Brookfield Renewable Energy Partners L.P.
ANNUAL REPORT
2012

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OUR OPERATIONS

We operate our facilities through three regional operating centers in the United States, Canada and Brazil which are designed to maintain and enhance the value of our assets, while cultivating positive relations with local stakeholders. We own and manage 176 hydroelectric generating stations, seven wind facilities, and two natural gas-fired plants. Overall, the assets we own or manage have 5,304 MW of generating capacity and annual generation of 19,586 GWh based on long-term averages. We also have two hydroelectric facilities under construction that are scheduled to be commissioned within the next 18 months, thereby increasing the total capacity of our portfolio by 74 MW to 5,378 MW. The table below outlines our portfolio as at December 31, 2012:

Markets	River systems	Generating Stations	Generating Units	Capacity[1] (MW)	LTA[2][3] (GWh)	Storage (GWh)
Operating Assets						
Hydroelectric generation[4]						
United States	27	107	305	2,336	8,382	2,146
Canada	18	32	72	1,323	4,972	1,261
Brazil	24	37	83	651	3,562	N/A[5]
	69	176	460	4,310	16,916	3,407
Wind energy[6]						
Canada	-	3	220	406	1,197	-
United States	-	4	156	373	952	-
	-	7	376	779	2,149	-
Other	-	2	6	215	521	-
Total from operating assets	69	185	842	5,304	19,586	3,407
Assets under construction						
Hydroelectric generation						
Brazil[7]	-	1	2	29	134	N/A[5]
Canada	1	1	4	45	138	-
Total	70	187	848	5,378	19,858	3,407

(1) Total capacity of our operating assets including our share of equity-accounted investments is 4,893 MW.
(2) Long-term average ("LTA") is calculated on an annualized basis to the beginning of the year, regardless of the acquisition or commercial operation date.
(3) Total long-term average of our operating assets including our share of equity-accounted investments is 18,941 GWh.
(4) Long-term average is the expected average level of generation, as obtained from the results of a simulation based on historical inflow data performed over a period of typically 30 years. In Brazil, assured generation levels are used as a proxy for long-term average.
(5) Brazilian hydroelectric assets benefit from a market framework which levelizes generation risk across producers.
(6) Long-term average generation is the expected average level of generation, as obtained from the results of a wind flow simulation based on terrain/topography and one or more years of site-specific meteorological data, that is expanded using 5 to 10 years of correlated offsite data.
(7) Assets under construction are on the same river systems as existing hydroelectric assets.

The following table presents the annualized long-term average generation of our operating portfolio on a quarterly basis as at December 31, 2012:

LTA generation (GWh)[(1)]	Q1	Q2	Q3	Q4	Total
Operating Assets					
Hydroelectric generation[(2)]					
United States	2,286	2,325	1,708	2,063	8,382
Canada	1,158	1,407	1,232	1,175	4,972
Brazil[(3)]	896	841	891	934	3,562
	4,340	4,573	3,831	4,172	16,916
Wind energy[(4)]					
Canada	324	292	238	343	1,197
United States	215	310	236	191	952
	539	602	474	534	2,149
Other	217	103	97	104	521
Total	5,096	5,278	4,402	4,810	19,586

(1) Long-term average is calculated on an annualized basis to the beginning of the year, regardless of the acquisition or commercial operation date.

(2) Long-term average is the expected average level of generation, as obtained from the results of a simulation based on historical inflow data performed over a period of typically 30 years. In Brazil, assured generation levels are used as a proxy for long-term average.

(3) Brazilian hydroelectric assets benefit from a market framework which levelizes generation risk across producers.

(4) Long-term average generation is the expected average level of generation, as obtained from the results of a wind flow simulation based on terrain/topography and one or more years of site-specific meteorological data, that is expanded using 5 to 10 years of correlated offsite data.

Statement Regarding Forward-Looking Statements and Use of Non-IFRS Measures

This Annual Report contains forward-looking information within the meaning of Canadian securities laws. We may make such statements in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications - see “Cautionary Statement Regarding Forward-Looking Statements” beginning on page 56. We make use of non-IFRS measures in this Annual Report - see “Cautionary Statement Regarding Use Of Non-IFRS Measures” beginning on page 57. This Annual Report and additional information, including our Annual Information Form filed with securities regulators in Canada and our form 20-F filed with the Securities Exchange Commission, are available on our website at www.brookfieldrenewable.com, on SEDAR’s website at www.sedar.com and on EDGAR’s website at www.sec.gov.

Brookfield
Renewable Energy Partners

LETTER TO SHAREHOLDERS

Brookfield Renewable experienced a strong year in 2012. While our short-term financial results were impacted by unfavourable hydrology in some of our markets, we nonetheless made excellent progress in growing and strengthening our business, and solidifying our position as a global leader in the renewable power sector.

Together with our institutional partners, we announced the acquisition of nearly 1,000 MW of renewable power assets, including two large scale hydroelectric portfolios expected to add significant value in the coming years. The first of these is our 378 MW Smoky Mountain portfolio consisting of four generating stations in the U.S. southeast, which was originally announced in the second quarter of 2012. The transaction was completed on schedule in November and we have since integrated the assets into our U.S. operating platform.

Just prior to year-end we announced an agreement to acquire a 351 MW portfolio of 19 hydroelectric generating stations, including eight upstream storage reservoir dams on four rivers in Maine. This asset fleet is one of the region’s largest independently-owned hydro portfolios of scale and includes the two largest hydroelectric facilities in the state. This portfolio complements our existing 103 MW of operating capacity on the same river systems, and increases our footprint in the attractive New England market to nearly 1,000 MW of installed capacity. Importantly, it provides a unique opportunity to leverage our operating platform while positioning us to participate in rising electricity prices over time. The transaction is expected to close in the first quarter of 2013.

While our acquisition activity has been significant, our operating and development teams have been equally busy managing our existing assets, and advancing development projects. In Brazil, we completed the construction of our 19 MW hydroelectric project and it was commissioned during the fourth quarter. Our 29 MW hydroelectric project is progressing as planned and remains scheduled for completion in the first quarter of 2013. The 45 MW Kokish River hydroelectric project in British Columbia, remains on scope, schedule and budget for its targeted completion in mid-2014.

Distribution Increases and Strong Returns

We strive to provide shareholders with an attractive annual total return of 12% to 15% on a low-risk basis. In 2012, we delivered on that promise with a total return of 13.5% as compared with 7.1% for the benchmark S&P/TSX Composite Index.

In addition, we recently announced a distribution increase – our third in the last two years – reflecting the accretive investments and numerous strategic and operating enhancements made across our platform in the last year. The distribution for the first quarter of 2013 will be 36.25 cents per unit, representing an annualized payment of $1.45 per unit. This level is consistent with our long-term target payout ratio of 60% to 70% of funds from operations, and exceeded our objective of increasing distributions by 3% to 5% annually.

Financial Strength and Results

During 2012, we completed more than $2.8 billion of financing and capital markets activity which has funded our growth and meaningfully lowered our borrowing costs while increasing the overall term of our maturities. Subsequent to year end, we completed a C$175 million offering of preferred shares, which like other financings completed in 2012, will provide us with access to stable sources of long-term capital at very attractive rates.

Generation for the year was 15,942 GWh, an increase of 65 GWh from 2011, reflecting the contribution from new assets which helped to offset low hydrology levels in the second and third quarters. Funds from operations of $347 million was $15 million higher than in 2011. Our overall results, however, were lower than expected due to lower generation from existing assets in regions where power purchase agreement prices are higher than our portfolio average. Nonetheless, we were able to achieve our operating and investment objectives in 2012 while maintaining a strong financial position. Generation in the fourth quarter was markedly improved from prior quarters and our reservoirs are at expected levels for this time of year, which is an encouraging sign for the spring season.

Outlook

Brookfield Renewable's first year was one of many successes and achievements which will carry us into 2013 with significant momentum. We look forward to continuing to manage a unique and high-quality asset portfolio, the progress in executing our growth plans and the positive impact of strategic initiatives aimed at further enhancing our leadership position in the renewable power sector.

We remain grateful for your support and look forward to reporting on the continued progress throughout the year.

Sincerely,

Richard Legault

President and Chief Executive Officer

HIGHLIGHTS FOR 2012

Portfolio growth

Acquisitions

Together with our institutional partners, we announced the acquisition of nearly 1,000 MW of renewable power generating assets. We will manage these assets in our operating platforms, as follows:

Hydroelectric

- Acquired an operating portfolio of four hydroelectric generating stations located in Tennessee and North Carolina for a total enterprise value of $600 million. These assets will have an installed capacity of 378 MW and annual generation of 1.4 million MWh.
- Entered into an agreement to acquire an operating portfolio of 19 hydroelectric generating stations in Maine for a total enterprise value of $760 million. The transaction is expected to close in the first quarter of 2013. These assets have an installed capacity of 351 MW and annual generation of 1.6 million MWh.
- Acquired an operating 6 MW hydroelectric facility in Brazil that benefits from a power purchase agreement expiring in 2019.

Wind

- Acquired a 150 MW wind facility located in California's Tehachapi region. This facility entered commercial operation in January 2012 and comes with a 24-year power purchase agreement. At the same time, we also acquired 22 MW of operating wind facilities located in same region. These wind facilities benefit from long-term power purchase agreements with a large, local utility.
- Acquired the remaining 50% stake, previously held by our partner, in a 102 MW wind facility located in California. This facility entered commercial operation in March 2012 and power produced is sold under a 20-year power purchase agreement with a large, local utility.

Construction and development

Construction commenced on a 45 MW hydroelectric project in British Columbia, which is expected to enter commercial operation in 2014. This facility will benefit from a 40-year power purchase agreement. Construction is progressing on scope and schedule.

We completed construction and commissioned a 19 MW hydroelectric facility in Brazil earlier than expected.

Construction on our 29 MW hydroelectric project in Brazil is progressing on scope, and remains scheduled for completion in early 2013.

Capital markets initiatives

During 2012, we completed more than $2.8 billion of financing and capital markets activity which has funded our growth initiatives and meaningfully lowered our borrowing costs while increasing the overall terms of our maturities. Highlights include the following:

Corporate

Since the beginning of the year, we have enhanced our financial position and our ability to fund growth by increasing liquidity and capital resources. We have increased our credit facilities to nearly $1 billion and reduced our borrowings costs, in an environment where interest rates are near historical lows, as follows:

- Issued C$400 million of 10-year term corporate notes bearing interest at 4.79% per annum.
- Increased our credit facilities from $600 million to $990 million, while extending maturities.
- Issued C$250 million of 4.4% rate-reset Class A preference shares.
- Issued an additional C$175 million Class A Preference Shares with a fixed, annual, yield of 5%, in the first quarter of 2013.

Subsidiary borrowings and refinancings

We refinanced indebtedness on a 50%-owned hydroelectric pumped storage facility in New England through a $125 million loan for a term of five years at LIBOR + 2.25%.

We completed a C$175 million financing of our 45 MW British Columbia hydroelectric development project with a term of 40 years at 4.45%.

We refinanced indebtedness on a 189 MW Ontario wind facility through a C$232 million loan for a term of 15 years.

Distributions

In the first quarter of 2012, we announced an increase in unitholder distributions to $1.38 per unit on an annualized basis, representing an increase of three cents per unit per year. We also recently announced an additional increase in unitholder distributions for the first quarter of 2013 equating to $1.45 per unit on an annualized basis, representing an increase of seven cents per unit per year.

In the first quarter of 2012, a distribution re-investment plan ("DRIP") was implemented, which allows holders of its limited partnership units who are residents of Canada to acquire additional units by reinvesting all or a portion of their cash distributions in the form of new units without paying commissions.

Generation results

Generation was 15,942 GWh for the year ended December 31, 2012, compared to the long-term average of 18,202 GWh, and to 15,877 GWh for the same period in prior year.

Generation from our hydroelectric portfolio was 1,177 GWh lower than the prior year as a result of lower inflows from the drier than normal conditions in eastern Canada, New York state, and in the mid-western United States in the second and third quarter of the year. The decrease was partially offset by the first quarter generation that was higher than long-term average, as well as from improved hydrology conditions in the fourth quarter.

Generation from our wind portfolio was 1,047 GWh higher than the prior year resulting from the contribution of acquired or commissioned facilities in California and New England, and from an Ontario facility commissioned in 2011. Results in the second and third quarters of 2012 were below long-term average as a result of lower wind conditions across the U.S and Canadian assets.

While generation for the year has been significantly below long-term average, the business is performing well from an operating standpoint, including our existing and recently acquired or commissioned assets.

SUMMARY OF HISTORICAL CONSOLIDATED FINANCIAL AND OTHER INFORMATION

(US$ MILLIONS, UNLESS OTHERWISE STATED)	December 31 2012	2011
Operational Information[1]:		
Capacity (MW)	5,304	4,536
Long-term average (GWh)	18,202	16,297
Actual generation (GWh)	15,942	15,877
Average revenue ($ per MWh)	82	74
Selected Financial Information:		
Revenues	$ 1,309	$ 1,169
Adjusted EBITDA[2]	852	804
Funds from operations[2]	347	332
Net loss	(95)	(451)
Distributions per share:		
Preferred equity[3]	1.27	1.34
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	1.38	1.32
Limited partners' equity	1.38	1.32
Balance sheet data:		
Property, plant and equipment, at fair value	$ 15,658	$ 13,945
Equity-accounted investments	344	405
Total assets	16,925	15,708
Long-term debt and credit facilities	6,119	5,519
Deferred income tax liabilities	2,358	2,374
Total liabilities	9,095	8,508
Preferred equity	500	241
Participating non-controlling interests - in operating subsidiaries	1,028	629
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	3,112	3,127
Limited partners' equity	3,190	3,203
Total liabilities and equity	16,925	15,708
Net asset value[2]	$ 8,579	$ 8,398
Net asset value per LP Unit[2][4]	$ 32.67	$ 31.99
Debt to total capitalization[2]	38%	37%

(1) Includes 100% of generation or capacity from equity-accounted investments.
(2) Non-IFRS measures. See "Cautionary Statement Regarding Use of Non-IFRS Measures".
(3) Represents the weighted-average distribution to Series 1 and Series 3 preferred shares.
(4) Average LP Units outstanding during the period totaled 132.8 million.

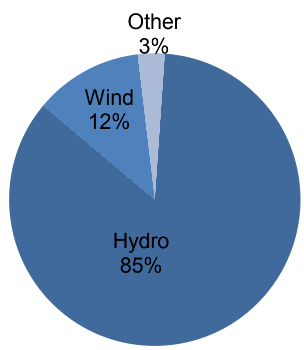
OUR COMPETITIVE STRENGTH

We are an owner and operator of a diversified portfolio of high quality assets that produce electricity from renewable resources and have evolved into one of the world's largest listed pure-play renewable power businesses.

