MW hydroelectric station on the Seine River at Valerie Falls, three miles north of Atikokan in northwestern Ontario. Valerie GP is a licensed generator on behalf of Valerie LP pursuant to licence EG-2003-0177. Brookfield Renewable Power holds a 65% controlling interest in Valerie GP. The other 35% interest in Valerie GP is held by Seine River Power Inc. (“Seine”), a wholly owned subsidiary of Brookfield Renewable Power. Valerie LP is held 99.99% by Brookfield Renewable Power and 0.01% by Valerie GP.

Address:

Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Mississagi Power Trust (“MPT”)

MPT generates electricity through four hydroelectric facilities: the Aubrey Falls Generating Station, the George W. Rayner Generating Station, the Wells Generating Station and the Red Rock Falls Generating Station. It is owned by Brookfield Renewable Power’s publicly traded subsidiary, Great Lakes Hydro Income Fund. MPT is a licensed generator pursuant to OEB licence EG-2002-0276.

Address:

Mississagi Operations
R.R. #3, 4917 Highway 129
Thessalon, Ontario
P0R 1L0
Phone: 705-842-3377
Fax: 705-842-2086

Lake Superior Power Inc. (“LSPI”)

LSPI’s cogeneration facility is located in Sault Ste. Marie, Ontario. Lake Superior Power Limited Partnership (“Lake Superior Power LP”) is a limited partnership formed to develop and operate a 110 MW natural gas-fired cogeneration plant in Sault Ste. Marie, Ontario. Brookfield Renewable Power is the sole limited partner in the Lake Superior Power LP. The general partner is LSPI, which holds a 1% interest in the project. Brookfield Renewable Power is the sole shareholder of LSPI. LSPI is a licensed generator on behalf of Lake Superior Power LP pursuant to OEB licence EG-2003-0176.

Address:
Lake Superior Operations
102 West Street, P.O. Box 1198
Sault Ste. Marie, Ontario
P6A 5N7
Phone: 705-942-8804
Fax: 705-942-8939

Beaver Power Corporation (“Beaver Power”)

The hydroelectric facilities of Beaver Power are located in northern Ontario. Beaver Power directly and indirectly owns three run-of-river hydro-electric generating facilities. It directly owns the Serpent River Project (7 MW) and the Aux Sables Project (4 MW). It also holds a 99.99% limited partnership interest in Algonquin Power (Nagagami) Limited Partnership (“Algonquin LP”) which owns the Nagagami Project (19 MW). The remaining 0.01% of Algonquin LP is held by Algonquin Power General Partner (Nagagami) Inc. (“Algonquin GP”), which is 75% held by Algonquin Power Financial Services (Nagagami) Inc., which is a wholly owned subsidiary of Beaver Power. The balance of Algonquin GP is held by the Matawa First Nations Economic Development Corporation.

Beaver Power and Algonquin LP are licensed generators pursuant respectively to licences EG-2002-0408 and EG-2006-0072.

Address (Serpent River & Aux Sables Projects): Mississagi Operations R.R. #3, 4917 Highway 129 Thessalon, Ontario P0R 1L0 Phone: 705-842-3377 Fax: 705-842-2086	Address (Nagagami Project): Wawa Hydro Operations 105 Mills Drive, P.O. Box 320 Wawa, Ontario P0S 1K0 Phone: 705-856-2632 Fax: 705-856-1338

Carmichael Limited Partnership (“Carmichael LP”)

The hydroelectric facility of Carmichael LP is located in northern Ontario. Carmichael LP directly owns Carmichael Falls, a 20 MW generating station on Groundhog River. Carmichael LP is held 99.99% by Great Lakes Power Trust, a wholly-owned subsidiary of Great Lakes Hydro Income Fund, and 0.01% by its general partner, Carmichael GP Inc., which is also wholly-owned by Great Lakes Power Trust. Carmichael LP is a licensed generator pursuant to licence EG-2006-0070.

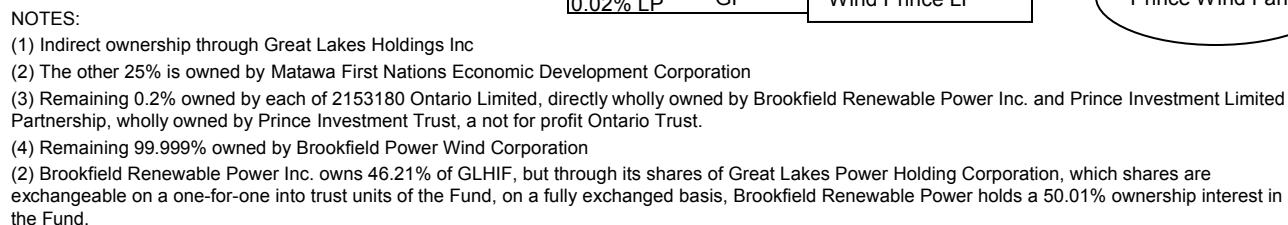
Address:
Wawa Hydro Operations
105 Mills Drive, P.O. Box 320
Wawa, Ontario
P0S 1K0
Phone: 705-856-2632
Fax: 705-856-1338

Brookfield Energy Marketing LP (“BEMLP”)

Brookfield Energy Marketing LP (“BEMLP”), located in Gatineau, Quebec, is a limited partnership which acts in the same capacity as BEMI. Brookfield Wind is its sole limited partner holding a 99.999% interest and BEMI is its general partner with a 0.001% interest. BEMLP is a licensed energy wholesale marketer under OEB licence EW-2005-0300.

Address:
480 de la Cité Boulevard
Gatineau, Québec
J8T 8R3
Phone: 819-561-2722
Fax: 819-561-7188

ONTARIO OPERATIONS - CORPORATE STRUCTURE - CURRENT



February 4, 2009

Financial Statements

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION
December 31, 2007



Deloitte & Touche LLP
Brookfield Place
181 Bay Street
Suite 1400
Toronto ON M5J 2V1
Canada

Tel: (416) 601-6150
Fax: (416) 601-6151
www.deloitte.ca

Auditors' Report

To the Directors of
Great Lakes Power Limited

We have audited the balance sheet of Great Lakes Power Limited Transmission Division (the "Division") as at December 31, 2007 and the statements of capital account, income and comprehensive income, and cash flows for the year then ended. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements present fairly, in all material respects, the financial position of the Division as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
March 14, 2008

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION
BALANCE SHEET
As at December 31

<i>thousands of CDN dollars</i>	<i>Notes</i>	2007	2006
Assets			
Current assets			
Cash		\$ 3,388	\$ 4,937
Accounts receivable		3,200	3,512
Due from related parties	5	3,719	8,500
Prepaid expenses and other		157	157
Current portion of regulatory asset	8	1,649	1,649
		12,113	18,755
Regulatory asset	8	2,762	3,299
Property, plant and equipment, net	6	210,312	195,954
		\$ 225,187	\$ 218,008
Liabilities and Capital Account			
Current liabilities			
Accounts and other payables		\$ 10,578	\$ 5,159
Regulatory liability	8	2,391	-
Taxes payable		1,094	4,501
Due to related parties	5	587	6,173
		14,650	15,833
First mortgage bonds	7	114,789	115,750
Future income taxes	11	19,339	21,513
		148,778	153,096
Capital account		76,409	64,912
		\$ 225,187	\$ 218,008

See accompanying notes to financial statements

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION
STATEMENT OF CAPITAL ACCOUNT
Year ended December 31

<i>thousands of CDN dollars</i>	2007		2006	
Balance, beginning of year	\$	64,912	\$	53,136
Net income		11,497		11,776
Balance, end of year	\$	76,409	\$	64,912

See accompanying notes to financial statements

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION
STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Revenues		\$ 35,568	\$ 34,686
Operating expenses			
Operating and administration		4,652	4,277
Depreciation		6,122	5,530
Maintenance		1,242	1,475
Taxes, other than income taxes		493	482
		23,059	22,922
Other income, net		67	179
		23,126	23,101
Expenses			
Interest	10	7,397	6,555
Loss on disposal of property, plant and equipment	8	1,649	1,436
Income taxes - current	11	4,757	5,057
Recovery of income taxes - future	11	(2,174)	(1,723)
		11,629	11,325
Net income and comprehensive income		\$ 11,497	\$ 11,776

See accompanying notes to financial statements

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION
STATEMENT OF CASH FLOWS
Year ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Operating activities			
Net Income		\$ 11,497	\$ 11,776
Items not affecting cash			
Depreciation		6,122	5,530
Non-cash interest expense	7,10	37	-
Future income taxes		(2,174)	(1,723)
Loss on disposal of property, plant and equipment	8	1,649	1,436
Net change in non-cash working capital and other	9	(4,568)	7,042
		12,563	24,061
Investing activities			
Due from related party		4,781	(1,995)
Proceeds on disposition of property, plant and equipment	6	108	250
Additions to property, plant and equipment		(18,003)	(19,339)
		(13,114)	(21,084)
Financing activities			
Deferred financing fees	7	(998)	-
		(998)	
(Decrease) increase in cash		(1,549)	2,977
Cash, beginning of year		4,937	1,960
Cash, end of year		\$ 3,388	\$ 4,937

See accompanying notes to financial statements

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

1. NATURE AND DESCRIPTION OF BUSINESS

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles on the basis that the Transmission Division (the "Division") of Great Lakes Power Limited ("GLPL") operates as a separate legal entity. The Division is engaged in the transmission of electricity to the area adjacent to Sault Ste. Marie, Canada and is subject to the regulations of the Ontario Energy Board (the "OEB"). These divisional financial statements do not include all of the assets, liabilities, revenues and expenses of GLPL. Consolidated financial statements of GLPL have been prepared for issuance to the shareholders and have been reported on by its auditors.

These financial statements have been derived from the consolidated financial statements and accounting records of GLPL using historical results of operations and historical basis of assets and liabilities of the Division. Management believes the assumptions underlying the financial statements are reasonable. However, the financial statements included herein may not necessarily reflect the Division's results of operations, financial position and cash flows in the future or what its results of operations, financial position and cash flows would have been had the Division been a stand-alone company during the years presented.

These financial statements include allocations of certain expenses and liabilities, including the items described below.

General Corporate Expenses

GLPL allocates some of its general corporate expenses for each fiscal year based on variable drivers depending on the nature of each expense. These general corporate expenses include accounting and administration, management salaries, planning and maintenance services and information technology. Administration costs such as accounting and management salaries are allocated equally across the divisions whereas information technology is allocated based on headcount. Total allocations amounted to \$1,316 in 2007 (2006 – \$1,286). These expenses have been included in operating and administrative expenses on the statement of income and comprehensive income. Management believes the cost of these services charged to the Division are a reasonable representation of the costs that would have been incurred if the Division had performed these functions as a stand-alone company.

Income taxes

The Division's income taxes were calculated on a separate tax return basis. However, GLPL was managing its tax position for the benefit of its business as a whole, and its tax strategies are not necessarily reflective of the tax strategies that the Division would have followed as a stand-alone company.

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007
(in thousands of CDN dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied in the preparation of these financial statements:

Property, plant and equipment

Property, plant and equipment are recorded at cost, including costs of acquisition incurred by the Division and its parent, less accumulated depreciation. The cost of the property, plant and equipment is depreciated over the estimated service lives of the assets as follows:

	Method	Rate
Buildings	Straight-line	40 years
Transmission stations, towers and related fixtures	Straight-line	25 to 40 years
Equipment	Straight-line	5 to 40 years

Construction work in progress is not depreciated until the assets are put into service.

Impairment of long-lived assets

The Division reviews long-lived assets for other than temporary impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. The determination of whether impairment has occurred is based on an estimate of undiscounted cash flows attributable to the assets, as compared to the carrying value of the assets. Should an asset be considered to be impaired, an impairment loss is recognized in an amount equal to the excess of the asset's carrying value over its fair value.

Deferred financing fees

Financing costs associated with the offering of the First mortgage bonds are capitalized, netted against the First mortgage bonds liability, and amortized over the term of the bonds using the effective interest method.

Capitalization of interest

Interest on funds used in construction is charged to construction work in progress at the prescribed rate of return applicable to the rate base.

Revenue recognition

The Division recognizes revenue on an accrual basis, when electricity is wheeled, at the regulated rate established by the OEB.

Income taxes

The Division uses the asset and liability method in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and are measured using the enacted, or substantively enacted, tax rates and laws that will be in effect when the differences are expected to reverse, taking into account the organization of the Division's financial affairs and its impact on taxable income and tax losses.

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. During the years presented, management has made a number of estimates and valuation assumptions including accruals, depreciation and those relevant to the defined benefit pension plan. 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.

Rate Regulation

On January 1, 2005, the Division adopted CICA Handbook Accounting Guideline 19, *Disclosure by Entities Subject to Rate Regulation*. The Division is regulated by the OEB. Accounting standards recognize that rate regulation can create economic benefits and obligations, which are reported in the financial statements as regulatory assets and liabilities. When the regulation provides assurance that incurred costs will be recovered in the future, the Division may defer these costs and report them as a regulatory asset. If current recovery is provided for costs expected to be incurred in the future, the Division reports a regulatory liability. Also, if the regulation provides for lesser or greater planned revenue to be received or returned by the Division through future rates, the Division recognizes and reports a regulatory asset or liability, respectively. The measurement of such regulatory assets and liabilities are subject to certain estimates and assumptions, including assumptions made in the interpretation of the relevant regulation.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Division adopted the following new accounting standards for Canadian generally accepted accounting principles:

Handbook Section 1530, Comprehensive Income

This section establishes standards for reporting and presenting comprehensive income (loss), which is defined as the change in owners' equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income (loss) until it is considered appropriate to recognize into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. There was no impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

Handbook Section 3251, Equity

The Division adopted Section 3251, Equity replacing Section 3250, Surplus. This section describes the presentation of equity and changes in equity for a reporting period as a result of the application of Section 1530, Comprehensive Income. There was no impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

Handbook Section 3855, Financial Instruments – Recognition and Measurement

Under Section 3855, all financial instruments are classified as one of the following: held-for-trading, held-to-maturity investments, loans and receivables, other financial liabilities, or available-for-sale financial assets. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets, held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost using the effective interest rate method of amortization. Available-for-sale financial instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

The Division has implemented the following classifications:

- a) Cash is designated as a financial asset held-for-trading and is measured at fair value through net income at each period end.
- b) Accounts receivable and due from related parties are classified as loans and receivables. Accounts and other payables and due to related parties are classified as other financial liabilities. These accounts are measured at fair value at inception which, due to their short-term nature, approximates amortized cost.
- c) After its initial fair value measurement, long-term debt is classified as other financial liabilities and is measured at amortized cost using the effective interest method.

There was no material impact on the adoption of this new standard on the Division's financial statements as at January 1, 2007.

4. FUTURE ACCOUNTING POLICY CHANGES

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

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

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

The Division does not expect the adoption of these new standards to have a material impact on the financial statements.

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION **NOTES TO FINANCIAL STATEMENTS**

December 31, 2007

(in thousands of CDN dollars)

5. RELATED PARTY TRANSACTIONS

- (a) The Division has provided advances to and received advances from entities under common control in the normal course of operations. The Division has also provided advances to and received advances from other divisions of GLPL. These advances are non-interest bearing, unsecured and due on demand.
- (b) In the normal course of operations, Riskcorp Inc., a broker company affiliated with Brookfield Asset Management Inc., GLPL's ultimate parent, entered into transactions with GLPL to provide insurance. These transactions have been measured at exchange value. The total cost allocated to the Division in 2007 for these services was \$116 (2006 - \$117) and no amount remains outstanding at year end (2006 - \$nil).
- (c) As a result, the following balances are receivable (payable) at December 31:

		2007	2006
<i>Due from related parties:</i>			
Advances to other divisions of GLPL	\$	3,719	\$ 8,500
<i>Due to related parties:</i>			
Advances from other divisions of GLPL	\$	(222)	\$ (5,892)
Advances from entities under common control		(365)	(281)
	\$	(587)	\$ (6,173)

6. PROPERTY, PLANT AND EQUIPMENT

			2007	2006
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	\$ 544	\$ -	\$ 544	\$ 544
Buildings	14,772	3,988	10,784	10,991
Transmission stations, towers and related fixtures	249,296	55,917	193,379	182,226
Construction work in progress	5,605	-	5,605	2,193
	\$ 270,217	\$ 59,905	\$ 210,312	\$ 195,954

Cost and accumulated depreciation as at December 31, 2006 were \$249,771 and \$53,817, respectively.

During 2007, the Division disposed of assets that had a net book value of \$108 for net proceeds of \$108.

Property, plant and equipment were comprehensively revalued to fair value in 1996. At December 31, 2007, the fair value adjustment and the related accumulated depreciation were \$78,941 and \$21,861, respectively (2006 - \$78,941 and \$19,888, respectively).

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

7. FIRST MORTGAGE BONDS

	2007	2006
Series 1 First Mortgage Bonds	\$ 384,000	\$ 384,000
Subordinated First Mortgage Bonds	115,000	115,000
	\$ 499,000	\$ 499,000

The Series 1 First Mortgage Bonds ("Series 1 Bonds") bear interest at the rate of 6.6%. Semi-annual payments of interest only are due and payable on June and December 16 each year until and including June 16, 2013. Equal blended semi-annual payments of principal and interest on the Series 1 Bonds will commence on December 16, 2013 and will continue until and including June 16, 2023. The Series 1 Bonds will not be fully amortized by their maturity date. The remaining principal balance of the Series 1 Bonds will be fully due on June 16, 2023.

The Subordinated First Mortgage Bonds bear interest at the rate of 7.8%, payable on June and December 16 each year, and are due on June 16, 2023.

The Series 1 First Mortgage Bonds and the Subordinated First Mortgage Bonds are both secured by a charge on generation and transmission present and future real property assets of GLPL. The fair market value of the First Mortgage Bonds is \$553,852 (2006 - \$576,262) based on current market prices for debt with similar terms.

The portion of the Series 1 Bonds has been allocated to the Division as follows:

	2007	2006
Series 1 Bonds	\$ 115,750	\$ 115,750
Less: Unamortized deferred financing fees	961	-
	\$ 114,789	\$ 115,750

Interest on the allocated Bonds is expensed in accordance with the interest rate prescribed by regulation. In 2007, the interest rate was 6.6% (2006 - 6.6%). The fair market value of the Series 1 Bonds that has been allocated to the Division is \$125,187 (2006 - \$130,338) based on current market prices for debt with similar terms. Amortization of deferred financing fees for the year related to the Division's long-term debt is included in interest expense and totalled \$37 (2006 - \$nil). See note 11.

8. EFFECT OF RATE REGULATION

The Division recorded the following regulatory assets and liability as at December 31:

	2007	2006
<i>Regulatory assets:</i>		
Deferred loss on disposal of transmission assets	\$ 3,299	\$ 4,948
Wholesale metering services rebates	465	-
Reorganization costs relating to the transfer of assets	647	-
Less: current portion	(1,649)	(1,649)
Long-term portion	\$ 2,762	\$ 3,299
<i>Regulatory liability:</i>		
Deferred rate impact accrual	\$ 2,391	\$ -

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

The Division operates in accordance with the regulations of the OEB. Regulatory assets and liabilities represent certain revenues earned or costs incurred in the current year or in prior years that have been or are expected to be recovered from customers upon approval from the OEB. In the absence of rate regulation, these balances would have been recorded as revenues or expenses in the statement of income and comprehensive income.

Deferred loss on disposal of transmission assets

As prescribed by regulatory order, gains or losses on disposal of assets are recorded as a regulatory asset or liability subject to approval by the OEB. For the year ended December 31, 2005, the Division incurred a loss on disposal of transmission assets of \$8,246. This regulatory asset is recovered over a period of five years, which commenced on April 1, 2005, through rate increases. During 2007, the Division recovered \$1,649 (2006 - \$1,649) of the deferred loss. As the deferred loss on disposal of transmission assets has been approved by the OEB for recovery, there is no risk of non-collection of this balance.