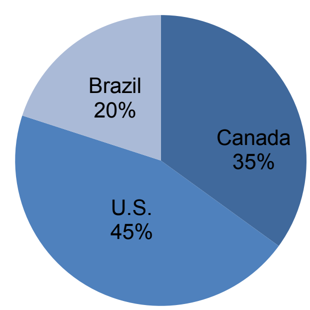
Our assets generate high quality, stable cash flows derived from a virtually fully contracted portfolio. Our business model is simple: utilize our global reach to identify and acquire high quality renewable power assets at favourable valuations, finance them on a long-term, low-risk basis, and enhance the cash flows and values of these assets using our experienced operating teams to earn reliable, attractive, long-term total returns for the benefit of our shareholders.

One of the largest, listed pure-play renewable platforms. We own one of the world's largest, publicly-traded, pure-play renewable power portfolios with $16 billion in power generating and development assets, approximately 5,300 MW of installed capacity, and long-term average generation from operating assets of approximately 19,600 GWh annually. Our portfolio includes 176 hydroelectric generating stations on 69 river systems and seven wind facilities, diversified across eleven power markets in the United States, Canada and Brazil.

Generation by Technology



Generation by Market



Focus on attractive hydroelectric asset class. Our assets are predominantly hydroelectric and represent one of the longest life, lowest cost and most environmentally preferred forms of power generation. Our North American assets have the ability to store water in reservoirs approximating 26% of their annual generation. Our assets in Brazil benefit from a framework that exists in the country to levelize generation risk across producers. This ability to store water and have levelized generation in Brazil, provides partial protection against short-term changes in water supply. As a result of our scale and the quality of our assets, we are competitively positioned compared to other listed renewable power platforms, providing significant scarcity value to investors.

Well positioned for global growth mandate. Over the last ten years we have acquired or developed approximately 140 hydroelectric assets totaling approximately 3,000 MW and seven wind generating assets totaling approximately 800 MW. Since the beginning of 2012, we acquired or developed hydroelectric generating assets that will have an installed capacity of 403 MW and 373 MW of wind generating assets. We also have strong organic growth potential with a 2,000 MW development pipeline spread across all of our operating jurisdictions.

Our net asset value in renewable power has grown from approximately $900 million in 1999 to $8.6 billion as at December 31, 2012, representing a 19% compounded annualized growth rate. We are able to acquire and develop assets due to our established operating and project development teams, strategic relationship with Brookfield Asset Management, and our strong liquidity and capitalization profile.

Attractive distribution profile. We pursue a strategy which we expect will provide for highly stable, predictable cash flows sourced from predominantly long-life hydroelectric assets ensuring an attractive distribution yield. We target a distribution payout ratio in the range of approximately 60% to 70% of funds from operations and pursue a long-term distribution growth rate target in the range of 3% to 5% annually.

Stable, high quality cash flows with attractive long-term value for limited partnership unitholders. We intend to maintain a highly stable, predictable cash flow profile sourced from a diversified portfolio of low operating cost, long-life hydroelectric and wind power assets that sell electricity under long-term, fixed price contracts with creditworthy counterparties. Virtually all of our generation output is sold pursuant to power purchase agreements, to public power authorities, load-serving utilities, industrial users or to affiliates of Brookfield Asset Management. The power purchase agreements for our assets have a weighted-average remaining duration of 18 years, providing long-term cash flow stability.

Strong financial profile. With $16 billion of power generating and development assets and a conservative leverage profile, consolidated debt-to-capitalization is approximately 38%. Our liquidity position remains strong with approximately $850 million of cash and unutilized portion of committed bank lines, as of the date of this report. Over 71% of our borrowings are non-recourse to Brookfield Renewable. Corporate borrowings and subsidiary borrowings have weighted-average terms of approximately nine and twelve years, respectively.

SUCCESSFUL COMBINATION OF OUR RENEWABLE ENERGY BUSINESS

On November 28, 2011, we completed the strategic combination (the "Combination") of the renewable power assets of Brookfield Renewable Power Inc. ("BRPI") and Brookfield Renewable Power Fund (the "Fund") to launch Brookfield Renewable Energy Partners L.P. ("Brookfield Renewable"), a publicly-traded limited partnership. Public unitholders of the Fund received one non-voting limited partnership unit of Brookfield Renewable in exchange for each trust unit of the Fund held, and the Fund was wound up.

As at the date of this report, Brookfield Asset Management owns an approximate 68% limited partnership interest, on a fully-exchanged basis, and all general partnership units totaling a 0.01% general partnership interest in Brookfield Renewable, while the remaining 32% is held by the public.

BASIS OF PRESENTATION

This Management's Discussion and Analysis for the year ended December 31, 2012 is provided as of February [27], 2013. Unless the context indicates or requires otherwise, the terms "Brookfield Renewable", "we", "us", and "our" mean Brookfield Renewable Energy Partners L.P. and its controlled entities.

Brookfield Renewable's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), which require estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities as at the date of the financial statements and the amounts of revenue and expense during the reporting periods.

The Combination

The Combination does not represent a business combination in accordance with IFRS 3 Business Combinations ("IFRS 3R") as it represents a reorganization of entities under common control of Brookfield Asset Management. Accordingly, the consolidated financial statements of Brookfield Renewable are presented to reflect such continuing control and no adjustments were made to reflect fair values or to recognize any new assets or liabilities, as a result of the Combination. Brookfield Renewable's consolidated balance sheets, statements of income (loss), and statements of cash flows are presented as if these arrangements had been in place from the time that the operations were originally acquired by Brookfield Asset Management. For periods prior to November 28, 2011, the financial information for Brookfield Renewable represents the combined financial information for the Brookfield Renewable Power Division, a division of Brookfield Asset Management. Transactions entered into as part of the Combination are accounted for effective November 28, 2011.

Voting Agreements with Affiliates

Effective December 2011, Brookfield Renewable entered into voting arrangements with various affiliates of Brookfield Asset Management, whereby Brookfield Renewable gained control of the entities that own certain United States and Brazil renewable power generating operations (the "Voting Arrangements"). The Voting Arrangements provide Brookfield Renewable with all of the voting rights to elect the boards of directors of the relevant entities and therefore provides Brookfield Renewable with control. Accordingly, Brookfield Renewable consolidates the accounts of these entities.

The Combination and the Voting Arrangements do not represent business combinations in accordance with IFRS 3R, as all combining businesses are ultimately controlled by Brookfield Asset Management both before and after the transactions were completed. Brookfield Renewable accounts for these reorganizations of entities under common control in a manner similar to a pooling of interest, which requires the presentation of pre-Combination and Voting Arrangement financial information as if the transactions had always been in place. Refer to Note 2(o)(ii) — *Common control transactions* in our audited consolidated financial statements for our policy on accounting for transactions under common control.

Reconciliations of each of Adjusted EBITDA and funds from operations to net income on a consolidated basis are presented in “Net Income (loss), Adjusted EBITDA, and Funds from Operations on a Consolidated Basis” and “Reconciliation of *Pro Forma* Results”.

Certain comparative figures have been reclassified to conform to the current year’s presentation.

Unless otherwise indicated, all dollar amounts are expressed in United States (“U.S.”) dollars.

PRESENTATION TO PUBLIC STAKEHOLDERS

Brookfield Renewable’s consolidated equity interests include LP Units held by public unitholders and Redeemable/Exchangeable partnership units in BRELP held by Brookfield (“Participating non-controlling interests – in a holding subsidiary – Redeemable/Exchangeable units held by Brookfield”). The LP Units and the Redeemable/Exchangeable partnership units have the same economic attributes in all respects, except that the Redeemable/Exchangeable partnership units provide Brookfield the right to request that their units be redeemed for cash consideration after two years from the date of issuance. In the event that Brookfield exercises this right, Brookfield Renewable has the right, at its sole discretion, to satisfy the redemption request with LP Units, rather than cash, on a one-for-one basis. Brookfield, as holder of Redeemable/Exchangeable partnership units, participates in earnings and distributions on a per unit basis equivalent to the per unit participation of the LP Units. As Brookfield Renewable, at its sole discretion, has the right to settle the obligation with LP Units, the Redeemable/Exchangeable partnership units are classified under equity, and not as a liability, as Participating non-controlling interests – in a holding subsidiary – Redeemable/Exchangeable units held by Brookfield.

Given the exchange feature referenced above, we are presenting the LP Units and the Redeemable/Exchangeable partnership units as separate components of consolidated equity. It is important to note that total income (loss), per LP Unit or share information and total equity will not change as a result of this restatement.

PERFORMANCE MEASUREMENT

We present our key financial metrics based on total results prior to distributions made to both LP Unitholders and the Redeemable/Exchangeable unitholders. In addition, our operations are segmented by country geography and asset type (i.e. Hydroelectric and Wind), as that is how we review our results, manage operations and allocate resources. Accordingly, we report our results in accordance with these segments.

One of our primary business objectives is to generate reliable and growing cash flows while minimizing risk for the benefit of all stakeholders. We monitor our performance in this regard through four key metrics — i) Net Income; ii) Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization; iii) Funds From Operations and; iv) Net Asset Value.

We also present these same measurements for our 2011 results on a *pro forma* basis (since Brookfield Renewable was only formed in November 2011) as if new contracts and contract amendments, along with the tax implications of the Combination, had each occurred as of January 1, 2011.

It is important to highlight that Adjusted EBITDA, funds from operations, and net asset value do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other companies. We provide additional information on how we determine Adjusted EBITDA, funds from operations, and net asset value and we provide reconciliations to net income. See “Net Income (loss), Adjusted EBITDA, and Funds from Operations on a Consolidated Basis” and “Reconciliation of *Pro Forma* Results.”

Net Income (Loss)

Net income (loss) is calculated in accordance with IFRS.

Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization (Adjusted EBITDA)

Adjusted EBITDA means revenues less direct costs (including energy marketing costs), plus our share of cash earnings from equity-accounted investments and other income, before interest, current income taxes, depreciation, amortization, management service costs and the cash portion of non-controlling interests.

Funds From Operations

Funds from operations is defined as Adjusted EBITDA less interest, current income taxes and management service costs, which is then adjusted for the cash portion of non-controlling interests.

Net Asset Value

Net asset value represents our capital at carrying value, on a pre-tax basis prepared in accordance with the procedures and assumptions utilized to prepare Brookfield Renewable's IFRS financial statements, adjusted to reflect asset values not otherwise recognized under IFRS.

FINANCIAL REVIEW FOR THE YEAR ENDED DECEMBER 31, 2012

The following table reflects the actual and long-term average generation for the year ended December 31:

	Actual Generation		LTA Generation		Variance of Results		
					Actual vs. LTA		Actual vs. Prior Year
GENERATION (GWh)	2012	2011	2012	2011	2012	2011	2012
Hydroelectric generation							
United States	5,913	7,150	7,205	6,811	(1,292)	339	(1,237)
Canada	3,953	4,056	4,972	5,061	(1,019)	(1,005)	(103)
Brazil[1]	3,470	3,307	3,470	3,307	-	-	163
	13,336	14,513	15,647	15,179	(2,311)	(666)	(1,177)
Wind energy							
Canada	1,090	662	1,197	712	(107)	(50)	428
United States	619	-	837	-	(218)	-	619
	1,709	662	2,034	712	(325)	(50)	1,047
Other	897	702	521	406	376	296	195
Total generation[2]	15,942	15,877	18,202	16,297	(2,260)	(420)	65

(1) In Brazil, assured generation levels are used as a proxy for long-term average.
(2) Includes 100% of generation from equity-accounted investments.

We compare actual generation levels against the long-term average to highlight the impact of one of the important factors that affect the variability of our business results. In the short-term, we recognize that hydrology will vary from one period to the next, over time however, we expect our facilities will continue to produce in line with their long-term averages, which have proven to be reliable indicators of performance. Accordingly, we present our generation and the corresponding Adjusted EBITDA and funds from operations on both an actual generation and a long-term average basis.

Generation levels during the year ended December 31, 2012 totaled 15,942 GWh, an increase of 65 GWh as compared to the same period of the prior year. Lower generation in our North American hydroelectric portfolio was offset by an increase in generation from our wind assets acquired or commissioned in the last 18 months, and higher than planned generation from our co-generation facilities.

Generation from our hydroelectric portfolio totaled 13,336 GWh, a decrease of 1,177 GWh, as a result of lower levels of precipitation and warmer than average temperatures in the northeastern United States and mid-western United States. The variance in our year-over-year results also reflects the above average precipitation and record rainfall levels in 2011 resulting from Hurricane Irene. Generation from our hydroelectric portfolio in Brazil was positively impacted by the full year's contribution of a facility acquired in mid-2011.

Generation from our wind portfolio totaled 1,709 GWh, an increase of 1,047 GWh, as a result of the contributions from facilities acquired or commissioned in California and New England in early 2012, and the full year's contribution from an Eastern Canada facility commissioned in 2011. Results were below long-term average as a result of lower wind conditions across the portfolio.

NET INCOME (LOSS), ADJUSTED EBITDA AND FUNDS FROM OPERATIONS ON A CONSOLIDATED BASIS

The following table reflects Adjusted EBITDA, funds from operations, and reconciliation to net income (loss) for the year ended December 31:

(MILLIONS, EXCEPT AS NOTED)	2012	2011[1]
Generation (GWh)	15,942	15,877
Revenues	$ 1,309	$ 1,169
Other income	16	19
Share of cash earnings from equity-accounted investments	13	23
Direct operating costs	(486)	(407)
Adjusted EBITDA[2]	852	804
Interest expense – borrowings	(411)	(411)
Management service costs	(36)	(1)
Current income taxes	(14)	(8)
Cash portion of non-controlling interests	(44)	(52)
Funds from operations[2]	$ 347	$ 332
Cash portion of non-controlling interests included in funds from operations	44	52
Other items:		
Depreciation and amortization[3]	(483)	(468)
Unrealized financial instrument gain (loss)	(23)	(20)
Loss on Fund unit liability	-	(376)
Share of non-cash earnings from equity-accounted investments	(18)	(13)
Deferred income tax recovery	54	50
Other	(16)	(8)
Net loss	(95)	(451)
Net income (loss) attributable to:		
Preferred equity	16	13
Participating non-controlling interests - in operating subsidiaries	(40)	11
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	(35)	(235)
Limited partners' equity	(36)	(240)
Basic and diluted loss per LP Unit [4]	(0.27)	(1.80)

(1) For periods prior to November 28, 2011, the financial information for Brookfield Renewable represents the combined financial information for the Brookfield Renewable Power Division, a division of Brookfield Asset Management. Transactions entered into as part of the Combination are accounted for effective November 28, 2011.
(2) Non-IFRS measures. See “Cautionary Statement Regarding Use of Non-IFRS Measures”.
(3) See Note 2(e) — *Change in accounting estimates* in our audited consolidated financial statements concerning changes in estimates related to depreciation expense.
(4) Average LP Units outstanding during the period totaled 132.8 million.