Wholesale metering services rebates

As prescribed by regulatory order, the rebates related to metering services are recorded as a regulatory asset. The Division is responsible for paying the rebates and recording them in a regulatory asset deferral account. As wholesale metering services rebates have been approved by the OEB for recovery, there is no risk of non-collection of this balance. The Division will include its request to recover this amount in its next rate application filing to the OEB.

Reorganization costs relating to the transfer of assets

These reorganization costs were the result of the transfer of the Division's assets from GLPL to Great Lakes Power Transmission LP ("GLPTLP"), a subsidiary of Brookfield Infrastructure Partners LP, which is a newly formed partnership created by Brookfield Asset Management Inc. (note 14). Legislation through the Ontario Electricity Act requires the separation of transmission assets from generation assets, however, GLPL had an exemption to operate its transmission, distribution, and generation business within the same company until December 31, 2008. The costs associated with the transfer of the Division's assets were capitalized as regulatory assets as they are eligible for recovery through future rates, subject to OEB approval. The Division will include its request to recover this amount in its next rate application filing to the OEB.

Deferred rate impact accrual

The deferred rate impact accrual ("DRIA") was for revenues being recovered through the 2005 rate application filed with the OEB. On November 1, 2007, the OEB implemented a new uniform transmission rate as a result of the rate application filed by Hydro One Networks Inc. This resulted in the termination of the over recovery of the DRIA. At December 31, 2007, the DRIA balance of \$2,391 is payable to the OEB. At December 31, 2006, the DRIA had a receivable balance of \$317 and was included in accounts receivable.

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

9. STATEMENT OF CASH FLOWS

	2007	2006
Accounts receivable	\$ 312	\$ 2,083
Prepaid expenses and other	-	(48)
Reorganization costs relating to the transfer of assets	(647)	-
Wholesale metering services rebate	(465)	-
Accounts and other payables	2,834	(5,197)
Due to related parties	(5,586)	5,087
Regulatory liability	2,391	-
Taxes payable	(3,407)	5,117
	\$ (4,568)	\$ 7,042

Capital asset additions totaling \$6,466 have been excluded from the Statement of Cash Flows as they remain unpaid at year end. During 2007, capital asset additions totaling \$3,881 have been included in the Statement of Cash Flows as they were accrued at December 31, 2006 and paid in 2007.

10. INTEREST AND FINANCING FEES

The net interest and financing fees recorded in the financial statements as at December 31 are comprised as follows:

	2007	2006
Interest expense incurred	\$ 7,660	\$ 7,659
Amortization of deferred financing fees	37	-
Capitalized interest	(300)	(1,104)
	\$ 7,397	\$ 6,555

11. INCOME TAXES

The provision for income taxes in the statement of income and comprehensive income represents an effective tax rate different than the Canadian statutory rate of 36.12% (2006 – 36.00%). The differences were as follows:

	2007	2006
Net income before income taxes	\$ 14,080	\$ 15,110
Computed income tax recovery at Canadian statutory rate	5,086	5,440
Increase resulting from:		
Impact of future rate change on future income tax liability	(2,607)	(2,007)
Other	104	(99)
Income tax provision	\$ 2,583	\$ 3,334
Future income tax liabilities		
CCA in excess of book depreciation	\$ 19,099	\$ 21,598
Other	238	(85)
	\$ 19,339	\$ 21,513

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

The Division's future income tax liability of \$19,339 (2006 – \$21,513) is comprised principally of temporary differences relating to the CCA in excess of book depreciation. At December 31, 2007, the Division did not have any unused capital losses (2006 – \$nil).

12. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The Division's long-term debt bears interest at a rate set periodically by the OEB. Consequently, there is cash flow exposure.

(b) Fair value

The carrying amounts in the balance sheet of accounts receivable and accounts and other payables approximate their fair values, reflecting their short maturities. The fair value of the related party balances is not determinable by management due to the related party nature of these balances.

(c) Credit risk

Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Division would incur a loss in replacing the defaulted transaction. The Division's financial instruments that are potentially exposed to credit risks are accounts receivable. The Division actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and continually monitors these exposures.

13. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, the Division executes agreements that provide for indemnification and guarantees to third parties in transactions such as debt issuances. The nature of substantially all of the indemnification undertakings prevents the Division from making a reasonable estimate of the maximum potential amount the Division could be required to pay third parties as the agreements do not 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, the Division has not made significant payments under such indemnification agreements.

On behalf of GLPL, Brookfield Power Corporation obtained a letter of credit totaling \$19,008 (2006 - \$19,008) to cover nine months of interest payments on the First Mortgage Bonds. No amount has been drawn against this letter of credit.

In the normal course of operations, the Division has committed as at December 31, 2007 to spend approximately \$6,466 (2006 - \$5,500) on capital projects in future years.

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

GREAT LAKES POWER LIMITED TRANSMISSION DIVISION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars)

There are no specified decommissioning costs relating to the Ontario transmission assets. The Division has a comprehensive repair and capital expenditure program to ensure that its transmission lines are maintained to optimum industry standards. Replacement of the assets occur in accordance with a long term capital plan and would involve typical costs of removal as part of that process. In the circumstance where a portion of a line or other assets were removed completely, there may be some contractual obligations under private or crown easements or other land rights which require the transmission owner to reinstate the land to a certain standard, typically the shape it was prior to the construction of the transmission assets. As well, certain environmental, land use and/or utility legislation, regulations and policy may apply in which we would have to comply with remediation requirements set by the government. The requirements will typically depend on the specific property characteristics and what criteria the government determines to be appropriate to meet safety and environmental concerns. These asset lives are indeterminate given their nature. As the individual assets or components reach the end of their useful lives, they are retired and replaced. Historically, certain asset components have been replaced a number of times, thus creating a perpetual asset with an indeterminate life. As such, the retirement date for these lines cannot be reasonably estimated and therefore, the fair value of the associated liability cannot be determined at this time. As a result, no liability has been accrued in these financial statements.

14. SUBSEQUENT EVENT

Effective March 12, 2008, GLPL transferred the Division's operations to GLPTLP. GLPL will operate the GLPTLP transmission facilities pursuant to an Operation, Maintenance and Administration Agreement between GLPL and GLPTLP. On the same day, the financing agreement of the First Mortgage Bonds was amended to remove the security against the generation assets and to convert 31.25% of the principal amount of the Series 1 Bonds into Trans Senior Bonds having a principal of \$120,000, the terms of which remain substantially unchanged. The Trans Senior Bonds are now secured by a charge on transmission present and future real property assets of GLPTLP. On behalf of GLPTLP, Brookfield Power Corporation, a company related through common control, obtained a letter of credit in the amount of \$3,960 to cover six months of interest payments on the Trans Senior Bonds.

[GLPL Transmission's 2008 Audited Financial Statements to be provided once available]

MAP OF GLPTLP TRANSMISSION SYSTEM TERRITORY

Please see map AB-10000 (GLP Area Overview) in Folder 2 of the accompanying CD-ROM.

SINGLE-LINE DIAGRAM OF GLPTLP TRANSMISSION FACILITIES

Please see map AD-36204 (System Operating Diagram) in Folder 3 of the accompanying CD-ROM.

REQUEST FOR LICENCE CANCELLATION

To: Ontario Energy Board

Attention: Ms. Kirsten Walli, Board Secretary

From: Great Lakes Power Limited

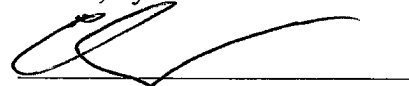
Re: *Request to Cancel Distribution Licence (ED-2008-0343)*

We are counsel to Great Lakes Power Limited ("GLPL") and are filing this request on behalf of GLPL in connection with an omnibus application for leave to transfer GLPL's distribution system in its entirety to Great Lakes Power Distribution Inc., along with various requests ancillary to this internal reorganization, all of which are necessary for GLPL and its affiliates to be compliant with section 71 of the *Ontario Energy Board Act* (the "Act"). Among the matters that are ancillary to the reorganization, GLPL will no longer be operating or maintaining electricity transmission assets on behalf of its affiliate Great Lakes Power Transmission L.P. ("GLPTLP").

Therefore, on behalf of GLPL, we are hereby requesting the cancellation of GLPL's electricity transmission licence ET-2008-0342 (the "Licence", which is attached as **Appendix A**) pursuant to subsection 77(5) of the Act, such *cancellation to become effective as of the closing of the asset sale transaction* in respect of which GLPL has sought leave under section 86(1)(a) as part of its Omnibus Application (the "Asset Sale Transaction"). The Asset Sale Transaction, which will result in the transfer of the distribution assets from GLPL to Great Lakes Power Distribution Inc., is described more particularly in the attached Omnibus Application (see **Appendix B**) and summary of the Omnibus Application (see **Appendix C**).

As described in Appendices B and C in the context of the omnibus application, an application has been made by GLPTLP for an amendment to its transmission licence (ET-2007-0649), so as to permit GLPTLP to both own *and operate* the transmission assets.

GLPL, by its Counsel



Torys LLP
per Charles Keizer

APPENDIX A

GLPL's Electricity Transmission Licence (ET-2008-0342)

APPENDIX B
Omnibus Application

APPENDIX C

Summary of the Omnibus Application

APPENDIX A

GLPL's Electricity Transmission Licence (ET-2008-0342)



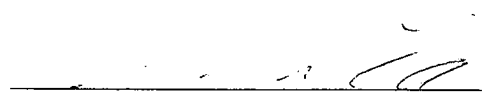
Electricity Transmission Licence

ET-2008-0342

Great Lakes Power Limited

Valid Until

February 1, 2011


Jennifer Lea

Counsel, Special Projects

Ontario Energy Board

Date of Issuance: February 2, 2009

Ontario Energy Board
P.O. Box 2319
2300 Yonge Street
27th Floor
Toronto ON M4P 1E4

Commission de l'énergie de l'Ontario
C.P. 2319
2300, rue Yonge
27e étage
Toronto ON M4P 1E4

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1 Definitions

In this Licence:

"Accounting Procedures Handbook" means the handbook, approved by the Board which specifies the accounting records, accounting principles and accounting separation standards to be followed by the Licensee;

"Act" means the *Ontario Energy Board Act, 1998*, S.O. 1998, c. 15, Schedule B;

"Affiliate Relationships Code for Electricity Distributors and Transmitters" means the code, approved by the Board which, among other things, establishes the standards and conditions for the interaction between electricity distributors or transmitters and their respective affiliated companies;

"Board" means the Ontario Energy Board;

"Electricity Act" means the *Electricity Act, 1998*, S.O. 1998, c. 15, Schedule A;

"Licensee" means Great Lakes Power Limited;

"Market Rules" means the rules made under section 32 of the Electricity Act;

"Performance Standards" means the performance targets for the distribution and connection activities of the Licensee as established by the Board in accordance with section 83 of the Act;

"Rate Order" means an Order or Orders of the Board establishing rates the Licensee is permitted to charge;

"transmission services" means services related to the transmission of electricity and the services the Board has required transmitters to carry out for which a charge or rate has been established in the Rate Order;

"Transmission System Code" means the code approved by the Board and in effect at the relevant time, which, among other things, establishes the obligations of a transmitter with respect to the services and terms of service to be offered to customers and provides minimum technical operating standards of transmission systems;

"wholesaler" means a person that purchases electricity or ancillary services in the IESO administered markets or directly from a generator or, a person who sells electricity or ancillary services through the IESO-administered markets or directly to another person other than a consumer.

2 Interpretation

- 2.1 In this Licence, words and phrases shall have the meaning ascribed to them in the Act or the Electricity Act. Words or phrases importing the singular shall include the plural and vice versa. Headings are for convenience only and shall not affect the interpretation of the Licence. Any reference to a document or a provision of a document includes an amendment or supplement to, or a replacement of, that document or that provision of that document. In the computation of time under this licence, where there is a reference to a number of days between two events, they shall be counted by excluding the day on which the first event happens and including the day on which the second event happens. Where the time for doing an act expires on a holiday, the act may be done on the next day that is not a holiday.

3 Authorization

- 3.1 The Licensee is authorized, under Part V of the Act and subject to the terms and conditions set out in this Licence to operate a transmission system consisting of the facilities described in Schedule 1 of this Licence, including all associated transmission equipment.

4 Obligation to Comply with Legislation, Regulations and Market Rules

- 4.1 The Licensee shall comply with all applicable provisions of the Act and the Electricity Act and regulations under these Acts, except where the Licensee has been exempted from such compliance by regulation.
- 4.2 The Licensee shall comply with all applicable Market Rules.

5 Obligation to Comply with Codes

- 5.1 The Licensee shall at all times comply with the following Codes (collectively the "Codes") approved by the Board, except where the Licensee has been specifically exempted from such compliance by the Board. Any exemptions granted to the Licensee are set out in Schedule 2 of this Licence. The following Codes apply to this Licence:
- a) the Affiliate Relationships Code for Electricity Distributors and Transmitters; and
 - b) the Transmission System Code.
- 5.2 The Licensee shall:
- a) make a copy of the Codes available for inspection by members of the public at its head office and regional offices during normal business hours; and
 - b) provide a copy of the Codes to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.
- 5.3 The Licensee shall ensure that its directors, officers, employees and agents:
- a) provide transmission service in a non-discriminatory manner with respect to its own generation division and other generators;

- b) do not discriminate in matters concerning the availability of transmission services or the curtailment of service;
 - c) do not disclose information considered confidential under the Market Rules with respect to the availability of transmission services or existing or potential transmission transactions including, without limitation, information relating to outages of equipment to any affiliate of the Licensee, any third party or any officer, employee or agent engaged in the business of the Generation Division of the Licensee other than system operators or their immediate supervisors;
 - d) do not disclose information considered confidential under the Market Rules with respect to the provision of generation or the preparation of bids or offers to any officer, employee or agent of the Licensee that is engaged in the business of the Transmission and Distribution Division;
 - e) engaged in the business of the Transmission and Distribution Division of the Licensee do not receive information considered confidential under the Market Rules from any officer employee or agent of the Generation Division of the Licensee with respect to the provision of generation or the preparation of bids; and
 - f) engaged in the business of the Generation Division of the Licensee, other than system operators or their immediate supervisors, do not receive information considered confidential under the Market Rules from any officer, employee or agent of the Transmission and Distribution Division with respect to the availability of transmission services or existing or potential transmission transactions including, without limitation, information relating to outages of equipment.
- 5.4 Despite section 5.3 of this Licence, the disclosure to and receipt by a director or officer of the Licensee of confidential information is permitted where such person requires the information for the due performance of that person's duties and responsibilities or as part of ensuring compliance with the requirements set out in section 5.3.
- 5.5 Despite section 5.3 of this Licence and subject to section 5.6 below, the disclosure and receipt of information considered confidential under the Market Rules is permitted between the Generation Division and the Transmission and Distribution Division where such disclosure would be required or permitted under the Market Rules, or any applicable Board orders, licences, codes or policies, as if the Generation Division and the Transmission and Distribution Division of the Licensee were separate legal entities
- 5.6 The Licensee shall not avail itself of the exception set out in section 5.3.1.3, Chapter 3 of the Market Rules in order to avoid the restrictions on communications contained in section 5.3 of the Licence.
- 5.7 The Licensee shall develop and implement a protocol to assist it in complying with its obligations under section 5.3 of this Licence and the Licensee shall file the protocol and any amendments which it makes to the protocol from time to time.
- 6 Requirement to Enter into an Operating Agreement**
- 6.1 The Licensee shall enter into an agreement ("Operating Agreement") with the IESO providing for the direction by the IESO of the operation of the Licensee's transmission system. Following a

request made by the IESO, the Licensee and the IESO shall enter into an Operating Agreement within a period of 90 business days, unless extended with leave of the Board. The Operating Agreement shall be filed with the Board within ten (10) business days of its completion.

- 6.2 Where there is a dispute that cannot be resolved between the parties with respect to any of the terms and conditions of the Operating Agreement, the IESO or the Licensee may apply to the Board to determine the matter.
- 6.3 After the date the commercial transaction closes, the Licensee shall ensure that the transmission system described in Schedule 1 of this Licence is subject to an operating agreement with the IESO.

7 Obligation to Provide Non-discriminatory Access

- 7.1 The Licensee shall, upon the request of a consumer, generator, distributor or retailer, provide such consumer, generator, distributor or retailer, as the case may be, with access to the Licensee's transmission system and shall convey electricity on behalf of such consumer, generator, distributor or retailer in accordance with the terms of this Licence, the Transmission System Code and the Market Rules.

8 Obligation to Connect

- 8.1 If a request is made for connection to the Licensee's transmission system or for a change in the capacity of an existing connection, the Licensee shall respond to the request within 30 business days.
- 8.2 The Licensee shall process connection requests in accordance with published connection procedures and participate with the customer in the IESO's Connection Assessment and approval process in accordance with the Market Rules, its Rate Order(s) and the Transmission System Code.
- 8.3 An offer of connection shall be consistent with the terms of this Licence, the Market Rules, the Rate Order, and the Transmission System Code.
- 8.4 The terms of such offer to connect shall be fair and reasonable.
- 8.5 The Licensee shall not refuse to make an offer to connect unless it is permitted to do so by the Act or any Codes, standards or rules to which the Licensee is obligated to comply with as a condition of this Licence.

9 Obligation to Maintain System Integrity

- 9.1 The Licensee shall maintain its transmission system to the standards established in the Transmission System Code and Market Rules, and have regard to any other recognized industry operating or planning standards required by the Board.

10 Transmission Rates and Charges

- 10.1 The Licensee shall not charge for the connection of customers or the transmission of electricity except in accordance with:

- a) either the Licensee's Rate Order(s) as approved by the Board or the Rate Order(s) approved by the Board for the licensed owner of the transmission system consisting of the facilities described in Schedule 1 of this Licence, including all associated transmission equipment; and
- b) the Transmission System Code.

11 Separation of Business Activities

- 11.1 The Licensee shall keep financial records associated with transmitting electricity separate from its financial records associated with distributing electricity or other activities in accordance with the Accounting Procedures Handbook and as otherwise required by the Board.

12 Expansion of Transmission System

- 12.1 The Licensee shall not construct, expand or reinforce an electricity transmission system or make an interconnection except in accordance with the Act and Regulations, the Transmission System Code and the Market Rules.

13 Provision of Information to the Board

- 13.1 The Licensee shall maintain records of and provide, in the manner and form determined by the Board, such information as the Board may require from time to time.
- 13.2 Without limiting the generality of paragraph 13.1, the Licensee shall notify the Board of any material change in circumstances that adversely affects or is likely to adversely affect the business, operations or assets of the Licensee as soon as practicable, but in any event no more than twenty (20) business days past the date upon which such change occurs.

14 Restrictions on Provision of Information

- 14.1 The Licensee shall not use information regarding a consumer, retailer, wholesaler or generator, obtained for one purpose for any other purpose without the written consent of the consumer, retailer, wholesaler or generator.
- 14.2 The Licensee shall not disclose information regarding a consumer, retailer, wholesaler or generator to any other party without the written consent of the consumer, retailer, wholesaler or generator, except where such information is required to be disclosed:
- a) to comply with any legislative or regulatory requirements, including the conditions of this Licence;
 - b) for billing, settlement or market operations purposes;
 - c) for law enforcement purposes; or
 - d) to a debt collection agency for the processing of past due accounts of the consumer, retailer, wholesaler or generator.

- 14.3 Information regarding consumers, retailers, wholesalers or generators may be disclosed where the information has been sufficiently aggregated such that their particular information cannot reasonably be identified.
- 14.4 The Licensee shall inform consumers, retailers, wholesalers and generators of the conditions under which their information may be released to a third party without their consent.
- 14.5 If the Licensee discloses information under this section, the Licensee shall ensure that the information is not be used for any other purpose except the purpose for which it was disclosed.

15 Term of Licence

- 15.1 This Licence shall take effect on February 2, 2009 and expire on February 1, 2011.

16 Transfer of Licence

- 16.1 In accordance with subsection 18(2) of the Act, this Licence is not transferable or assignable without leave of the Board.

17 Amendment of Licence

- 17.1 The Board may amend this Licence in accordance with section 74 of the Act or section 38 of the Electricity Act.