Net income (loss) is one important measure of profitability, in particular because it has a standardized meaning under IFRS. The presentation of net income (loss) on an IFRS basis for our business will often lead to the recognition of a loss even though the underlying cash flow generated by the assets is supported by high margins and stable, long-term contracts. The primary reason for this is that we recognize a significantly higher level of depreciation for our assets than we are required to reinvest in the business as sustaining capital expenditures.

As a result, we also measure our financial results based on Adjusted EBITDA, funds from operations and net asset value to provide readers with an assessment of the cash flow generated by our assets and the residual cash flow retained to fund distributions and growth initiatives.

Revenues totaled $1,309 million for the year ended December 31, 2012, representing a year-over-year increase of $140 million. Approximately $126 million of the increase in revenues is attributable to generation from facilities acquired or commissioned in 2012 as well as a full year's contribution from facilities acquired or commissioned during 2011. A further $132 million of the increase is primarily attributable to the amended power purchase agreement entered into at the time of the Combination. Offsetting the increase was $121 million resulting from reduced generation levels at existing facilities and the appreciation of the U.S. dollar relative to the Brazilian real.

Direct operating costs totaled $486 million for the year ended December 31, 2012, representing a year-over-year increase of $79 million. New facilities acquired or commissioned in the last 18 months added $38 million to operating costs, consistent with our underwriting assumptions. Energy marketing costs not included in the prior year's Combined statements added $18 million, and fuel purchases in excess of the prior year associated with our co-generation facility in Ontario accounted for $4 million as we took advantage of lower gas prices during the year. Lastly, lower allocated energy volumes in Brazil which allow us to purchase power at cost and re-sell at our contracted rates added $16 million to costs. The added revenues are included in revenues above.

Adjusted EBITDA totaled $852 million for the year ended December 31, 2012, representing a year-over-year increase of $48 million. Adjusted EBITDA was impacted by increase in revenues partially offset by increase in direct operating costs.

Interest expense totaled $411 million for the year ended year ended December 31, 2012, which was consistent with the prior year. Interest expense on borrowings reflects the cost related to approximately $4.3 billion of non-recourse asset-specific borrowings and $1.8 billion of corporate borrowings and credit facilities. During the year, we proactively took advantage of the low interest rate environment to reduce our cost of capital and increase the duration of borrowings. We issued C$400 million of 10-year term corporate notes and successfully financed subsidiary borrowings related to the growth in our portfolio during the year as well as construction of new assets. As a result, borrowing costs on our portfolio decreased on an annualized basis by approximately $30 million.

Management service costs, which came into effect as part of the Combination in 2011, reflect a base fee of $20 million annually plus 1.25% of the growth in total capitalization value. Our total capitalization value increased from initial value of $8.1 billion to $10.1 billion as at year ended December 31, 2012. The growth in total capitalization value during 2012 is primarily due to the increase in fair market value of LP Units, and the issuance of corporate debt and preferred equity, on an accretive basis.

Funds from operations totaled $347 million for the year ended December 31, 2012, an increase of $15 million year-over-year. Funds from operations were impacted by the increase in Adjusted EBITDA net of non-controlling interests and the increase in management service costs.

Throughout the year, analyses were performed on the useful lives of certain components of property, plant and equipment and we have determined that changes in their estimated service lives will more accurately reflect the period over which they provide economic benefits. Brookfield Renewable applied these changes in accounting estimates on a prospective basis effective January 1, 2012 or April 1, 2012 or July 1, 2012 based on timing of completion of the review. Depreciation expense for the year ended

December 31, 2012 was $112 million lower as a result of the changes in estimates. Assets acquired or commissioned within the past 12 months increased depreciation expense by $86 million.

2011 results also included a revaluation amount on the Fund unit liability. In accordance with IFRS, Fund units held by the public, which have a feature that allows the holder to redeem the units for cash, were presented as a liability and recorded at fair value, with the change in fair value recorded in net income. For the year ended December 31, 2011, the Fund unit price appreciated significantly resulting in a revaluation amount of $376 million. As a result of the Combination, the Fund units were exchanged for limited partnership units and the Fund was dissolved. Thus, for the year ended December 31, 2012, there was no impact from the valuation on the Fund unit liability.

The net loss was $95 million for the year ended December 31, 2012 (2011: $451 million). The net loss reflects the normal course depreciation and amortization expense of $483 million (2011: $468 million).

SEGMENTED DISCLOSURES

HYDROELECTRIC

The following table reflects the results of our hydroelectric operations for the years ended December 31:

(MILLIONS, EXCEPT AS NOTED)	2012			
	United States	Canada	Brazil	Total
Generation (GWh) – LTA[1]	7,205	4,972	3,470	15,647
Generation (GWh) – actual[1]	5,913	3,953	3,470	13,336
Revenues	$ 438	$ 272	$ 340	$ 1,050
Other income	1	4	11	16
Share of cash earnings from equity-accounted investments	6	2	5	13
Direct operating costs	(151)	(65)	(120)	(336)
Adjusted EBITDA[2]	294	213	236	- 743
Interest expense - borrowings	(137)	(65)	(58)	(260)
Current income taxes	2	-	(16)	(14)
Cash portion of non-controlling interests	(11)	-	(11)	(22)
Funds from operations[2]	$ 148	$ 148	$ 151	$ 447

(1) Includes 100% generation from equity-accounted investments.
(2) Non-IFRS measures. See “Net Income (Loss), Adjusted EBITDA and Funds from Operations on a Consolidated Basis”.

(MILLIONS, EXCEPT AS NOTED)	2011			
	United States	Canada	Brazil	Total
Generation (GWh) – LTA[1]	6,811	5,061	3,307	15,179
Generation (GWh) – actual[1]	7,150	4,056	3,307	14,513
Revenues	$ 467	$ 237	$ 335	$ 1,039
Other income	-	-	19	19
Share of cash earnings from equity-accounted investments	13	4	6	23
Direct operating costs	(144)	(62)	(91)	(297)
Adjusted EBITDA[2]	336	179	269	784
Interest expense - borrowings	(149)	(68)	(94)	(311)
Current income taxes	2	5	(15)	(8)
Cash portion of non-controlling interests	(26)	-	(13)	(39)
Funds from operations[2]	$ 163	$ 116	$ 147	$ 426

(1) Includes 100% generation from equity-accounted investments.
(2) Non-IFRS measures. See “Net Income (Loss), Adjusted EBITDA and Funds from Operations on a Consolidated Basis”.

United States

Generation from our U.S. portfolio was 5,913 GWh for the year ended December 31, 2012 compared to the long-term average of 7,205 GWh and compared to the prior year generation of 7,150 GWh. The decrease is attributable to lower inflows and generation given the warmer temperatures and below average rainfall in New York state and in the mid-western United States. The variance in our year-over-year results also reflects the above average precipitation and record rainfall levels in 2011, with Hurricane Irene impacting the mid-western and eastern United States.

Revenues totaled $438 million for the year ended December 31, 2012 representing a year-over-year decrease of $29 million. The decrease in generation affected assets in regions where power purchase agreement prices are higher than our average, which had a disproportionate impact on our financial results. The amended power purchase agreements, executed on the date of the Combination partly offset the impact of lower generation.

Funds from operations totaled $148 million for the year ended December 31, 2012, representing a year-over-year decrease of $15 million. Funds from operations were impacted by the decrease in Adjusted EBITDA net of non-controlling interest and lower interest expense from refinancing of certain borrowings.

Canada

Generation from our Canadian portfolio was 3,953 GWh for the year ended December 31, 2012 compared to the long-term average of 4,972 GWh and compared to the prior year generation of 4,056 GWh. The decrease in generation is primarily attributable to lower inflows resulting from drier than usual conditions in Ontario and Québec.

Revenues totaled $272 million for the year ended December 31, 2012, representing a year-over-year increase of $35 million. Although generation had decreased in the period, the amended power purchase agreements, executed on the date of the Combination more than offset the impact of lower generation.

Funds from operations totaled $148 million for the year ended December 31, 2012, representing a year-over-year increase of $32 million. Fund from operations were impacted by the increase in revenues.

Brazil

Generation from our Brazilian portfolio was 3,470 GWh for the year ended December 31, 2012 compared to the prior year generation of 3,307 GWh. Generation was positively impacted by the addition of three hydroelectric facilities acquired or commissioned during the last 18 months.

Our risk of a generation shortfall in Brazil continues to be minimized by participation in a hydrological balancing pool administered by the government of Brazil. This program mitigates hydrology risk by assuring that all participants receive, at any particular point in time, a reference amount of electricity (assured energy), irrespective of the actual volume of energy generated. The program reallocates energy, transferring surplus energy from those who generated in excess of their assured energy to those who generate less than their assured energy, up to the total generation within the pool.

Revenues totaled $340 million for the year ended December 31, 2012, representing a year-over-year increase of $5 million. The increase in revenues is primarily attributable to generation from the new facilities acquired or commissioned in the last 18 months.

Funds from operations totaled $151 million for the year ended December 31, 2012 representing a year-over-year increase of $4 million. [The increase in funds from operations is attributable to the new facilities, and a reduction in interest expense from the repayment of subsidiary borrowings during the first quarter of 2012].

WIND

The following table reflects the results of our wind operations for the years ended December 31:

(MILLIONS, EXCEPT FOR AS NOTED)	United States	Canada	2012	2011[(1)]
Generation (GWh) – LTA[(2)]	837	1,197	2,034	712
Generation (GWh) – actual[(2)]	619	1,090	1,709	662
Revenues	$ 58	$ 131	$ 189	$ 70
Direct operating costs	(27)	(18)	(45)	(12)
Adjusted EBITDA[(3)]	31	113	144	58
Interest expense - borrowings	(23)	(44)	(67)	(25)
Cash portion of non-controlling interests	(6)	-	(6)	-
Funds from operations[(3)]	$ 2	$ 69	$ 71	$ 33

(1) Results for 2011 are entirely from Canadian assets.
(2) Includes 100% generation from equity-accounted investments.
(3) Non-IFRS measures. See “Net Income (Loss), Adjusted EBITDA and Funds from Operations on a Consolidated Basis”.

United States

Generation from our U.S. wind portfolio was 619 GWh for the year ended December 31, 2012 compared to the long-term average of 837 GWh. In 2011, we held no U.S. operating wind assets in our portfolio. In the first quarter of 2012, we acquired or commissioned four facilities in California and the northeastern United States. Results were below long-term average as a result of lower wind conditions.

Funds from operations totaled $2 million for the year ended December 31, 2012. Funds from operations were impacted by the shortfall in revenues resulting from lower generation.

Canada

Generation from our Canadian wind portfolio was 1,090 GWh for the year ended December 31, 2012 compared to the long-term average of 1,197 GWh and to the prior year generation of 662 GWh. The increase in generation from prior year of 396 GWh is primarily attributable to the full year's contribution from our Ontario facility integrated in the fourth quarter of 2011. Results were below long-term average for the year due to lower wind conditions.

Revenues totaled $131 million for the year ended December 31, 2012, representing a year-over-year increase of $61 million. Approximately $66 million of the increase is attributable to generation from the eastern Canadian facility integrated in the fourth quarter of 2011.

Funds from operations totaled $69 million for the year ended December 31, 2012, representing a year-over-year increase of $36 million. The increase is attributable to the growth of the portfolio.

ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION

NET ASSET VALUE

The following table presents our net asset value as at December 31:

	Total		Per Share	
(MILLIONS, EXCEPT AS NOTED)	2012	2011	2012	2011
Property, plant and equipment, at fair value				
Hydroelectric[1]	$ 13,005	$ 12,138	$ 49.53	$ 46.24
Wind energy	2,244	1,400	8.55	5.33
Other	71	86	0.27	0.33
	15,320	13,624	58.35	51.90
Development assets	382	378	1.45	1.44
Equity-accounted investments	344	405	1.31	1.54
Working capital and other, net	180	380	0.69	1.45
Long-term debt and credit facilities	(6,119)	(5,519)	(23.31)	(21.02)
Participating non-controlling interests - in operating subsidiaries	(1,028)	(629)	(3.92)	(2.40)
Preferred equity	(500)	(241)	(1.90)	(0.92)
Net asset value[2]	$ 8,579	$ 8,398	$ 32.67	$ 31.99
Net asset value attributable to:				
Participating non-controlling interests - in a holding subsidiary - Redeemable /Exchangeable units held by Brookfield	4,236	4,149	32.67	31.99
Limited partners' equity	4,343	4,249	32.67	31.99
	$ 8,579	$ 8,398		

(1) Includes $344 million of equity-accounted investments (2011: $405 million) and $44 million of intangible assets (2011: $57 million).

(2) Non-IFRS measure. See “Segmented Net Asset Value”.

Our net asset value totaled approximately $8.6 billion as at December 31, 2012 which was an increase of $181 million from December 31, 2011. Net asset value increased by $1.3 billion from assets acquired or commissioned in 2012 net of participating non-controlling interests – in operating subsidiaries. Over 600 MW of hydroelectric and wind facilities in our portfolio have been acquired with institutional partners and are consolidated into our operating results. Our net ownership of these facilities is 22% - 25%. Net asset value was impacted by the additional long-term debt from portfolio growth, the issuance of preferred shares, and a decrease in working capital which amounted to $1.1 billion.

NET ASSET VALUE FOR HYDROELECTRIC FACILITIES

The following table presents our net asset value of the hydroelectric facilities as at December 31:

(MILLIONS)	United States	Canada	Brazil	2012	2011
Hydroelectric power assets[1]	$ 5,243	$ 5,191	$ 2,571	$ 13,005	$ 12,138
Development assets	55	186	128	369	147
Equity-accounted investments	196	81	67	344	325
	5,494	5,458	2,766	13,718	12,610
Working capital and other, net	82	157	78	317	300
Subsidiary borrowings	(1,784)	(1,126)	(348)	(3,258)	(3,411)
Participating non-controlling interests - in operating subsidiaries	(490)	(36)	(211)	(737)	(459)
Net asset value[2]	$ 3,302	$ 4,453	$ 2,285	$ 10,040	$ 9,040

(1) Includes intangibles for 2012: $44 million and 2011: $57 million.
(2) Non-IFRS measure. See "Segmented Net Assets Value".