18 Fees and Assessments

- 18.1 The Licensee shall pay all fees charged and amounts assessed by the Board.

19 Communication

- 19.1 The Licensee shall designate a person that will act as a primary contact with the Board on matters related to this Licence. The Licensee shall notify the Board promptly should the contact details change.
- 19.2 All official communication relating to this Licence shall be in writing.
- 19.3 All written communication is to be regarded as having been given by the sender and received by the addressee:
 - a) when delivered in person to the addressee by hand, by registered mail or by courier;
 - b) ten (10) business days after the date of posting if the communication is sent by regular mail; and
 - c) when received by facsimile transmission by the addressee, according to the sender's transmission report.

20 Copies of the Licence

20.1 The Licensee shall:

- a) make a copy of this Licence available for inspection by members of the public at its head office and regional offices during normal business hours; and
- b) provide a copy of this Licence to any person who requests it. The Licensee may impose a fair and reasonable charge for the cost of providing copies.

SCHEDULE 1 SPECIFICATION OF TRANSMISSION FACILITIES

This Schedule specifies the facilities over which the Licensee is authorized to transmit electricity in accordance with paragraph 3 of this Licence.

1. Great Lakes Power Limited's Transmission facilities consist of:
 - 318.25 circuit km of 230 kV line and associated equipment;
 - 232.37 circuit km of 115 kV line and associated equipment; and
 - 11 circuit km of 44 kV line and associated equipment which was deemed by the Board as serving a transmission function under section 84 of the Act.

SCHEDULE 2 LIST OF CODE EXEMPTIONS

This Schedule specifies any specific Code requirements from which the licensee has been exempted.

APPENDIX B
Omnibus Application

ONTARIO ENERGY BOARD

IN THE MATTER OF sections 18, 57, 60, 74, 77(5), 81, 86(1) and 86(2) of the *Ontario Energy Board Act, 1998*, S.O. 1998, c.15, Schedule B;

AND IN THE MATTER OF an Application by Great Lakes Power Limited for an Order granting leave to transfer to Great Lakes Power Distribution Inc. its distribution system in its entirety and its current Distribution Rate Order;

AND IN THE MATTER OF an Application by Great Lakes Power Distribution Inc. for a licence to own and operate a distribution system;

AND IN THE MATTER OF a request by Great Lakes Power Limited to cancel its distribution licence and its transmission licence;

AND IN THE MATTER OF an Application by Great Lakes Power Transmission Inc. on behalf of Great Lakes Power Transmission LP to amend its transmission licence to allow it to own and operate its transmission assets;

AND IN THE MATTER OF a request by Great Lakes Power Limited to transfer to Great Lakes Power Transmission LP its Customer Delivery Point Performance Standards Approval; and its Customer Connections Procedures Approval;

AND IN THE MATTER OF a Notice of Proposal pursuant to section 81.

APPLICATION and NOTICE OF PROPOSAL

In anticipation of the expiration of the exemption under Section 71 of the Ontario Energy Board Act ("OEB Act") and ancillary issues arising therefrom, Great Lakes Power Limited ("GLPL"), Great Lakes Power Transmission LP ("GLPTLP") and Great Lakes Power Distribution Inc. ("GLPDI") apply to the Ontario Energy Board for the following:

1. GLPL owns and operates a distribution system and generating facilities. GLPL is also the operator of transmission assets now owned by GLPTLP. GLPL currently operates the GLPTLP transmission assets under an OM&A Agreement.
2. The Applicants seek approval for a reorganization that will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL's

electricity generation business. GLPL will continue to own and operate the generation business pursuant to its generator's licence (EG-2003-0175).

3. GLPL applies pursuant to s. 86(1)(a) of the OEB Act for leave to sell all of its distribution assets to the new entity GLPDI (the "Asset Sale Transaction").
4. GLPDI hereby provides notice pursuant to s. 81 of the OEB Act in respect of GLPDI's acquisition of the distribution system of GLPL.
5. GLPDI applies pursuant to s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution assets it will be acquiring from GLPL. GLPDI requests that the effective date of the license be the closing date of the Asset Sale Transaction.
6. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's current distribution rate order to GLPDI and acknowledgement from the Board that any amendments to the rate order, arising from GLPL's outstanding appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice, be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the appeal.
7. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity distribution licence (ED-2008-0343), effective upon the closing of the Asset Sale Transaction.
8. GLPTLP applies, pursuant to s. 74 of the OEB Act, for an amendment to its electricity transmission licence (ET-2007-0649) so as to allow it to own *and* operate its transmission assets, which are currently operated by GLPL under an OM&A agreement.
9. GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of its electricity transmission licence (ET-2008-0342), under which it has been operating transmission assets on behalf of GLPTLP under an OM&A agreement, effective upon the closing of the Asset Sale Transaction.
10. GLPL requests leave, pursuant to s. 18 of the OEB Act, to transfer GLPL's Customer Delivery Point Performance Standards approval and its Customer Connections Procedures approval to GLPTLP.
11. The applications, requests and notices described in paragraphs 2 to 10 are supported by written pre-filed evidence. The written evidence will be pre-filed and may be amended from time to time, prior to the Board's final decision on the Applications.
12. This application, which is comprised of each of the individual applications, requests and notices described in paragraphs 2 to 10 above, is referred to throughout the pre-filed evidence as the "Omnibus Application."
13. The Applicants request that, pursuant to Section 34.01 of the Board's *Rules of Practice and Procedure*, this proceeding be conducted by way of written hearing.

14. The Applicants request that applications, requests and notices described in paragraphs 2 to 10 above, be heard by the Board together in one proceeding.
15. Any notices or documents in relation to this application should be delivered to:

Great Lakes Power Limited
2 Sackville Road
Sault Ste. Marie, Ontario
P6B 6J6

Attention: Mr. Tim Lavoie, General Manager
Tel: (705) 941-5697
Fax: (705) 941-5600
Email: tlavoie@glp.ca

and

Torys LLP
Suite 3000, 79 Wellington St. W
Box 270, TD Centre
Toronto ON M5K 1N2

Counsel to GLPL, GLPTLP and GLPDI

Attention: Mr. Charles Keizer

Tel: 416-865-7512
Fax: 416-865-7380
Email: ckeizer@torys.com

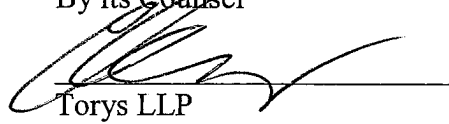
and

Attention : Mr. Jonathan Myers
Tel : 416-865-7532
Fax : 416-865-7380
Email : jmyers@torys.com

March 5, 2009

GLPL, GLPTLP and GLPDI.

By its Counsel

A handwritten signature in black ink, appearing to be 'C. Keizer', is written over a horizontal line.

Torys LLP

per Charles Keizer

APPENDIX C

Summary of the Omnibus Application

SUMMARY OF THE OMNIBUS APPLICATION

This is the summary of the applications made by Great Lakes Power Limited (“GLPL”), Great Lakes Power Distribution Inc. (“GLPDI”), and Great Lakes Power Transmission LP (“GLPTLP”). These applications form an Omnibus Application (the “Omnibus Application”), the central element of which is the Application under Section 86 of the Ontario Energy Board Act (“OEB Act”) made by GLPL (the “MAAD Application”) to permit compliance with Section 71 of the OEB Act. In addition, the Omnibus Application addresses the following matters that are ancillary to the MAAD Application:

- Notice under s. 81 of the OEB Act in respect of the acquisition of an interest in the distribution system by GLPDI (see **Exhibit C** of the Omnibus Application);
- An application by GLPDI under s. 57 of the OEB Act for an electricity distribution licence to allow it to own and operate the distribution facilities effective upon the closing of the sale of GLPL’s distribution facilities to GLPDI (the “Asset Sale Transaction”) (see **Exhibit D** of the Omnibus Application);
- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL’s electricity distribution licence effective upon the closing of the Asset Sale Transaction (see **Exhibit D** of the Omnibus Application);
- Requests by GLPL under s. 18 of the OEB Act for leave to transfer its current distribution rate order to GLPDI and for leave to transfer its Customer Delivery Point Performance Standards approval and Customer Connections Procedures approval to GLPTLP effective upon the closing of the Asset Sale Transaction (see **Exhibit E** of the Omnibus Application);
- As part of establishing a standalone licensed distributor and a standalone licenced transmitter, the Omnibus Application includes an application by GLPTLP under s. 74 of

the OEB Act for an amendment to its electricity transmission licence to allow GLPTLP to own *and* operate its transmission system (see **Exhibit F** of the Omnibus Application); and

- A request by GLPL under s. 77(5) of the OEB Act for the cancellation of GLPL's electricity transmission licence, under which GLPL has been operating GLPTLP's transmission system on behalf of GLPTLP, which would be effective upon the closing of the Asset Sale Transaction (see **Exhibit F** of the Omnibus Application).

This Omnibus Application is organized so each exhibit contains a self-contained application.

1. THE APPLICANTS

(i) GLPL

The shares of GLPL are 100% owned by Brookfield Renewable Power Inc. ("BRPI"). GLPL is a licensed generator and distributor of electricity under OEB licences EG-2003-0175 and ED-2008-0343, as well as a licensed operator (ET-2008-0342) in respect of the transmission assets owned by GLPTLP.

The transmission system that GLPL operates on behalf of GLPTLP, pursuant to electricity transmission licence ET-2008-0342, connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

GLPL's distribution system covers an area of approximately 14,200 square kilometres in a remote area of Northern Ontario, north and east of the City of Sault Ste. Marie serving approximately 11,600 customers. It consists of 1,705 km of lines of voltages from 2.4 kV up to 44 kV. There are 13 distribution supply points from the GLPL transmission system and 17 sub-transmission distribution substations.

GLPL's generation business operates pursuant to licence EG-2003-0175 and consists of 12 hydroelectric generating stations with a combined capacity of 349 MW. GLPL's generating stations are located on four river systems.

(ii) GLPDI

GLPDI is a corporation duly incorporated in Ontario. GLPDI is a wholly-owned subsidiary of BRPI. Prior to closing the Asset Sale Transaction, the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI. GLPDI was created for the purpose of acquiring the distribution system from GLPL and operating that system after the date of acquisition as a standalone licensed distributor.

(iii) GLPTLP

GLPTLP is a limited partnership registered in accordance with the laws of the Province of Ontario. Great Lakes Power Transmission Inc. as the general partner on behalf of GLPTLP is licensed pursuant to electricity transmission licence ET-2007-0649. Its transmission facilities connects 12 hydroelectric generating stations, 1 wind farm, 1 gas fired generation facility, 5 industrial operations, and 2 local distribution companies - PUC Distribution Inc. (which serves Sault Ste. Marie), and GLPL's distribution system.

2. BACKGROUND

a. Section 71

Section 71(1) of the OEB Act states that:

“Subject to subsection 70(9) and subsection (2) of this section, a transmitter or distributor shall not, except through one or more affiliates, carry on any business activity other than transmitting or distributing electricity.”

Subsection 5(4) and 5(5) of the Regulation provides as follows:

“(4) Section 71 of the OEB Act does not apply to Cornwall Street Railway Light and Power Company Limited or to Great Lakes Power Limited.

(5) Subsection (4) does not apply after December 31, 2008.”

At the time Subsections 5(4) and 5(5) of the Regulation were made, GLPL, as a single corporation, carried on the business of generation, transmission and distribution. As such, an exemption from Section 71 was required.

Pursuant to Section 5(4) of Ontario Regulation 161/99, GLPL was exempt until December 31, 2008 from Section 71 of the OEB Act and was permitted to carry on the activities of transmission and distribution together with generation within the same corporation. In light of the expiry of the exemptions, GLPL has moved to become compliant with the OEB Act.

b. Actions to Date

In anticipation of the expiry of the exemption and subsequent to market opening in May 2002, GLPL began taking steps to separate the businesses of generation, transmission and distribution. Between 2002 and 2007, GLPL financially and, for the most part, operationally separated its generation, transmission and distribution businesses within the same legal entity. However, during the period of 2002 to 2007, there were two areas that were not operationally separate. These areas were (1) Ontario System Control and (2) operational overlap between transmission and distribution through the services provided by employees in the distribution business.

(i) System Control

Ontario System Control deals with the dispatch of generation facilities and the control of the transmission facilities. Ontario System Control is also used for the 24-hour customer outage call centre. Because generation and transmission were intertwined through GLPL's operations, the OEB, in GLPL's 2002 transmission licence proceeding, included unique conditions in GLPL's transmission licence as an aide to control communication of confidential information between GLPL's generation and transmission businesses. As GLPL was one company, the relationships between its businesses were not as affiliates. As a result, the Affiliate Relationships Code (“ARC”) did not apply. However, these licence conditions, together with written internal protocol created by GLPL, enabled GLPL to comply with the spirit of the ARC.

As part of a reorganization in 2008, GLPTLP acquired ownership of GLPL's transmission facilities. As an entity separate from GLPL, the ARC was fully applicable, not just in spirit. Accordingly, GLPL has taken steps to remove the generation function from its system control operations in Sault Ste. Marie. By mid-2009, the Sault Ste. Marie system control operations will be restricted to transmission and distribution only. With respect to generation, BRPI will coordinate the Canadian generation assets of BRPI's subsidiaries, including the generation assets of GLPL from a control room in Gatineau, Quebec. The removal of generation from the Sault Ste. Marie system control operations will occur notwithstanding the Asset Sale Transaction.

Although unrelated to the Asset Sale Transaction, there are cost consequences for transmission ratepayers as part of the separation between transmission and generation. Steps were taken to reduce the staffing for Sault Ste. Marie system control operations. Transmission will be its primary responsibility. The full costs of Sault Ste. Marie system control operations will be allocated between transmission and distribution. Because Sault Ste. Marie system control operations only provides distribution with a 24-hour outage call centre and its primary responsibility is monitoring transmission, distribution is expected to see a marginal increase. As a result, the majority of the costs are allocated to transmission. Transmission's share in the cost of Sault Ste. Marie system control operations is expected to increase. The Uniform Transmission Rate impact associated with this increase is negligible.

(ii) Shared Employees and Assets

An operational overlap continued between the provision of both transmission and distribution services by employees in GLPL's distribution business. The provision of services by GLPL's employees to both transmission and distribution and the sharing of assets gave rise to a series of transfer pricing and cost allocation mechanisms designed to allocate costs between the two businesses. There was some sharing of costs with the generation business, but this was related to the services of senior management and some corporate services.

In early 2007, GLPL, in conjunction with its ultimate parent Brookfield Asset Management, began a reorganization of GLPL, in which the transmission assets of GLPL were transferred to GLPTLP in March 2008. As the owner of the transmission system, GLPTLP became a licensed transmitter (ET-2007-0649) in respect of ownership only. GLPL also remained a licensed transmitter, as the operator of the GLPTLP transmission system. After the completion of this reorganization, costs were allocated between transmission and distribution. Any sharing in costs by generation was discontinued.

After March 2008, from a regulatory perspective, two licensed transmitters were established - one to carry out the function of owning and the other to carry out the function of operating the transmission system. The scope of services provided by GLPL to GLPTLP are captured in an OM&A Agreement between the parties, in which services are provided at cost and with no additional fees. In effect, GLPL is the agent of GLPTLP with respect to operation of the transmission facilities. The costs underlying the OM&A Agreement are effectively the cost of service of GLPTLP.

In order to eliminate the need for two licensed transmitters and to provide greater transparency of costs, GLPL has undergone an internal reorganization of its employees to effectively create two standalone utilities within GLPL. As described in more detail in Exhibit F, Tab 1, Schedule 1, employees are dedicated to either transmission or distribution with sharing arising only with respect to some corporate services, assets and system control. In other words, employees responsible for transmission functions are dedicated to the transmission business. Thus similar circumstance will apply to distribution.

This circumstance will continue until GLPL's distribution business, together with the employees dedicated to distribution, are transferred out of GLPL to GLPDI. Employees dedicated to transmission will be transferred to GLPTLP to permit GLPTLP to both own and operate the transmission facilities. After the completion of the transaction between GLPL and GLPDI, this separation will facilitate the establishment of two separate standalone utilities - one distributor and one transmitter.

The goal is to isolate GLPL's generation business from transmission and distribution. As a result, GLPL also requests that GLPL's transmission and distribution licences be cancelled at the time the applicable commercial transaction is closed. GLPTLP requests that its licence be amended to be a licence to both own and operate the transmission facilities.

c. Establishment of Distribution Rates

From 2003 to 2007, GLPL worked to implement solutions to significant rate impacts associated with its exclusively rural distribution business. Recognizing this issue, regulations were passed by the government during the summer of 2007. Immediately following the making of these regulations, GLPL filed with the Ontario Energy Board (the "Board") on August 31, 2007 its distribution rate case incorporating the new regulations. The Board rendered its decision in that matter on October 30, 2008 and, subsequently, its rate order on December 24, 2008. In order to fully comprehend the financial circumstances of GLPL's distribution business and the resulting rate structure, the reorganization of GLPL's distribution business has been delayed until now.

3. COMPLIANCE

GLPL's exemption from Section 71 expired on December 31, 2008. In 2008, GLPL sought an extension of the exemptions to Section 71 of the OEB Act to allow more time to complete the reorganization discussed below and filed a Compliance Plan with the Board. However, GLPL has not been advised as to whether a further exemption will be forthcoming.

The completion of the steps and approvals needed to implement any reorganization described below and at Exhibit B, Tab 1, Schedule 2, must occur to permit compliance with Section 71.

To be compliant with Section 71 of the OEB Act, GLPL must corporately reorganize by establishing a distributor that legally and operationally carries on the business activity of electricity distribution separate from any other business activity. To accomplish this end a series of corporate, financial and real property transactions must be completed, together with regulatory approvals needed to permit those transactions.

4. THE PLAN

GLPL is applying under s. 86(1)(a) of the OEB Act for leave to sell all of its distribution system to GLPDI, in exchange for the repayment of a promissory note outstanding between BRPI and GLPL that has been assigned to GLPDI as part of its incorporation. This is referred to throughout the MAAD Application as the “Asset Sale Transaction”.

For purposes of s. 71 of the OEB Act, the Asset Sale Transaction will complete the separation of the electricity distribution business currently owned and operated by GLPL from GLPL’s electricity generation business. GLPL will continue to own and operate the generation business. Pursuant to the separation of the electricity distribution, transmission and generation businesses currently owned and/or operated by GLPL, GLPL requests the cancellation, pursuant to s. 77(5) of the OEB Act, of GLPL’s electricity distribution (ED-2008-0343) and electricity transmission (ET-2008-0342) licences, effective upon the closing of the Asset Sale Transaction.

GLPDI will own and operate the distribution system that was previously owned and operated by GLPL in accordance with distribution licence ED-2008-0343. Coincident to the transfer of assets from GLPL to GLPDI, the employees of GLPL responsible for the maintenance, operation and administration of the distribution system and business will be transferred to GLPDI such that GLPDI will carry on the distribution business in the same manner as was the case under GLPL’s ownership. Some corporate services will continue to be provided on a shared basis between transmission and distribution, with costs being allocated accordingly.¹

As noted above, employees currently performing the transmission function will be transferred to GLPTLP. With the Board’s approval to amend GLPTLP’s licence (as set out in Exhibit F, Tab 1, Schedule 2), GLPTLP will be entitled to be the operator of these facilities. GLPL will no longer have a licensed transmitter function and, as stated above, its transmission licence will be cancelled. The Transmission Facilities are currently operated on behalf of GLPTLP by GLPL

¹ These include senior executives, information technology (hardware and software), as well as communications equipment.

under an OM&A Agreement, which will be terminated upon the effective date of the amendment sought in this Application. In accordance with section 71 of the OEB Act, GLPTLP is not involved in any non-transmission related activities. As assets are currently shared between GLPL and GLPTLP, some assets will be transferred from GLPL to GLPTLP. These assets will include fleet assets (eg. vehicles, etc.).