The net asset value of our hydroelectric facilities was $10.0 billion as at December 31, 2012, an increase of $1.0 billion from December 31, 2011. The increase in net asset value was primarily attributable to the acquisition of a 378 MW portfolio of hydroelectric facilities in southern United States net of participating non-controlling interests. The hydroelectric facilities under construction in Brazil and British Columbia also contributed to the increase over the prior year. During the year ended December 31, 2012, we repaid over $350 million in higher-yielding subsidiary borrowings related to our hydroelectric facilities, further increasing the net asset value of our hydroelectric facilities.

NET ASSET VALUE FOR WIND FACILITIES

The following table presents the net asset value of our wind facilities as at December 31:

(MILLIONS)	United States	Canada	2012	2011
Wind power assets	$ 834	$ 1,410	$ 2,244	$ 1,400
Development assets	-	13	13	231
Equity-accounted investments	-	-	-	80
	834	1,423	2,257	1,711
Working capital and other, net	4	(59)	(55)	(26)
Subsidiary borrowings	(460)	(629)	(1,089)	(785)
Participating non-controlling interests - in operating subsidiaries	(291)	-	(291)	(170)
Net asset value[1]	$ 87	$ 735	$ 822	$ 730

(1) Non-IFRS measures. See “Segmented Net Asset Value”.

The net asset value of our wind facilities was $822 million as at December 31, 2012, compared to $730 million as at December 31, 2011. This increase is primarily due to the acquisitions and commissioning of approximately 225 MW of wind facilities in California. The commissioning of a wind facility in northeastern United States also caused the decrease in development assets. Equity-accounted investments declined in 2012 as we acquired the remaining 50% of a California wind facility which is now consolidated. Offsetting the increases from assets acquired and commissioned is the increase in the subsidiary borrowings attributable to these acquisitions.

SEGMENTED NET ASSET VALUE

The following table provides a breakdown of our consolidated net asset value as at December 31:

(MILLIONS)	Hydroelectric	Wind energy	Corporate and other	2012	2011
Property, plant and equipment, at fair value[1]	$ 13,005	$ 2,244	$ 71	$ 15,320	$ 13,624
Development assets	369	13	-	382	378
Equity-accounted investments	344	-	-	344	405
	13,718	2,257	71	16,046	14,407
Working capital and other, net	317	(55)	(82)	180	380
Long-term debt and credit facilities	(3,258)	(1,089)	(1,772)	(6,119)	(5,519)
Participating non-controlling interests - in operating subsidiaries	(737)	(291)	-	(1,028)	(629)
Preferred equity	-	-	(500)	(500)	(241)
Net asset value[2]	$ 10,040	$ 822	$ (2,283)	$ 8,579	$ 8,398
Net asset value attributable to:					
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	$ 4,958	$ 406	$ (1,127)	$ 4,237	$ 4,149
Limited partners' equity	5,082	416	(1,156)	4,342	4,249
	10,040	822	(2,283)	8,579	8,398
Deferred income tax liabilities	(2,145)	(232)	19	(2,358)	(2,374)
Deferred income tax assets	-	4	77	81	306
	$ 7,895	$ 594	$ (2,187)	$ 6,302	$ 6,330
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	$ 3,899	$ 293	$ (1,080)	$ 3,112	$ 3,127
Limited partners' equity	3,996	301	(1,107)	3,190	3,203
	$ 7,895	$ 594	$ (2,187)	$ 6,302	$ 6,330
Net asset value - per share[3]:					
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield				$ 32.67	$ 31.99
Limited partners' equity				32.67	31.99

(1) Includes $44 million of intangible assets (2011: $57 million).
(2) Non-IFRS measure. Refer to "Cautionary Statement Regarding Use of Non-IFRS Measures".
(3) Net asset value per share is based on the average LP Units outstanding during the period totaled 132.8 million.

REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

In accordance with IFRS, Brookfield Renewable has elected to revalue its property, plant and equipment at a minimum on an annual basis, as at December 31st of each year. As a result, certain of Brookfield Renewable's property, plant and equipment, are carried at fair value as opposed to historical cost. The property, plant and equipment assets that are revalued use a discounted cash flow model over a 20-year period and incorporates Brookfield Renewable's expectations about several inputs, including future inflation rates and discount rates, as well as estimates regarding future electricity prices, anticipated long-term average generation, operating and capital expenditures, including future major maintenance expenditures all over a twenty-year period. Brookfield Renewable valued the property, plant and equipment using inputs, which vary according to the type and geographic location of the asset.

Brookfield Renewable elected to change its accounting policy for the revaluation of property plant and equipment to include development assets effective December 31, 2011. We record development assets at an estimate of fair value based on the value expected on completion, less the costs remaining to complete the project.

Brookfield Renewable's equity can vary with changing discount and terminal capitalization rates. The table below summarizes the impact of a 50 bps change in discount rates on the fair value of property, plant and equipment.

	Effect on fair value of property, plant and equipment	
(BILLIONS)	2012	2011
50 bps increase in discount rates	$ (1.2)	$ (1.0)
50 bps decrease in discount rates	$ 1.4	$ 1.0

LIQUIDITY AND CAPITAL RESOURCES

We operate with sufficient liquidity, which along with ongoing cash flow from operations enables us to fund growth initiatives, capital expenditures, distributions, and to finance the business on an investment grade basis. As part of our financing strategy, we raise the majority of our debt in the form of asset-specific, non-recourse borrowings at our subsidiaries. As at December 31, 2012, long-term indebtedness increased from December 31, 2011 as a result of the growth of our portfolio during the period. Our debt to capitalization ratio was 38% as at December 31, 2012, which is consistent with December 31, 2011.

Capitalization

The following table summarizes our capitalization using book values as at December 31:

(MILLIONS)		2012		2011
Credit facilities[1]	$	268	$	251
Corporate borrowings[1]		1,504		1,071
Subsidiary borrowings[2]		4,347		4,197
Long-term indebtedness		6,119		5,519
Participating non-controlling interests - in operating subsidiaries		1,028		629
Preferred equity		500		241
Net asset value[3]		8,579		8,398
Total capitalization	$	16,226	$	14,787
Debt to total capitalization[3]		38%		37%

(1) Issued by a subsidiary of Brookfield Renewable and guaranteed by Brookfield Renewable. The amounts are unsecured.
(2) Issued by a subsidiary of Brookfield Renewable and secured against its assets. The amounts are not guaranteed.
(3) Non-IFRS measures. Refer to "Cautionary Statement Regarding the Use of Non-IFRS Measures".

During 2012, we completed more than $2.8 billion of financing and capital market activity which has meaningfully lowered our borrowing costs while increasing the overall terms of our maturities. Highlights include the following:

- We increased the size of our revolving credit facilities from $600 million to $990 million, while extending maturities to October 2016.
- We issued C$400 million of 10-year term corporate notes bearing interest at 4.79% per annum. Proceeds of the offering were used to reduce subsidiary borrowings, extend the term on our overall maturity profile and reduce overall cost of capital.
- Subsidiary borrowings increased with assets acquired or commissioned in 2012 and the financing of a new hydroelectric development project.

Participating non-controlling interests – in operating subsidiaries increased as a result of the portfolio growth of our assets, in which we invested alongside our institutional investors.

We issued C$250 million of 4.40% rate-reset Class A preference shares with fixed, annual dividends.

In the first quarter of 2013, we issued an additional C$175 million Class A Preference Shares with a fixed, annual dividends yielding 5%.

Available liquidity

Total liquidity is comprised of cash and the available portion of credit facilities. As at December 31, 2012, we had $677 million of available liquidity (December 31, 2011: $415 million) which provides the flexibility to fund ongoing portfolio growth initiatives and to protect against short-term fluctuations in generation.

For the year ended December 31, 2012, available liquidity increased by $262 million primarily as a result of the $390 million increase in available credit facilities secured partially offset by a reduction in cash and cash equivalents.

With cash on hand and cash generated by our operations, we have continued to invest in growth initiatives and pay unitholder distributions. Despite generation levels that have been below long-term average in 2012, we have not significantly drawn on credit facilities, demonstrating the financial resilience of the operations and our ability to mitigate the impact that the short-term fluctuations in generation have on funds from operations.

The following table summarizes our available liquidity as at December 31:

(MILLIONS)	2012	2011
Cash and cash equivalents[1]	$ 137	$ 225
Credit facilities		
Authorized credit facilities	990	601
Issued letters of credit	(182)	(160)
Draws on credit facilities	(268)	(251)
Available portion of credit facilities	540	190
Available liquidity	$ 677	$ 415

(1) Cash and cash equivalents are net of restricted cash of $157 million (2011: $42 million).

Long-term debt and credit facilities

The following table summarizes our significant contractual obligations as at December 31:

(MILLIONS)	2013	2014	2015	2016	2017	Thereafter	Total
Principal repayments							
Subsidiary borrowings	$ 532	$ 552	$ 124	$ 144	$ 512	$ 2,529	$ 4,393
Corporate borrowings	-	-	-	302	-	1,210	1,512
Equity-accounted investments	1	1	36	97	126	27	288
	533	553	160	543	638	3,766	6,193
Interest payable[1]							
Subsidiary borrowings	203	174	157	152	144	996	1,826
Corporate borrowings	81	81	81	81	61	335	720
Equity-accounted investments	16	16	15	14	6	13	80
	300	271	253	247	211	1,344	2,626
Total	$ 833	$ 824	$ 413	$ 790	$ 849	$ 5,110	$ 8,819

(1) Represents aggregate interest payable expected to be paid over the entire term of the obligations, if held to maturity. Variable rate interest payments have been calculated based on current rates.

Subsidiary borrowings of $400 million maturing in December 2013 relate to two Ontario wind assets. Subsidiary borrowings maturing in 2014 include $125 million on a New England hydroelectric facility, and $250 million on a recently acquired portfolio of hydroelectric facilities in Tennessee and North Carolina. All borrowings are expected to be refinanced in the normal course.

The overall maturity profile and average interest rates associated with our borrowings and credit facilities are as follows at December 31:

	Average term (years)		Average interest rate (%)	
	2012	2011	2012	2011
Corporate borrowings	8.7	9.6	5.3	5.5
Subsidiary borrowings	11.8	10.0	6.4	7.5
Credit facilities	3.8	2.3	2.0	2.8

CONTRACT PROFILE

We have a predictable pricing profile driven by both long-term power purchase agreements with a weighted-average remaining duration as of December 31, 2012 of 18 years, combined with a well-diversified portfolio that reduces variability in our generation volumes. We operate the business on a largely contracted basis to ensure a high degree of predictability in funds from operations. We do however maintain a long-term view that electricity prices and the demand for electricity from renewable sources will rise due to a growing level of acceptance around climate change and the legislated requirements in some areas to diversify away from fossil fuel based generation.

As at December 31, 2012, we had contracted 98% of the 2013 generation at an average price of $83 per MWh. The following table sets out contracts over the next five years for generation from existing facilities assuming long-term average hydrology and wind conditions:

FOR THE YEAR ENDED DECEMBER 31	2013	2014	2015	2016	2017
Generation (GWh)					
Contracted[1]					
Hydroelectric[2]	16,723	15,409	14,064	13,926	13,308
Wind energy	2,104	2,104	2,104	2,104	2,104
Other	398	134	-	-	-
	19,225	17,647	16,168	16,030	15,412
Uncontracted	295	1,721	3,114	3,252	3,870
Long-term average	19,520	19,368	19,282	19,282	19,282
Contracted generation – as at December 31, 2012					
% of total generation	98 %	91 %	84 %	83 %	80 %
Price per MWh	$ 83	$ 84	$ 86	$ 86	$ 85

(1) Assets under construction are included when long-term average and pricing details are available and the commercial operations date is established in a definitive construction contract.

(2) Long-term average for 2013 to 2017 includes generation from one facility in Brazil and one in Canada that are currently under construction with estimated commercial operation dates commencing in early 2013 and mid-2014, respectively.

As of December 31, 2012, the majority of the long-term power purchase agreements are with investment-grade rated or creditworthy counterparties such as Brookfield Asset Management and its subsidiaries (43%), government-owned utilities or power authorities (21%), industrial power users (28%) and distribution companies (8%).

Over the next three years we have on average approximately 1,710 GWh of energy annually which is uncontracted. All of this energy can be sold into the current wholesale or bilateral market, however we intend to maintain flexibility in re-contracting to position ourselves to achieve the most optimal pricing.

SUMMARY CONSOLIDATED BALANCE SHEETS

The following table provides a summary of the key line items on the consolidated balance sheets as at December 31:

(MILLIONS)	2012	2011
Property, plant and equipment, at fair value	$ 15,658	$ 13,945
Equity-accounted investments	344	405
Total assets	16,925	15,708
Long-term debt and credit facilities	6,119	5,519
Deferred income tax liabilities	2,358	2,374
Total liabilities	9,095	8,508
Preferred equity	500	241
Participating non-controlling interests - in operating subsidiaries	1,028	629
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	3,112	3,127
Limited partners' equity	3,190	3,203
Total liabilities and equity	16,925	15,708

CONTRACTUAL OBLIGATIONS

Capital Expenditures

Total sustaining capital expenditures and development and construction of our renewable power generating assets for 2013 are expected to be $67 million and $142 million, respectively.

Commitments

In fourth quarter of 2012, we announced an agreement to acquire a portfolio of 19 hydroelectric generating stations in Maine for a total enterprise value of $760 million. The transaction is expected to close in the first quarter of 2013. We expect to have institutional partners to co-invest alongside us for up to 50% of the portfolio through a private fund sponsored by Brookfield Asset Management, and will manage and integrate these assets into our North American operating platform. These assets will have an installed capacity of 351 MW and annual generation of 1.6 million MWh.

At the balance sheet date, Brookfield Renewable had commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

(MILLIONS)	2013	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 8	$ 6	$ 6	$ 6	$ 6	$ 53	$ 85
Capital leases	-	-	-	1	1	51	53
Total	$ 8	$ 6	$ 6	$ 7	$ 7	$ 104	$ 138

Guarantees

Brookfield Renewable, on behalf of its subsidiaries, and subsidiaries of Brookfield Renewable provided letters of credit, which include, but are not limited to, guarantees for debt service reserves, capital reserves, construction completion and performance. As at December 31, 2012, letters of credit issued by subsidiaries of Brookfield Renewable amounted to $92 million.