Only one asset of GLPL's related to the distribution business will not be transferred to either GLPDI or GLPTLP at this time or as part of the re-organization. Because of certain bond covenants, the building that currently houses GLPL's transmission and distribution employees will remain under the ownership of GLPL (the "Building"). GLPL and each of GLPDI and GLPTLP will enter into lease arrangements whereby the rate impacts will be minimal. GLPDI's rate base after the Asset Sale Transaction is completed will be lower, as compared to that of GLPL's distribution business, by the net book value of the Building. The current net book value of the Building is approximately \$4.9M.

The following charts show the steps of the reorganization:

Figure 1 – Current Organizational Structure

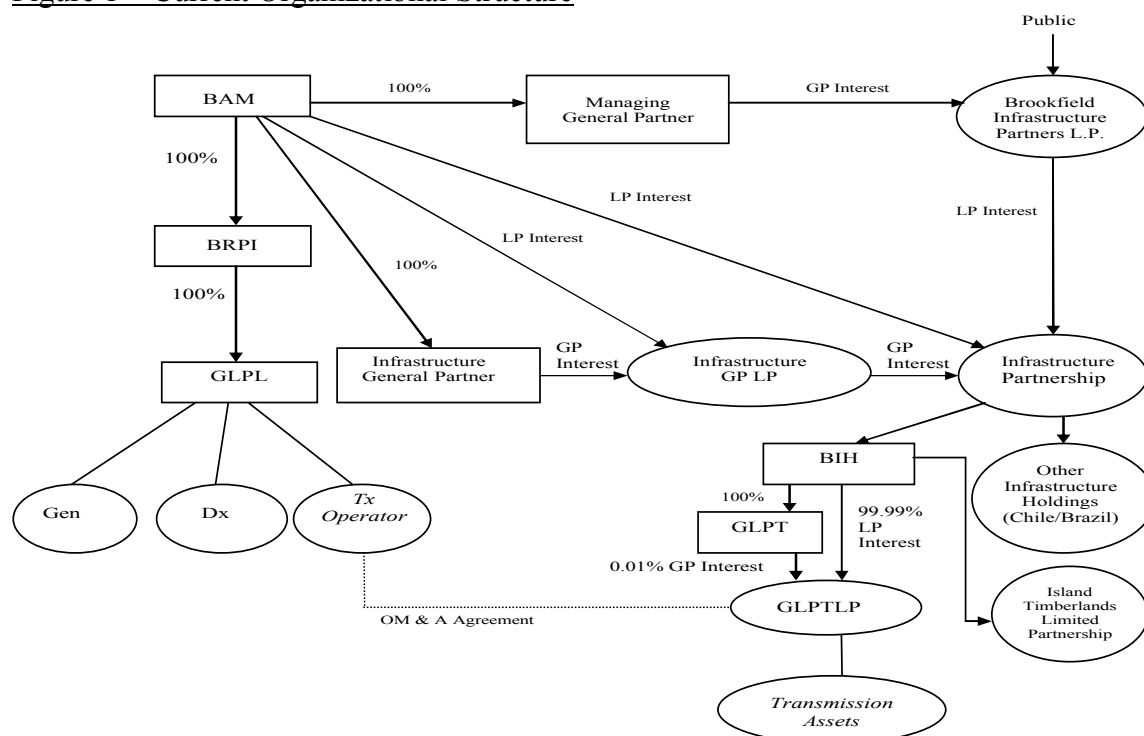


Figure 2: Current Organizational Structure Relating to GLPL

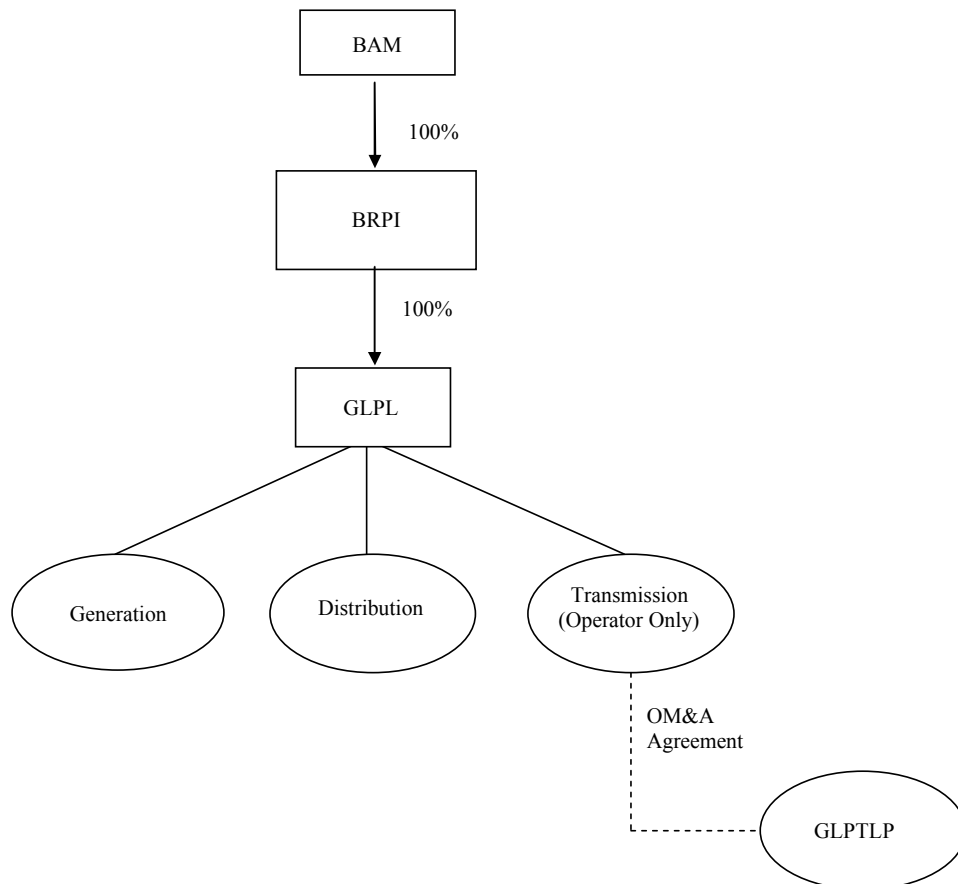
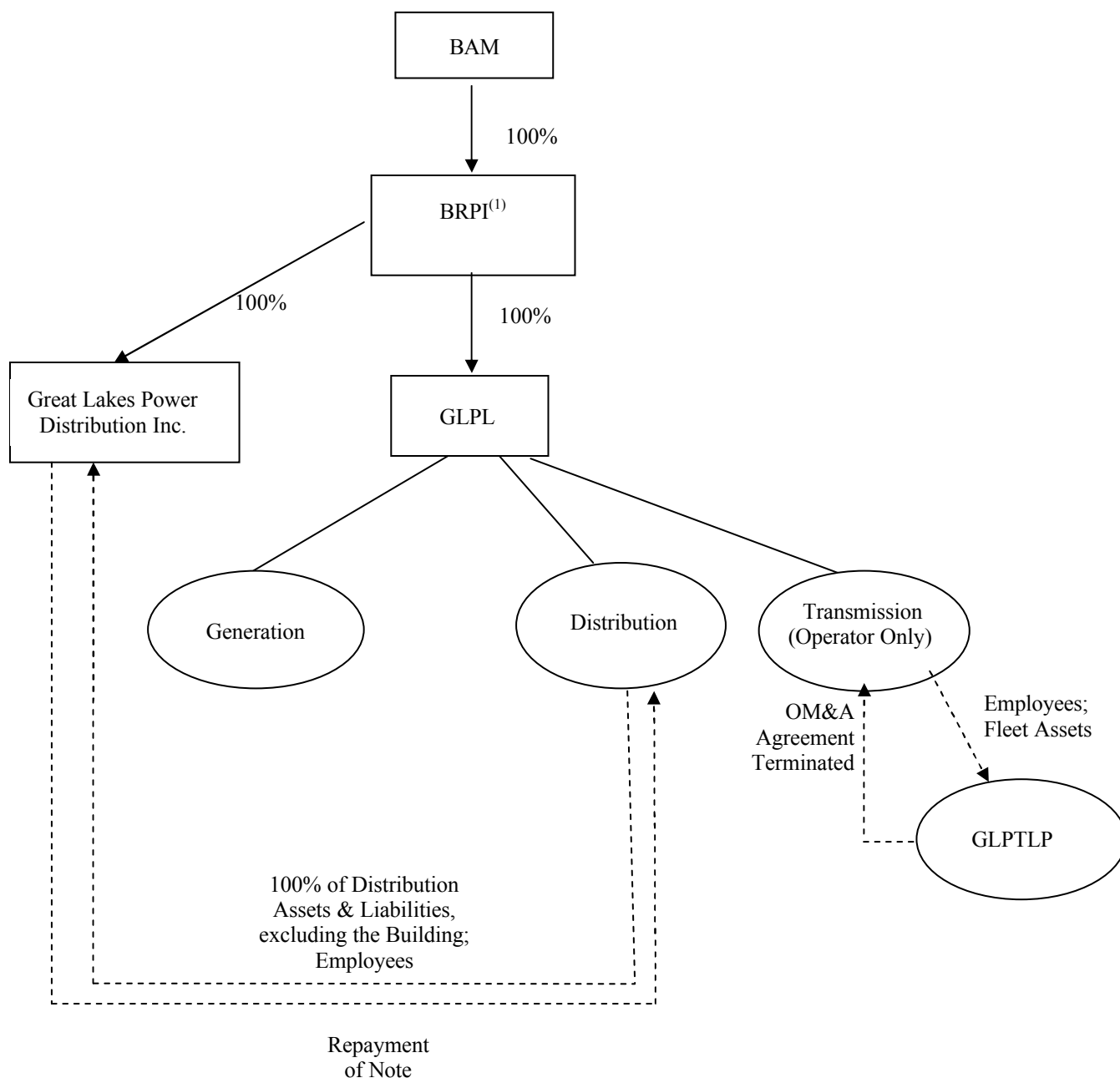


Figure 3: Transfer of Distribution Facilities (Asset Sale Transaction)



(1) Prior to closing the Asset Sale Transaction the shares of GLPDI may be transferred to a holding company that is a wholly-owned subsidiary of BRPI