In the normal course of operations, we execute agreements that provide for indemnification and guarantees to third parties in transactions such as acquisitions, construction projects, capital projects, and purchases of assets. We have also agreed to indemnify our directors and certain of our officers and employees. The nature of the indemnifications prevents us from making a reasonable estimate of the maximum potential amount that could be required to pay third parties, as many of 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, we have made no significant payments under indemnification agreements.

Off-Balance Sheet Arrangements

Brookfield Renewable has no off-balance sheet financing arrangements.

RELATED PARTY TRANSACTIONS

Brookfield Renewable's related party transactions are in the normal course of business, except for related party acquisitions, and are recorded at the exchange amount. Brookfield Renewable's related party transactions are primarily with Brookfield Asset Management.

As discussed in the Significant Accounting Policies Note 2 (b) — Basis of Presentation in our audited consolidated financial statements, effective November 28, 2011, Brookfield Asset Management and Brookfield Renewable completed the Combination agreement. This resulted in the strategic combination of all the renewable power assets of the Fund and certain Brookfield Asset Management subsidiaries to create Brookfield Renewable. Consequently at the date of the Combination, Brookfield Asset Management, Brookfield Renewable's ultimate parent, held directly or indirectly, approximately a 73% limited partnership interest (68% as at the date of this report) on a fully-exchanged basis and all general partnership units totaling a 0.01% general partnership interest in Brookfield Renewable.

Brookfield Renewable sells electricity to subsidiaries of Brookfield Asset Management through long-term power purchase agreements to provide stable cash flow and reduce Brookfield Renewable's exposure to electricity prices in deregulated power markets. Brookfield Renewable also benefits from a wind levelization agreement with a subsidiary of Brookfield Asset Management which reduces the exposure to the fluctuation of wind generation at certain facilities and thus improves the stability of its cash flow.

In addition to these agreements, Brookfield Renewable and Brookfield Asset Management have executed other agreements that are fully described in Note 8 — Related Party Transactions in our audited consolidated financial statements.

In December 2011, Brookfield Renewable entered into voting agreements with subsidiaries of Brookfield Asset Management whereby these subsidiaries, as managing members of entities related to Brookfield Americas Infrastructure Fund, in which Brookfield Renewable holds investments with institutional partners, agreed to assign to Brookfield Renewable their voting rights to appoint the directors of such entities.

The following table reflects the related party agreements and transactions on the consolidated statements of income (loss) for the year ended December 31:

(MILLIONS)	2012	2011
Revenues		
Purchase and revenue support agreements	$ 376	$ 254
Wind levelization agreement	2	7
	$ 378	$ 261
Direct operating costs		
Energy purchases	$ (40)	$ (41)
Operations, maintenance and administration services	(18)	(11)
Insurance services	(18)	(18)
	$ (76)	$ (70)
Interest expense	$ -	$ (19)
Management service costs	$ (36)	$ (1)

The following table reflects the impact of the related party agreements and transactions on the consolidated balance sheets as at December 31:

(MILLIONS)	Related party		2012		2011
Current assets					
Due from related parties					
Amounts due from	Brookfield Asset Management	$	20	$	227
Note receivable	Coram California Development		-		26
	Equity accounted and other		14		-
		$	34	$	253
Due from related parties					
Amounts due from	Brookfield Asset Management, Brascan Energetica	$	3	$	13
Note receivable	Powell River Energy Inc.		19		19
		$	22	$	32
Current liabilities					
Due to related parties					
Amount due to and current portion of note payable	Brookfield Asset Management	$	45	$	74
Accrued unitholders distributions payable	Brookfield Asset Management		61		65
	Equity accounted		1		-
		$	107	$	139
Due to related parties					
Note payable	Brookfield Asset Management	$	-	$	8
	Equity accounted		2		-
		$	2	$	8

The decrease from $253 million to $34 million in the current portion due from related parties is primarily attributed to the draws on demand deposits and the settlement of amounts related to the acquisition of a wind facility in California.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table summarizes the key items on the consolidated cash flow statements for the year ended December 31:

(MILLIONS)	2012	2011
Cash flow provided by (used in):		
Operating activities	$ 398	$ 349
Financing activities	335	809
Investing activities	(698)	(1,090)
Foreign exchange (loss) gain on cash held in foreign currencies	(8)	11
Increase in cash and cash equivalents	$ 27	$ 79

Cash and cash equivalents as at the end of the year totaled $294 million, representing an increase of $27 million since December 31, 2011. Cash and cash equivalents include $157 million of restricted cash (December 31, 2011: $42 million).

Operating Activities

Cash flows provided by operating activities totaled $398 million for the year ended December 31, 2012, resulting in a year-over-year increase of $49 million. The increase was primarily due to a $15 million increase in funds from operations.

Net Change in Non-cash Working Capital

The net change in working capital shown in the consolidated statements of cash flow for the year ended December 31 is comprised of the following:

(MILLIONS)	2012	2011
Trade receivables and other current assets	$ (22)	$ (12)
	$ (22)	$ (12)

Financing Activities

Cash flows provided by financing activities totaled $335 million for the year ended December 31, 2012. Long-term debt – borrowings increased with issuance of C$400 million of 10-year term corporate notes, approximately $500 million of subsidiary borrowings related to the growth and construction of assets, and over $300 million in refinancing of certain existing facilities. Repayments related to subsidiary borrowings were approximately $1.1 billion. The capital provided by participating non-controlling interests – in operating subsidiaries and preferred equity relate to the growth, and the issuance of C$250 Class A Preference Shares.

For the year ended December 31, 2012, cash distributions to shareholders and preferred shareholders were $362 million and $13 million, respectively (2011: $109 million and $13 million, respectively). The remaining $25 million in distributions was related to participating non-controlling interests - in operating subsidiaries (2011: $26 million).

Investing Activities

Cash flows used in investing activities for the year ended December 31, 2012 totaled $698 million. Our investment related to the acquisition of wind facilities in California, hydroelectric facilities in southern United States and a hydroelectric facility in Brazil totaled $743. In addition, our continued investment in sustainable capital expenditures and construction of renewable power generating assets amounted to $362 million. Partly offsetting the decrease in cash used in these activities were the receipt of $209 million in investment tax credits pursuant to government incentives to build new renewable wind facilities and $172 million related to the settlement of certain related party balances.

NON-CONTROLLING INTERESTS

Preferred equity

In March 2010, we issued C$250 million of Class A preference shares with rate reset, cumulative dividends yielding 5.25%. For the year ended, December 31, 2012, dividends declared on these preference shares were $13 million (2011: $13 million).

In October 2012, we issued C$250 million of Class A preference shares with fixed, annual, cumulative dividends yielding 4.4%. The net proceeds were used to repay outstanding indebtedness and for general corporate purpose. The shares commenced trading on October 11, 2012 on the TSX under the ticker symbol “BRF.PR.C”. For the year ended December 31, 2012, dividends declared on these preference shares were $3 million (2011: nil).

As at December 31, 2012, no Class A preference shares have been redeemed.

Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield

BRELP has issued Redeemable/Exchangeable Partnership Units to Brookfield, which may at the request of the holder, require BRELP to redeem these units for cash consideration after a mandatory two-year holding period from the date of issuance. The right is subject to Brookfield Renewable’s right, of first refusal which entitles it, at its sole discretion, to elect to acquire all of the units presented to BRELP that are tendered for redemption in exchange for LP Units. If Brookfield Renewable elects not to exchange the Redeemable/Exchangeable Partnership Units for LP Units, the Redeemable/Exchangeable Partnership Units are required to be redeemed for cash. As Brookfield Renewable, at its sole discretion, has the right to settle the obligation with LP Units, the Redeemable/Exchangeable Partnership Units are classified as equity, and not as a liability, as Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield.

As at December 31, 2012, Redeemable/Exchangeable Partnership Units outstanding were 129,658,623.

LIMITED PARTNERS’ EQUITY

With the completion of the Combination in November 2011, the number of outstanding units increased from 104,718,976 to 262,485,747 on a fully-exchanged basis. The fully-exchanged amounts assume the exchange of LP Units for the participating non-controlling interests in BRELP, which may or may not occur since Brookfield can elect to continue to hold its direct interest in BRELP rather than exchanging this interest for LP Units.

A secondary offering was completed during the first quarter of 2012 in which, a wholly-owned subsidiary of Brookfield Asset Management sold 13,144,500 of its LP Units at an offering price of C$26.25 per LP Unit. Brookfield Asset Management had owned approximately 73% of Brookfield Renewable on a fully-exchanged basis. Upon the completion of the secondary offering, and giving effect to the over-allotment option, Brookfield Asset Management now owns, directly and indirectly, 177,750,609 LP Units and Redeemable/Exchangeable partnership units, representing approximately 68% of Brookfield Renewable on a fully-exchanged basis.

Brookfield Renewable maintains a distribution reinvestment plan, which allows holders of LP Units who are resident in Canada to acquire additional LP Units by reinvesting all or a portion of their cash distributions without paying commissions. The LP Units increased by 74,792 for the year ended December 31, 2012.

As at December 31, 2012, the total amount of our LP Units outstanding was 132,901,916 and general partnership interests of 0.01%.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The consolidated annual financial statements are prepared in accordance with IFRS, which require the use of estimates and judgments in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in Note 2 — Significant Accounting Policies in our audited consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102 with the exception of the estimates related to the valuation of property, plant and equipment and the related deferred income tax liabilities. These assumptions include estimates of future electricity prices, discount rates, expected long-term average generation, inflation rates, terminal year and operating and capital costs, the amount, the timing and the income tax rates of future income tax provisions. Estimates also include determination of accruals, purchase price allocations, useful lives, asset valuations, asset impairment testing, deferred tax liabilities, decommissioning retirement obligations and those relevant to the defined benefit pension and non-pension benefit plans in Mississagi Power Trust and Great Lakes Power Limited. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances.

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. These estimates are impacted by, among other things, future power prices, movements in interest rates, foreign exchange and other factors, some of which are highly uncertain, as described in the analysis of business and environmental risks section of this report. The interrelated nature of these factors prevents us from quantifying the overall impact of these movements on Brookfield Renewable's financial statements in a meaningful way. These sources of estimation uncertainty relate in varying degrees to virtually all asset and liability account balances. Actual results could differ from those estimates.

CRITICAL ESTIMATES

Brookfield Renewable makes estimates and assumptions that affect the carrying value of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of income and OCI for the year. Actual results could differ from these estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

(i) Property, plant and equipment

The fair value of Brookfield Renewable's property, plant and equipment is calculated using estimates and assumptions about future electricity prices from renewable sources, anticipated long-term average generation, estimated operating and capital expenditures, future inflation rates and discount rates, as described in Note 10 — Property, Plant and Equipment in our audited consolidated financial statements. Judgment is involved in determining the appropriate estimates and assumptions in the valuation of Brookfield Renewable's property, plant and equipment. See Note 2 (o) — Critical judgments in applying accounting policies in our audited consolidated financial statements for further details.

Estimates of useful lives and residual values are used in determining depreciation and amortization. To ensure the accuracy of useful lives and residual values, these estimates are reviewed on an annual basis.

(ii) Financial instruments

Brookfield Renewable makes estimates and assumptions that affect the carrying value of its financial instruments, including estimates and assumptions about future electricity prices, long-term average generation, capacity prices, discount rates and the timing of energy delivery. Non-financial instruments are valued using estimates of future electricity prices which are estimated by considering broker quotes for the years in which there is a liquid market and for the subsequent years Brookfield Renewable's best estimate of electricity prices that would allow new entrants into the market. See Note 7 – Risk Management and Financial Instruments in our audited consolidated financial statements for more details.

(iii) Deferred income taxes

The consolidated financial statements include estimates and assumptions for determining the future tax rates applicable to subsidiaries and identifying the temporary differences that relate to each subsidiary. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the consolidated balance sheet dates. Operating plans and forecasts are used to estimate when the temporary difference will reverse.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments that have been made in applying the accounting policies used in the consolidated financial statements and that have the most significant effect on the amounts in the consolidated financial statements:

(i) Preparation of consolidated financial statements

These consolidated financial statements present the financial position, results of operations and cash flows of Brookfield Renewable. Judgment is required in determining what assets, liabilities and transactions are recognized in the consolidated financial statements as pertaining to Brookfield Renewable's operations.

(ii) Common control transactions

Common control business combinations specifically fall outside of scope of IFRS 3R and as such management has used its judgment to determine an appropriate policy to account for these transactions. Consideration was given to other relevant accounting guidance within the framework of principles in IFRS and that reflects the economic reality of the transactions, in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. As a result, the consolidated financial statements account for assets and liabilities acquired at the previous carrying value on the predecessor's financial statements. Differences between the consideration given and the assets and liabilities received are recorded directly to equity.

(iii) Property, plant and equipment

The accounting policy relating to Brookfield Renewable's property, plant and equipment is described in Note 2 (e) — Property plant and equipment and revaluation method in our audited consolidated financial statements. In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable costs to be included in the carrying value of the development asset. The useful lives of property, plant and equipment are determined by independent engineers periodically with an annual review by management.

Annually, Brookfield Renewable determines the fair value of its property, plant and equipment using a methodology that it has judged to be reasonable. The methodology is a 20 year discounted cash flow model. Twenty years is the period considered reasonable as Brookfield Renewable has 20 year capital plans and it believes a reasonable third party would be indifferent between extending the cash flows further in the model versus using a discounted terminal value.

The valuation model incorporates future cash flows from the power purchase agreements that are in place where it is determined that the power purchase agreements are linked specifically to the related power generating assets. With respect to estimated future generation that does not incorporate power purchase agreement pricing, the cash flow model uses estimates of future electricity prices, considering broker quotes for the years in which there is a liquid market and for the subsequent years, its best estimate of electricity prices from renewable sources that would allow new entrants into the market.

Discount rates are determined each year by considering the current interest rates, average market cost of capital as well as the price risk and the geographical location of the operational facilities as judged by management. Inflation rates are also determined by considering the current inflation rates and the expectations of future rates by economists. Operating costs are based on long-term budgets escalated thereafter for inflation. Each operational facility has a 20 year capital plan that it follows to ensure the maximum life of its assets is achieved. Foreign exchange rates are forecasted by using the spot rates and the available forward rates, extrapolated beyond the period available. The inputs described above to the discounted cash flow model require management to consider facts, trends and plans in making its judgments as to what derives a reasonable fair value of its property, plant and equipment.

(iv) Consolidation of Brookfield Renewable Power Fund

Brookfield Renewable held a 34% investment in the Fund, on a fully-exchanged basis prior to November 28, 2011. As a result, Brookfield Renewable assessed whether it continued to control the Fund, given its reduced ownership level. In making this assessment, Brookfield Renewable considered the definition of control and guidance as set out in IAS 27, Consolidated and Separate Financial Statements ("IAS 27"). Brookfield Renewable concluded that control did exist as it had the power to govern the financial and operating policies of the Fund under specific agreements. Effective November 28, 2011, public unitholders of the Fund received one LP Unit of Brookfield Renewable for each trust unit of the Fund held, and the Fund was wound up.

(v) Financial instruments

The accounting policy relating to Brookfield Renewable's financial instruments is described in Note 2 (i) — Financial instruments in our audited consolidated financial statements. In applying the policy, judgments are made in applying the criteria set out in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), to record financial instruments at fair value through profit and loss, and the assessments of the effectiveness of hedging relationships.

(vi) Deferred income taxes

The accounting policy relating to Brookfield Renewable's income taxes is described in Note 2 (k) — Income taxes in our audited consolidated financial statements. In applying this policy, judgments are made in determining the probability of whether deductions, tax credits and tax losses can be utilized.

RECENTLY ADOPTED ACCOUNTING POLICIES

(i) Income Taxes

On January 1, 2012, Brookfield Renewable adopted amendments to IAS 12, *Income Taxes*. Under these amendments, an entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. Implementation of amendments to IAS 12 did not have any material impact on Brookfield Renewable's annual consolidated financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

(i) Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on October 28, 2010, and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Management is currently evaluating the impact of IFRS 9 on the consolidated financial statements.

(ii) Consolidation

IFRS 10, Consolidation ("IFRS 10") was issued by the IASB on May 12, 2011, and replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under IAS 27, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 10 on the consolidated financial statements.

(iii) Joint arrangements

IFRS 11, Joint Arrangements ("IFRS 11") was issued by the IASB on May 12, 2011, and replaces IAS 31, Interests in Joint Ventures ("IAS 31"), and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, and revenue and expenses of the joint operation. Under IAS 31, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 11 on the consolidated financial statements.

(iv) Disclosure of interests in other entities

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB on May 12, 2011. IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 12 on the consolidated financial statements.

(v) Fair value measurement

IFRS 13, Fair Value Measurement ("IFRS 13") a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards, was issued by the IASB on May 12, 2011. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It supersedes the fair value guidance that currently exists in IAS 16, Property, Plant and Equipment ("IAS 16") concerning the use of the revaluation method. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 13 on the consolidated financial statements.

(vi) Accounting for employee benefits and minimum funding requirements

In June 2011, the IASB issued significant amendments to IAS 19, Employee Benefits ("IAS 19"). These changes affect the recognition of actuarial gains and losses by removing the option to use the corridor approach and requiring immediate recognition in other comprehensive income ("OCI"). These OCI amounts cannot be recycled to the income statement. There are also changes to the recognition, measurement and presentation of past service costs, cost of benefits and finance expense or income relating to employee benefits. Further, termination benefits are recognized as a liability only when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. There are additional disclosure requirements. The amendment is effective for periods beginning on or after January 1, 2013. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

(vii) Presentation of items of OCI

In June 2011, IASB issued amendments to IAS 1, Presentation of Financial Statements. These amendments include a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments), and emphasize the importance of presenting profit or loss and OCI together and with equal prominence. The amendment is effective for annual periods starting on or after July 1, 2012. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

(viii) Consolidation and Separate Financial Statements

In May 2011, IASB amended and reissued IAS 27. The amended standard is to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The amendment is effective for annual periods starting on or after January 1, 2013. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

(ix) Investment in Associates

In May 2011, IASB amended and reissued IAS 28, Investment in Associates and Joint Ventures. The amended standard prescribes the accounting treatment for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendment is effective for annual periods starting on or after January 1, 2013. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of Brookfield Renewable's disclosure controls and procedures and internal controls over financial reporting. Based on those evaluations, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure, controls and procedures and internal controls over financial reporting were adequate and effective as of December 31, 2012 in providing reasonable assurance that material information relating to Brookfield Renewable and its consolidated subsidiaries would be made known to them within those entities as well as in regards to the reliability of financial reporting and preparation of financial statements for external purposes in accordance with IFRS. While disclosure controls and procedures and internal controls over financial reporting were adequate and effective we continue to implement certain measures to strengthen control processes and procedures.

OPERATIONAL REVIEW FOR THE THREE MONTHS ENDED DECEMBER 31, 2012

The following table reflects the actual and long-term average generation for the three months ended December 31:

					Variance of Results		
	Actual Generation		LTA Generation		Actual vs. LTA		Actual vs. Prior year
GENERATION (GWH)	2012	2011	2012	2011	2012	2011	2012
Hydroelectric generation							
United States	1,447	1,756	1,869	1,655	(422)	101	(309)
Canada	954	756	1,175	1,189	(221)	(433)	198
Brazil[1]	924	879	924	879	-	-	45
	3,325	3,391	3,968	3,723	(643)	(332)	(66)
Wind energy							
Canada	325	255	343	249	(18)	6	70
United States	158	-	191	-	(33)	-	158
	483	255	534	249	(51)	6	228
Other	245	202	104	104	141	98	43
Total generation[2]	4,053	3,848	4,606	4,076	(553)	(228)	205

(1) In Brazil assured generation levels are used as a proxy for long-term average.
(2) Includes 100% of generation from equity-accounted investments.

Generation levels for the three months ended December 31, 2012 totaled 4,053 GWh, an increase of 205 GWh or 5% as compared to the same period of the prior year, and 553 GWh below long-term average.

Generation from our hydroelectric portfolio totaled 3,325 GWh, a decrease of 66 GWh as a result of lower inflows from the drier than normal conditions in New York state, and in the mid-western United States which was partly offset by additional generation from the recently acquired facilities in the southern United States and higher generation in eastern Canada. Generation from our hydroelectric portfolio in Brazil was higher due to new facilities acquired or commissioned during the last 18 months.

Generation from our wind portfolio totaled 483 GWh, an increase of 228 GWh, as a result of the recently acquired or commissioned facilities in California and New England, and from an Ontario facility commissioned in late 2011. Results were below long-term average for the current period primarily due to lower wind conditions.

SUMMARY OF HISTORICAL QUARTERLY RESULTS ON A CONSOLIDATED BASIS

The following is a summary of unaudited quarterly financial information for the last eight consecutive quarters:

	2012				2011			
(MILLIONS, EXCEPT AS NOTED)	Q4	Q3	Q2	Q1	Q4(1)	Q3(1)	Q2(1)	Q1(1)
Generation (GWh)(2)	4,053	2,971	4,101	4,817	3,848	3,614	4,491	3,924
Revenues	$ 317	$ 229	$ 337	$ 426	$ 267	$ 280	$ 329	$ 293
Adjusted EBITDA(3)	195	118	221	318	154	197	238	215
Funds from operations(3)	74	11	87	175	34	79	116	103
Net (loss) income:								
Preferred equity	6	4	3	3	3	3	4	3
Participating non-controlling interests - in operating subsidiaries	(14)	(11)	(14)	(1)	1	7	9	(6)
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	(27)	(26)	4	14	(45)	(124)	(21)	(45)
Limited partners' equity	(29)	(26)	4	15	(45)	(128)	(22)	(45)
	(64)	(59)	(3)	31	(86)	(242)	(30)	(93)
Basic and diluted earnings (loss) income per LP Unit(4)	(0.21)	(0.20)	0.03	0.11	(0.34)	(0.95)	(0.17)	(0.34)
Distributions:								
Preferred equity	6	3	4	3	3	3	4	3
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	45	46	46	45	44	17	17	17
Limited partners' equity	46	46	47	45	45	17	17	18

(1) Comparative quarterly consolidated financial information for the year ended December 31, 2011 was revised to reflect adjustments, primarily related to deferred income tax and foreign currency translation, which were identified through the completion of the Combination. The adjustments do not impact the comparative annual consolidated financial information for the year ended December 31, 2011.

(2) Actual generation includes 100% of generation from equity-accounted investments.

(3) Non-IFRS measures. See "Cautionary Statement Regarding Use of Non-IFRS Measures".

(4) Average LP Units outstanding during the period totaled 132.8 million.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Brookfield Renewable faces market risk from foreign currency assets and liabilities, the impact of changes in interest rates, and floating rate liabilities. Market risk is managed by funding assets with financial liabilities in the same currency and with similar interest rate characteristics and holding financial contracts, such as interest rate swaps and foreign exchange contracts, to minimize residual exposures. Financial instruments held by Brookfield Renewable that are subject to market risk include borrowings and financial instruments, such as interest rate, currency and commodity contracts. The categories of financial instruments that can give rise to significant variability are described below:

(i) Commodity price risk

Commodity price risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in commodity prices. Commodity price risk arises from the sale of Brookfield Renewable's uncontracted generation, stabilization of the gas purchases, as well as impacts on the carrying values of Brookfield Renewable's non-financial derivative contracts.

Brookfield Renewable sells electricity under long-term contracts to secure stable prices and mitigate its exposure to wholesale markets. As at December 31, 2012, virtually all (98%) of Brookfield Renewable's generation was sold pursuant to purchase price agreements, either to third parties or through entities of Brookfield. During 2012, certain of the long-term contracts were considered financial instruments, and were recorded at fair value in the consolidated financial statements. The change in fair value of long-term contracts was recorded in either income as "unrealized financial instrument (losses) gains" or OCI, as applicable.

The table below summarizes the impact of changes in the market price of electricity and gas as at December 31, expressed in terms of the effect on net income and OCI. The sensitivities are based on the assumption that the market price changes by five percent with all other variables held constant.

Impact of a 5% change in the market price of gas and electricity for the year ended December 31:

	Effect on net income		Effect on OCI	
(MILLIONS)	2012	2011	2012	2011
5% increase	$ 1	$ 2	$ -	$ -
5% decrease	$ (1)	$ (2)	$ -	$ -

(ii) Interest rate risk

Interest rate risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument will fluctuate, because of changes in interest rates.

Brookfield Renewable's assets largely consist of long duration physical assets. Brookfield Renewable's financial liabilities consist primarily of long-term fixed rate debt or floating-rate debt that has been swapped to fixed rates with interest rate financial instruments. All non-derivative financial liabilities are recorded at their amortized cost. Brookfield Renewable also holds interest rate contracts to lock-in fixed rates on anticipated future debt issuances.

Fluctuations in interest rates could impact Brookfield Renewable's cash flows, primarily with respect to the interest payable against Brookfield Renewable's variable rate debt, which is limited to certain subsidiary borrowings with a total principal value of $1,592 million (2011: $1,382 million). Of this amount, $1,102 million (2011: $730 million) has been hedged through the use of interest rate swaps. Brookfield Renewable's subsidiaries will enter into agreements designed to minimize the exposure to interest rate fluctuations on these debts. The fair values of the recognized liability for these agreements were calculated using a valuation model with observable interest rates.

The table below summarizes the impact of changes in the interest rate as at December 31. The impact is expressed in terms of the effect on income and OCI. The sensitivities are based on the assumption that the interest rate changes by one percent with all other variables held constant.

Impact of a 1% change in interest rates for the year ended December 31:

	Effect on net income		Effect on OCI	
(MILLIONS)	2012	2011	2012	2011
1% increase	$ (7)	$ (7)	$ 51	$ 48
1% decrease	$ 7	$ 7	$ (51)	$ (48)

(b) Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. Brookfield Renewable's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding energy contracts, interest rate swaps, forward foreign exchange contracts and physical electricity and gas transactions.

Brookfield Renewable minimizes credit risk with counterparties through the selection, monitoring and diversification of counterparties, and the use of standard trading contracts, and other credit risk mitigation techniques. In addition, Brookfield Renewable's purchase price agreements are reviewed regularly and are almost exclusively with customers having long standing credit histories or investment grade ratings, which limit the risk of non-collection. As at December 31, 2012, 99% (2011: 100%) of Brookfield Renewable's trade receivables of $106 million were current. See Note 6 — Trade receivables and other current assets in our audited consolidated financial statements for additional details regarding Brookfield Renewable's trade receivables balance.

The maximum credit exposure at December 31 was as follows:

(MILLIONS)	2012	2011
Cash and cash equivalents	$ 294	$ 267
Trade receivables and other current assets	194	158
Due from related parties[(1)]	56	285
	$ 544	$ 710

(c) Liquidity risk

Liquidity risk is the risk that Brookfield Renewable cannot meet a demand for cash or fund an obligation when due. Liquidity risk is mitigated by cash and cash equivalent balances and access to undrawn credit facilities. Details of the undrawn credit facilities are included in Note 14 — Long-term debt and credit facilities in our audited consolidated financial statements. We also ensure that we have access to public debt markets by maintaining a strong credit rating of BBB high.

We are also subject to the risk associated with debt financing. This risk is mitigated by the long-term duration of debt instruments and the diversification in maturity dates over an extended period of time.

The sensitivity analysis discussed above reflects only the risks associated with instruments that we consider are market sensitive and the potential loss resulting from one or more selected hypothetical changes. Therefore, the discussion above is not intended to reflect fully the market risk exposure that we may have.

RISK FACTORS

The following represents the most relevant risk factors relating to Brookfield Renewable's business. This contains only certain risk factors and is not all-inclusive. For a description of other possible risks such as: force majeure, insurance limits, litigation, labour relations, risks associated with operating in Brazil, greenfield development growth, sourcing and financing of acquisition opportunities, operational arrangements with partially owned investments, new markets in foreign countries, general role, relationship and operational issues with Brookfield Asset Management, general risks related to our limited partnership units, general taxation issues – domestic and foreign, and risks associated to being a newly formed partnership, please see the Annual Information Form and other public disclosures which can be accessed at SEDAR.

Management believes that, other than the additional risks relating to the supply and demand in the energy market, credit rating review with Developing Implications and potential withholding tax on U.S. passive income, since the end of 2011 there have been no changes in the business environment and risks that could affect Brookfield Renewable's activities or results.

RISKS RELATED TO OUR OPERATIONS AND THE RENEWABLE POWER INDUSTRY

Changes to hydrology at our hydroelectric stations or in wind conditions at our wind energy facilities could materially adversely affect the volume of electricity generated.

The revenues generated by our facilities are proportional to the amount of electricity generated which in turn is dependent upon available water flows and wind conditions. Hydrology and wind conditions have natural variations from season to season and from year to year and may also change permanently because of climate change or other factors. A natural disaster could also impact water flows within the watersheds in which we operate. Water rights are also generally owned or controlled by governments that reserve the right to control water levels or may impose water-use requirements as a condition of license renewal. Wind energy is highly dependent on weather conditions, and, in particular, on wind conditions. The profitability of a wind farm depends not only on observed wind conditions at the site, which are inherently variable, but also on whether observed wind conditions are consistent with assumptions made during the project development phase. A sustained decline in water flow at our hydroelectric stations or in wind conditions at our wind energy facilities could lead to a material adverse change in the volume of electricity generated, revenues and cash flow.