Figure 4: Final Structure Resulting from Asset Sale Transaction

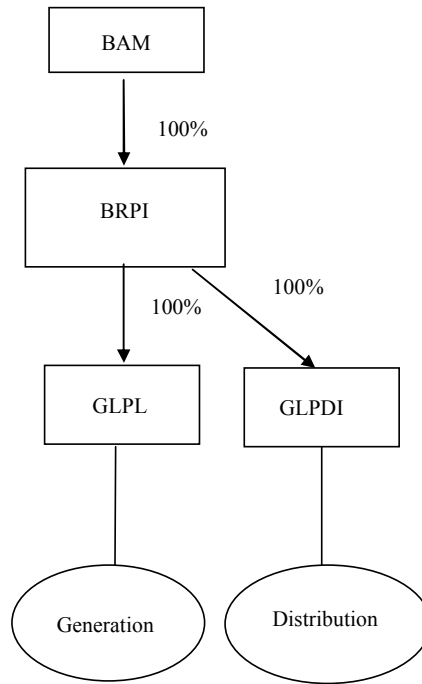
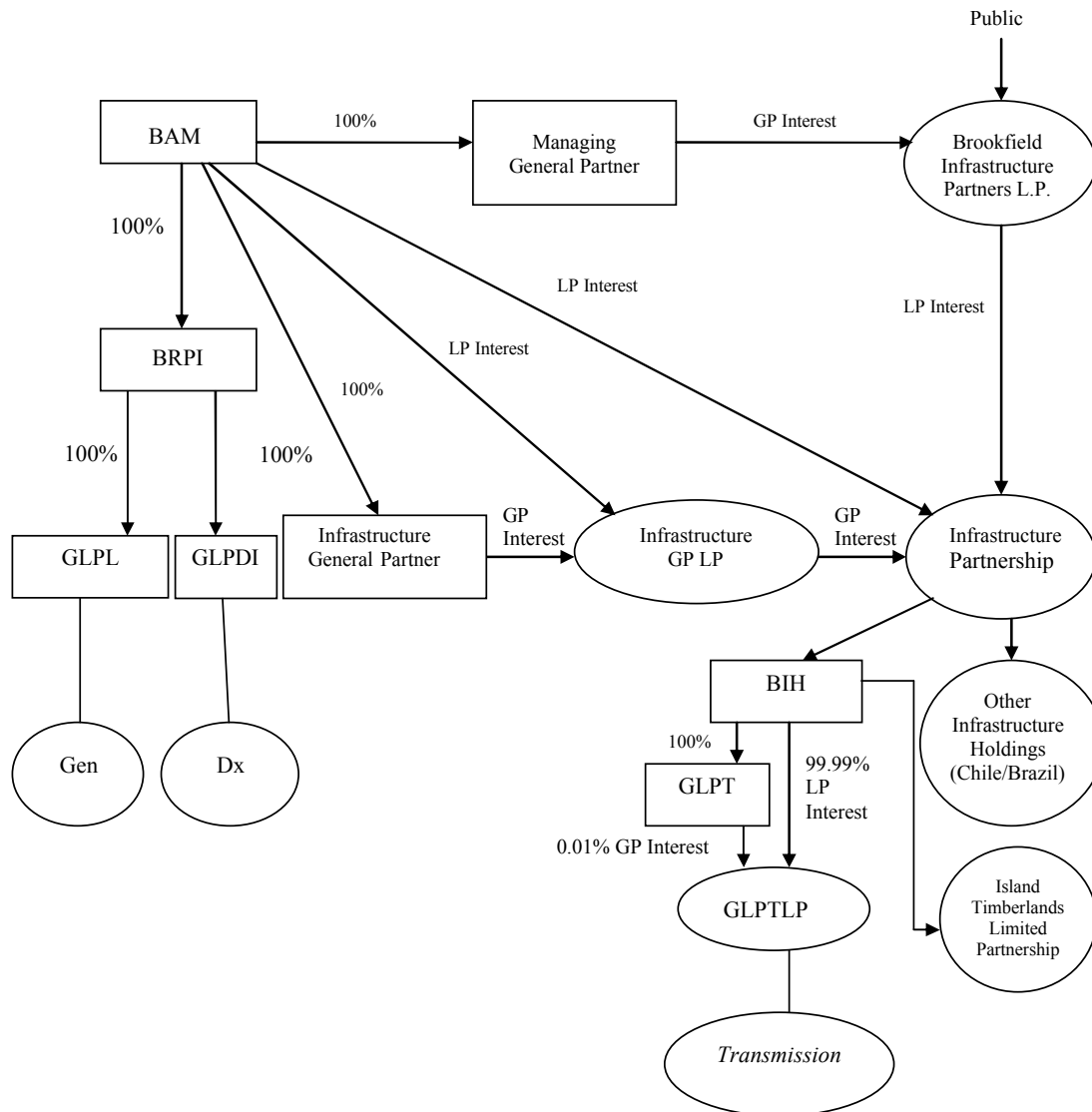


Figure 5: Resulting Organizational Structure



5. THE NO HARM TEST

In respect of s. 86 of the OEB Act, the test established by the Board is “no harm”. The Asset Sale Transaction satisfies the Board’s Section 86 “no harm test” for the following reasons:

- (a) there is effectively no change of control from an organizational perspective (i.e. this is an internal reorganization);
- (b) there are no material incremental costs arising from either transaction.
- (c) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is rate neutral;
- (d) the transfer of the distribution facilities to GLPDI through the Asset Sale Transaction is neutral from an operation perspective; and
- (e) the relationships between GLPL, GLPDI and GLPTLP will be compliant with the Board’s ARC and Section 71 of the OEB Act.

These reasons are expanded below.

a. Internal Reorganization

As the transaction amounts to an internal reorganization, the management, employees and assets currently operating the Distribution System for GLPL will carry on the same business within GLPDI. As such, GLPDI will maintain and ensure quality and reliability of service in the same manner as currently ensured by GLPL (i.e. the status quo will be maintained).

b. Incremental Costs

Other than transaction costs, there will be no incremental costs incurred from the Asset Sale Transaction. Because this is an internal reorganization and since GLPDI intends to operate the Distribution System in accordance with the same policies, procedures and high standards as GLPL currently does, the proposed reorganization is expected to have no impact on GLPL’s distribution customers from a cost or operational perspective.

c. Rate Neutrality

There is no harm to distribution ratepayers with respect to the Asset Sale Transaction. This occurs notwithstanding changes to the use of the Building. The Building is excluded from the Asset Sale Transaction and its ownership is retained by GLPL. As part of completing the Asset Sale Transaction, a new lease arrangement will be established at a lease rate that is less than or equal to fair market value.

In the fall of 2008, the generation employees vacated the Building. As a result, the lease costs will reflect the reallocation on a square footage basis of the total costs previously shared between generation, transmission, and distribution of maintaining the Building as well as the cost of capital associated with the Building received by the distribution business through rates. Because generation no longer uses the Building, these costs are allocated entirely between transmission and distribution on a square footage basis. The lease arrangement will be rate neutral for distribution ratepayers because the inclusion of the lease costs in the cost of service for the distribution business is offset by the decrease in rate base and the associated cost of capital. As well, the resulting decrease in depreciation expense provides for a further offset. Therefore, the proposed transaction will not have an adverse impact upon the interests of customers, reliability and quality of service or the economic efficiency and cost effectiveness in the distribution.

Because transmission does not have the same offsets as distribution, as noted above, and because transmission and distribution will be carrying on business operationally and physically separate, transmission will see an increase in costs. As noted at page 4 above, the operational separation between transmission and distribution has begun and is separate from the Asset Sale Transaction. During the course of this organizational restructuring, GLPTLP will seek means to mitigate this cost increase.

It is not expected that there will be incremental costs to either transmission or distribution as a result of dedicating employees to either transmission or distribution to permit each business to operate on a standalone basis. The costs associated with this exercise were considered on a pro-forma basis using existing costs and existing employees, taking into account the reassessment of person-hours and changes to scope of work. As the separate organizations continue to evolve,

they will each work to fine tune the reapportionment of person hours and scope of work to ensure that the integrity and reliability of the transmission and distribution systems are maintained.

d. Operational Neutrality

Notwithstanding the transfer of the distribution facilities to GLPDI, the distribution of electricity will be unaffected. The same assets and employees needed in providing service today will be used and employed after the transfer. The operation, maintenance and administration of distribution will remain the same.

e. ARC Compliance

After the completion of the Asset Sale Transaction, GLPDI will carry on no other business but the distribution of electricity. Section 71 will be complied with. In addition, other than the lease for the Building and the sharing of some corporate services and system control between transmission and distribution, GLPDI, GLPTLP and GLPL will be stand alone in their business activities so that ARC is fully complied with.

6. DISTRIBUTION LICENCE ISSUANCE AND CANCELLATION

Information relating to GLPDI's distribution licence application and GLPL's request to cancel its distribution licence is set out at Exhibit D, Tab 1, Schedule 1.

7. ORDERS SOUGHT ANCILLARY TO THE REORGANIZATION

a. GLPTLP Licence Amendment

As noted, GLPTLP has applied for a licence amendment making it both the owner and operator of the licenced transmission facilities.

b. Section 18 Transfers

(i) Rate Order:

GLPL requests that its current rate order date December 24, 2008, be transferred to GLPDI, together with an acknowledgement that any amendments to the rate order arising from GLPL's

appeal of the Board's Decision and Order in EB-2007-0744 to the Ontario Superior Court of Justice be given effect regardless of whether the rate order is transferred to GLPDI prior to the final determination of the Appeal.

(ii) Connection Process:

GLPTLP requests that the order approving GLPL's Transmission Customer Connection Process ("TCCP") be transferred to GLPTLP.

(iii) Customer Delivery Point Performance Standards:

GLPTLP requests that GLPL's Customer Delivery Point Performance Standards ("CDPPS") be transferred to GLPTLP.

8. SECTION 81 NOTICE OF PROPOSAL

As GLPDI will be acquiring an interest in a distribution system and have affiliates which are generators, GLPLDI is required to give notice of acquiring such an interest under Section 81 of the OEB Act. As a result, GLPDI has filed a notice of proposal.