In Brazil, hydropower generators have access to the MRE, which, within the limitation referred to below, stabilizes hydrology by assuring that all participant plants receive a reference amount of electricity, approximating long-term average irrespective of the actual volume of energy generated whether above or below long-term average and substantially all our assets are part of that pool. In cases of nationwide drought sustained over an entire year, when the pool as a whole is in shortfall relative to the long-term average, an asset can expect to share the nationwide shortfall pro-rata with the rest of the pool. In addition, specific rules provide the minimum percentages of the reference amount of electricity that must be generated each year for assuring participation in the program. The energy reference amount is assessed yearly according to the criteria of such regulation, and can be adjusted positively or negatively. If the MRE is terminated or changed or Brookfield Renewable's reference amount is revised, Brookfield Renewable's financial results would be exposed to variations in hydrology in Brazil.

Counterparties to our contracts may not fulfill their obligations and, as our contracts expire, we may not be able to replace them with agreements on similar terms.

A significant portion of the power we generate is sold under long-term Power Purchase Agreements with Brookfield Asset Management, public utilities or industrial or commercial end-users, some of whom may not be rated by any rating agency. For example, as at December 31, 2012, approximately 43% of our projected annual sales are with a subsidiary of Brookfield Asset Management which is not rated and whose obligations are not guaranteed by Brookfield Asset Management. If, for any reason, any of the purchasers of power under such Power Purchase Agreements, including Brookfield, are unable or unwilling to fulfill their contractual obligations under the relevant Power Purchase Agreement or if they refuse to accept delivery of power pursuant to the relevant Power Purchase Agreement, our assets, liabilities, business, financial condition, results of operations and cash flow could be materially and adversely affected as we may not be able to replace the agreement with an agreement on equivalent terms and conditions. External events, such as a severe economic downturn, could impair the ability of some counterparties to the Power Purchase Agreements or some end use customers to pay for electricity received.

Certain portions of our hydroelectric portfolio will be subject to re-contracting in the future. We cannot provide any assurance that we will be able to re-negotiate these contracts once their terms expire, and even if we are able to do so, we cannot provide any assurance that we will be able to obtain the same prices or terms we currently receive. If we are unable to renegotiate these contracts, or unable to receive prices at least equal to the current prices we receive, our business, financial condition, results of operation and prospects could be adversely affected.

Conversely, a significant percentage of our sales will be made by facilities subject to indefinite term contracts with BRPI (taking into account its rights of renewal) at fixed prices per MWh of our electricity sold. Accordingly, with respect to those facilities, our ability to realize improved revenues due to increases in market prices for renewable power may be limited.

Increases in water rental costs (or similar fees) or changes to the regulation of water supply may impose additional obligations on Brookfield Renewable.
Water rights are generally owned or controlled by governments that reserve the right to control water levels or may impose water-use requirements as a condition of license renewal that differ from those arrangements in place today. We are required to make rental payments and pay property taxes for water rights or pay similar fees for use of water once our hydroelectric projects are in commercial operation. Significant increases in water rental costs or similar fees in the future or changes in the way that governments regulate water supply could have a material adverse effect on our assets, liabilities, business, financial condition, results of operations and cash flow.

Supply and demand in the energy market, including the non-renewable energy market, is volatile and such volatility could have an adverse impact on electricity prices and a material adverse effect on Brookfield Renewable’s assets, liabilities, business, financial condition, results of operations and cash flow.
A portion of Brookfield Renewable’s revenues are tied, either directly or indirectly, to the wholesale market price for electricity in the markets in which Brookfield Renewable operates. Wholesale market electricity prices are impacted by a number of factors including: the price of fuel (for example, natural gas) that is used to generate other sources of electricity; the management of generation and the amount of excess generating capacity relative to load in a particular market; the cost of controlling emissions of pollution, including potentially the cost of carbon; the structure of the market; and weather conditions that impact electrical load. More generally, there is uncertainty surrounding the trend in electricity demand growth, which is greatly influenced by macroeconomic conditions, by absolute and relative energy prices, and by developments in energy conservation and demand-side management. Correspondingly, from a supply perspective, there are uncertainties associated with the timing of generating plant retirements – in part driven by environmental regulations – and with the scale, pace and structure of replacement capacity, again reflecting a complex interaction of economic and political pressures and environmental preferences. This volatility and uncertainty in the energy market, including the non-renewable energy market, could have a material adverse effect on Brookfield Renewable’s assets, liabilities, business, financial condition, results of operations and cash flow.

Under recently proposed Treasury regulations promulgated under the U.S. Internal Revenue Code (“Treasury Regulations”) certain payments of passive income (as well as gross proceeds from the disposition of property that could produce such income) made to the Partnership or BRELP on or after January 1, 2014 could be subject to a 30% federal withholding tax, unless an exception applies.
Under recently proposed Treasury Regulations, certain payments of U.S.-source income or payments attributable to such income made on or after January 1, 2014 (as well as payments attributable to dispositions of property which produce or could produce such income made on or after January 1, 2017)

to either the Partnership or BRELP or by the Partnership to or through non-U.S. financial institutions or non-U.S. entities, could be subject to a 30% withholding tax unless certain requirements are met. Significant exceptions to these requirements apply, but the scope of these exceptions is uncertain, because the exceptions are addressed in the proposed Treasury Regulations, which have yet to be made final. Purchasers of our securities should consult an independent tax adviser as to the potential effects of the recently proposed Treasury Regulations on an investment in the Partnership.

Our operations are highly regulated and may be exposed to increased regulation which could result in additional costs to Brookfield Renewable.
Our generation assets are subject to extensive regulation by various government agencies and regulatory bodies in different countries at the federal, regional, state, provincial and local level. As legal requirements frequently change and are subject to interpretation and discretion, we may be unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. Any new law, rule or regulation could require additional expenditure to achieve or maintain compliance or could adversely impact our ability to generate and deliver energy. Also, operations that are not currently regulated may become subject to regulation which could result in additional cost to our business. Further, changes in wholesale market structures or rules, such as generation curtailment requirements or limitations to access the power grid, could have a material adverse effect on our ability to generate revenues from our facilities. In particular, Brazil's proposed electricity sector measures adopted in September 2012 could have a negative impact on power prices in Brazil.

There is a risk that our concessions and licenses will not be renewed.
We hold concessions and licenses and we have rights to operate our facilities which generally include rights to the land and water required for power generation. We expect that our rights and/or our licenses will be renewed by the applicable regulatory bodies in each country. However, if these regulatory bodies do not grant us renewal rights, or if they decide to renew our concessions and licenses, as the case may be, under conditions which would impose additional costs, or if additional restrictions such as setting a price ceiling for energy sales, our profitability and operational activity could be adversely impacted. In particular, Brazil's electricity sector measures adopted in September 2012 have negatively affected the conditions upon which we would renew our concessions in respect of approximately 20 MW of our existing hydro concessions in Brazil.

The cost of operating our plants could increase for reasons beyond our control.
While we currently maintain a low and competitive cost position, there is a risk that increases in our cost structure that are beyond our control could materially adversely impact our financial performance. Examples of such costs include compliance with new conditions imposed during the relicensing process, municipal property taxes, water rental fees and the cost of procuring materials and services required for our maintenance activities.

We may fail to comply with the conditions in, or may not be able to maintain, our governmental permits.
Our generation assets and construction projects are required to comply with numerous federal, regional, state, provincial and local statutory and regulatory standards and to maintain numerous licenses, permits and governmental approvals required for operation. Some of the licenses, permits and governmental approvals that have been issued to our operations contain conditions and restrictions, or may have limited terms. If we fail to satisfy the conditions or comply with the restrictions imposed by our licenses, permits and governmental approvals, or the restrictions imposed by any statutory or regulatory requirements, we may become subject to regulatory enforcement action and the operation of the assets could be adversely affected or be subject to fines, penalties or additional costs or revocation of regulatory approvals, permits or licenses. In addition, we may not be able to renew, maintain or obtain all necessary licenses, permits

and governmental approvals required for the continued operation or further development of our projects, as a result of which the operation or development of our assets may be limited or suspended. Our failure to renew, maintain or obtain all necessary licenses, permits or governmental approvals may have a material adverse effect on our assets, liabilities, business, financial condition, results of operations and cash flow.

We may experience equipment failure.
Our generation assets may not continue to perform as they have in the past and there is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, early obsolescence, among other things, which could have a material adverse effect on our assets, liabilities, business, financial condition, results of operations and cash flow. In particular, wind generation turbines are less commercially proven than hydroelectric assets and have shorter lifespans.

The occurrence of dam failures could result in a loss of generating capacity and repairing such failures could require us to expend significant amounts of capital and other resources.
The occurrence of dam failures at any of our hydroelectric generating stations or the occurrence of dam failures at other generating stations or dams operated by third parties whether upstream or downstream of our hydroelectric generating stations could result in a loss of generating capacity and repairing such failures could require us to expend significant amounts of capital and other resources. Such failures could result in damage to the environment or damages and harm to third parties or the public, which could expose us to significant liability.

We are subject to foreign currency risk which may adversely affect the performance of our operations.
A significant portion of our current operations are in countries where the U.S. dollar is not the functional currency. These operations pay distributions in currencies other than the U.S. dollar, which we must convert to U.S. dollars prior to making distributions. A significant depreciation in the value of such foreign currencies or measures which may be introduced by foreign governments to control inflation or deflation may have a material adverse effect on our business, financial condition, results of operations and cash flows.

The ability to deliver electricity to our various counterparties requires the availability of and access to interconnection facilities and transmission systems.
Our ability to sell electricity is impacted by the availability of and access to the various transmission systems to deliver power to its contractual delivery point and the arrangements and facilities for interconnecting the generation projects to the transmission systems. The absence of this availability and access, our inability to obtain reasonable terms and conditions for interconnection and transmission agreements, the operational failure of existing interconnection facilities or transmission facilities, the lack of adequate capacity on such interconnection or transmission facilities, may have a material adverse effect on our ability to deliver electricity to our various counterparties or the requirement of counterparties to accept and pay for energy delivery, which could materially and adversely affect our assets, liabilities, business, financial condition, results of operations and cash flow.

Our operations are exposed to occupational health, safety and environmental risks.
The ownership, construction and operation of our generation assets carry an inherent risk of liability related to public safety, worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to remediate or otherwise address environmental contamination or damage. We could also be exposed to potential penalties for contravention of health, safety and environmental laws and potential civil liability. In the ordinary course of business we incur capital and operating expenditures to comply with health, safety and environmental laws to obtain and

comply with licenses, permits and other approvals and to assess and manage related risks. The costs to comply with these laws (and any future laws or amendments enacted) may increase over time and result in additional material expenditures. We may become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters as a result of which our operations may be limited or suspended. The occurrence of any of these events or any changes, additions to or more rigorous enforcement of health, safety and environmental laws could have a material and adverse impact on operations and result in additional material expenditures. Additional environmental and workers' health and safety issues relating to presently known or unknown matters may require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) that may be material and adverse to our business and results of operations.

We may suffer a significant loss resulting from fraud, bribery, corruption other illegal acts, inadequate or failed internal processes or systems, or from external events.
We may suffer a significant loss resulting from fraud, bribery, corruption, other illegal acts, inadequate or failed internal processes or systems, or from external events, such as the occurrence of disasters or security threats affecting our ability to operate. We operate in different markets and rely on our employees to follow our policies and processes as well as applicable laws in their activities. Risk of illegal acts or failed systems is managed through our infrastructure, controls, systems and people, complemented by central groups focusing on enterprise-wide management of specific operational risks such as fraud, trading, outsourcing, and business disruption, as well as personnel and systems risks. Specific programs, policies, standards and methodologies have been developed to support the management of these risks. These risks can result in direct or indirect financial loss, reputational impact or regulatory censure.

There are general industry risks associated with operating in the North American and Brazilian power market sectors.
We operate in the North American and Brazilian power market sectors, which are affected by competition, price, supply of and demand for power, the location of import/export transmission lines and overall political, economic and social conditions and policies. A general and extended decline in the North American or Brazilian economy or sustained conservation efforts to reduce electricity consumption could have the effect of reducing demand for electric energy over time, which did occur during the recent recession.

Advances in technology could impair or eliminate the competitive advantage of our projects.
There are other alternative technologies that can produce renewable power, such as fuel cells, micro turbines and photovoltaic (solar) cells. These alternative technologies currently produce electricity at a higher average price than our generation facilities; however, research and development activities are ongoing to seek improvements in such alternative technologies and their cost of producing electricity is gradually declining. Additionally, research and developments activities are ongoing to seek improvements and reductions in carbon emissions from fossil fuel generation. It is possible that advances will further reduce the cost of alternative methods of power generation. If this were to happen, the competitive advantage of our projects may be significantly impaired or eliminated and our assets, liabilities, business, financial condition, results of operations and cash flow could be materially and adversely affected as a result.

RISKS RELATED TO FINANCING

Our ability to finance our operations is subject to various risks relating to the state of the capital markets.
Brookfield Renewable Group has corporate debt and limited recourse project level debt, the majority of

which is non-recourse, that will need to be replaced from time to time. Brookfield Renewable Group's financings may contain conditions that limit its ability to repay indebtedness prior to maturity without incurring penalties, which may limit its capital markets flexibility. Refinancing risk includes, among other factors, dependence on continued operating performance of Brookfield Renewable Group's assets, future electricity market prices, future capital markets conditions, the level of future interest rates and investors' assessment of Brookfield Renewable's credit risk at such time. In addition, certain of our financings are, and future financings may be exposed to floating interest rate risks, and if interest rates increase, an increased proportion of our cash flow may be required to service indebtedness. Future acquisitions, development and construction of new facilities and other capital expenditures will be financed out of cash generated from our operations, borrowings and possible future sales of equity. Our ability to obtain financing to finance our growth is dependent on, among other factors, the overall state of the capital markets, continued operating performance of our assets, future electricity market prices, the level of future interest rates and investors' assessment of our credit risk at such time, and investor appetite for investments in renewable energy and infrastructure assets in general and in Brookfield Renewable Group's securities in particular. To the extent that external sources of capital become limited or unavailable or available on onerous terms, our ability to make necessary capital investments to construct new or maintain existing facilities will be impaired, and as a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are subject to operating and financial restrictions through covenants in our loan, debt and security agreements.

Brookfield Renewable, BRELP and its subsidiaries are or will in the future be subject to operating and financial restrictions through covenants in our loan, debt and security agreements. These restrictions prohibit or limit our ability to, among other things, incur additional debt, provide guarantees for indebtedness, create liens, dispose of assets, liquidate, dissolve, amalgamate, consolidate or effect corporate or capital reorganizations, declare distributions, issue equity interests and create subsidiaries. A financial covenant in our bonds and in our corporate bank credit facilities limits our overall indebtedness to a percentage of total capitalization, a restriction which may limit our ability to obtain additional financing, withstand downturns in our business and take advantage of business and development opportunities. If we breach our covenants, our credit facilities may be terminated or come due and such event may cause our credit rating to deteriorate and subject Brookfield Renewable to higher interest and financing costs. We may also be required to seek additional debt financing on terms that include more restrictive covenants, require repayment on an accelerated schedule or impose other obligations that limit our ability to grow our business, acquire needed assets or take other actions that we might otherwise consider appropriate or desirable.

Changes in our credit ratings may have an adverse effect on our financial position and ability to raise capital.

We cannot assure you that any credit rating assigned to Brookfield Renewable or any of our subsidiaries' debt securities will remain in effect for any given period of time or that any rating will not be lowered or withdrawn entirely by the relevant rating agency. A lowering or withdrawal of such ratings may have an adverse effect on our financial position and ability to raise capital. On December 28, 2012, DBRS placed the Partnership under review with Developing Implications. This rating action followed the Partnership's announcement that it had entered into an agreement to acquire White Pines.

RISKS RELATED TO OUR GROWTH STRATEGY

Government regulations providing incentives for renewable energy could change at any time.

Development of renewable energy sources and the overall growth of the renewable energy industry are dependent on state or provincial, national and international policies in support of such development. In particular, Canada and the United States, two of our principal markets, and their respective provinces and states, have pursued for several years, and in many cases continue to pursue, policies of active support for renewable energy for several years. In Brazil, SHPPs benefit from a special discount for the use of the transmission and distribution system which enables them to secure higher prices in the market. Policies which incentivize the development of renewables include renewable energy purchase obligations imposed on local service entities, tax incentives, including investment tax credits, production tax credits and accelerated depreciation and direct subsidies.

The cost of renewable energy to purchasers, as well as the economic return available to project sponsors, is often dependent on the level of incentives available and the availability of such incentives is uncertain. There is a risk that government regulations providing incentives for renewable energy or increasing emission standards or other environmental regulation of traditional thermal coal-fired generation could change at any time in a manner not dissimilar from Canada's decision to lower emission reduction targets following withdrawal from Kyoto Protocol to the United Nations Framework convention Climate change. Any such change may impact the competitiveness of renewable energy generally and the economic value and ability to develop our projects in particular. In addition, some of these incentives are subject to sunset provisions that put a burden on the renewable power industry to lobby for renewal of incentives. The budget difficulties facing many governments create greater challenges and uncertainty in getting incentives renewed. In addition, even if incentives are renewed prior to their expiration, uncertainty regarding renewal can create substantial risks and delays for developers of renewable power projects. As a result, we may face reduced ability to develop our project pipeline and realize our development growth objectives. We may also suffer material write-offs of development assets as a result.

We may be unable to identify and complete sufficient investment opportunities.
Our strategy for building LP Unitholder value is to seek to acquire or develop high-quality assets and businesses that generate sustainable and increasing cash flows, with the objective of achieving appropriate risk-adjusted returns on our invested capital over the long-term. However, there is no certainty that we will be able to find and complete sufficient investment opportunities that meet our investment criteria. Our investment criteria considers, among other things, the financial, operating, governance and strategic merits of a proposed acquisition and, as such, there is no certainty that we will be able to acquire or develop additional high-quality assets at attractive prices to continue growing our business. Competition for assets is significant and competition from other well-capitalized investors or companies may significantly increase the purchase price or prevent us from completing an acquisition.

Future growth of our portfolio may subject us to additional risks.
Our strategy is to continue to expand our business through acquisitions and developments, however, acquisitions involve risks that could materially and adversely affect our business, including: the failure of the new acquisitions or projects to achieve the expected investment results, risks related to the integration of the assets or businesses and integration or retention of personnel relating to the acquired assets or companies and the inability to achieve potential synergies. In addition, liabilities may exist that Brookfield Renewable Group does not discover in its due diligence prior to the consummation of an acquisition, or circumstances may exist with respect to the entities or assets acquired that could lead to future liabilities and, in each case, Brookfield Renewable Group may not be entitled to sufficient, or any, recourse against the vendors or contractual counterparties to an acquisition agreement. The discovery of any material liabilities subsequent to an acquisition, as well as the failure of a new acquisition to perform according to expectations, could have a material adverse effect Brookfield Renewable Group's assets, liabilities, business, financial condition, results of operations and cash flow.

The development of our generating facilities is subject to various construction risks and risks associated with the various types of arrangements we enter into with communities and joint venture partners.
Our ability to develop an economically successful project is dependent on, among other things, our ability to construct a particular project on-time and on-budget. The construction and development of generating facilities is subject to various environmental, engineering and construction risks that could result in cost-overruns, delays and reduced performance. A number of factors that could cause such delays, cost over-runs or reduced performance include, but are not limited to, permitting delays, changing engineering and design requirements, the costs of construction, the performance and necessary experience of contractors, labour disruptions and inclement weather. In addition, we enter into various types of arrangements with communities and joint venture partners, including in some cases, First Nations and other aboriginal peoples, for the development of projects. Certain of these communities and partners may have or may develop interests or objectives which are different from or even in conflict with our objectives. Any such differences could have a negative impact on the success of our projects.

RISKS RELATED TO OUR RELATIONSHIP WITH BROOKFIELD ASSET MANAGEMENT

Brookfield will exercise substantial influence over Brookfield Renewable and we are highly dependent on the Manager.
Brookfield Asset Management, through BRPI, is the sole shareholder of the Managing General Partner. As a result of its ownership of the Managing General Partner, Brookfield Asset Management will be able to control the appointment and removal of the Managing General Partner's directors and, accordingly, exercise substantial influence over Brookfield Renewable. In addition, Brookfield Renewable holds its interest in the Operating Entities indirectly and will hold any future acquisitions indirectly through BRELP, the general partner of which is indirectly owned by Brookfield Asset Management. As Brookfield Renewable's only substantial asset is the limited partnership interests that it holds in BRELP, except future rights under the Voting Agreement, Brookfield Renewable will not have a right to participate directly in the management or activities of BRELP or the Holding Entities, including with respect to the making of decisions (although it will have the right to remove and replace the BRELP GP LP).

Brookfield Renewable and BRELP depend on the management and administration services provided by or under the direction of the Manager under the Master Services Agreement. Brookfield Asset Management personnel and support staff that provide services to us under the Master Services Agreement are not required to have as their primary responsibility the management and administration of Brookfield Renewable or BRELP or to act exclusively for either of us and the Master Services Agreement does not require any specific individuals to be provided by Brookfield Asset Management. Any failure to effectively manage our current operations or to implement our strategy could have a material adverse effect on our business, financial condition and results of operations. The Master Services Agreement continues in perpetuity, until terminated in accordance with its terms.

ADDITIONAL INFORMATION

Additional information, including our Annual Information Form filed with securities regulators in Canada and our form 20-F filed with the Securities Exchange Commission, are available on our website at www.brookfieldrenewable.com, on SEDAR's website at www.sedar.com and on EDGAR's website at www.sec.gov.

SUBSEQUENT EVENTS

On January 18, 2013, we announced an increase in unitholder distributions to $1.45 per unit on an annualized basis, an increase of seven cents per unit, to take effect during the first quarter distribution payable in April 2013.

On January 22, 2013, we issued C$175 million of Class A Preference Shares with fixed, annual dividends yielding 5%. The net proceeds were used to repay outstanding indebtedness and for general corporate purposes. The shares commenced trading on January 29, 2013 on the TSX under the ticker symbol BRF.PR.E.

[On November 26, 2012, we launched an offer to purchase, through an indirect wholly-owned subsidiary, all of the issued and outstanding common shares of Western Wind Energy Corp. (“Western Wind”) (excluding those we already own) for C$2.50 in cash per common share, representing a total equity purchase price of approximately C$145 million. Western Wind has 165 MW of wind and solar assets operating in California and Arizona. On January 28, 2013, we increased the offer price to C$2.60 per common share and extended the expiry time of the offer to February 11, 2013. On February 11, 2013, we extended the expiring time of the offer to February 21, 2013. The offer will be subject to acceptance by shareholders independent of us owning more than 50% of the common shares outstanding and other offer conditions customary in the circumstances. The offer is not supported by the board of Western Wind and there is no assurance that it will be accepted by independent shareholders.]

PRO FORMA FINANCIAL REVIEW FOR THE YEAR ENDED DECEMBER 31, 2011

We are providing *pro forma* financial results that include the impact of the Combination, new contracts and contract amendments, management and other service agreements along with the tax impacts resulting from the Combination, as if each had occurred as of January 1, 2011. The unaudited *pro forma* financial results have been prepared based upon currently available information and assumptions deemed appropriate by management. The *pro forma* financial results give effect to the following transactions:

Items affecting future cash flows:

- amendment and execution of power purchase agreements; and
- execution of management and other service agreements.

Items not affecting cash flows:

- changes in the fair value of property, plant and equipment due to the change in power purchase agreements and the resulting change in depreciation expense;
- settlement of intercompany balances as at the date of the transaction; and
- elimination of the Fund unit liability and related unrealized gain or loss on remeasurement.

For additional information on the *pro forma* adjustments see "Summary of *Pro Forma* Adjustments as They Relate to the Comparative Financial Results".

The unaudited *pro forma* financial results are provided for information purposes only and may not be indicative of the results that would have occurred had the above transaction been effected on the date indicated. The accounting for certain of the Combination transactions required the determination of fair value estimates as at the date of the transaction on November 28, 2011 rather than the date assumed in the determination of the *pro forma* results of January 1, 2011.

ADJUSTED EBITDA AND FUNDS FROM OPERATIONS ON A *PRO FORMA* BASIS

The following table reflects the Adjusted EBITDA and funds from operations for the year ended December 31, 2011[(1)]:

(MILLIONS, EXCEPT AS NOTED)		
Generation (GWh)		15,877
Revenues	$	1,309
Other income		19
Share of cash earnings from equity-accounted investments		23
Direct operating costs		(425)
Adjusted EBITDA[(2)]		926
Interest expense - borrowings		(411)
Management service costs		(22)
Current income taxes		(8)
Cash portion of non-controlling interests		(52)
Funds from operations[(2)]	$	433

(1) *Pro forma* results reflect new contracts and contract amendments, along with the tax implications of the Combination, as if each had occurred as of January 1, 2011.

(2) Non-IFRS measure. See "Cautionary Statement Regarding Use of Non-IFRS Measures" and "Reconciliation of *Pro Forma* Results".

RECONCILIATION OF *PRO FORMA* RESULTS

The following table reconciles Adjusted EBITDA, funds from operations and net loss on a consolidated basis to Adjusted EBITDA, funds from operations and net income for the year ended December 31, 2011:

(MILLIONS)	Notes	Pro forma Basis
Adjusted EBITDA on a consolidated basis		$ 804
Change in revenues due to revised PPA	(i)	140
Change in direct operating costs	(ii)	(18)
Adjusted EBITDA on a *pro forma* basis		$ 926
Funds from operations on a consolidated basis		$ 332
Change in revenues due to revised PPA	(i)	140
Change in direct operating costs	(ii)	(18)
Management service costs	(ii)	(21)
Funds from operations on a *pro forma* basis		$ 433
Net loss on a consolidated basis		$ (451)
Change in revenues due to revised PPA	(i)	140
Change in direct operating costs	(ii)	(18)
Management service costs	(ii)	(21)
Elimination of loss on Fund unit liability	(iii)	376
Transfer of revaluation to OCI	(iv)	20
Intercompany settlements	(v)	19
Change in depreciation expense	(vi)	4
Deferred income taxes	(vii)	10
Net income on a *pro forma* basis		$ 79

SUMMARY OF *PRO FORMA* ADJUSTMENTS AS THEY RELATE TO THE COMPARATIVE FINANCIAL RESULTS:

(i) Power Purchase Agreements

Pro forma net income reflects the following contract changes that took effect at the time of the Combination; pursuant an amendment to the power purchase agreement between Brookfield Asset Management and an indirect wholly-owned subsidiary of Brookfield Renewable (the "GLPL PPA"). Brookfield Asset Management guarantees the price of electricity generated by facilities owned by Great Lakes Power Limited, a subsidiary of Brookfield Renewable, at C$82 per MWh. This price is to be increased annually on January 1 by an amount equal to forty percent (40%) of the increase in the consumer price index during the previous calendar year.

Brookfield Energy Marketing LP ("BEM LP") and Mississagi Power Trust ("MPT"), an indirect wholly-owned subsidiary of Brookfield Renewable, entered into an amendment to the existing Master Power Purchase and Sale Agreement (the "Mississagi PPA") to adjust the price of electricity purchased to C$103 per MWh. This price is to be increased annually by an amount equal to twenty percent (20%) of the increase in the consumer price index during the previous calendar year.

Additionally, BEM LP and Brookfield Power U.S. Holding America Co. ("BPUSHA"), an indirect wholly-owned subsidiary of Brookfield Renewable, entered into an Energy Revenue Agreement under which BEM LP will guarantee the price for energy delivered by certain facilities in the United States at $75 per MWh. This price is to be increased annually on January 1 by an amount equal to forty percent (40%) of the increase in the consumer price index during the previous calendar year, but not exceeding an increase of three percent (3%) in any calendar year.

The impacts of these contract price amendments and agreements for the year ended December 31, 2011 are summarized as follows:

(MILLIONS, EXCEPT AS NOTED)	Actual generation (GWh)	Incremental Revenue
GLPL PPA	$ 964	$ 13
Mississagi PPA	473	17
Energy Revenue Agreement	3,512	110
	$ 4,949	$ 140

(ii) Management and Other Service Agreements

An exclusive agreement with Brookfield Asset Management to provide operating, management and consulting services to Brookfield Renewable provides for a management service fee to be paid on a quarterly basis and will continue in perpetuity. The fee has a fixed quarterly component of $5 million and a variable component calculated as a percentage of the increase in the total capitalization value of Brookfield Renewable. For the year ended December 31, 2011 *pro forma* results for management services costs reflect an expense of $22 million.

Brookfield Renewable will also pay an annual marketing service fee of $18 million to a subsidiary of Brookfield Asset Management to reflect an agreement to provide energy marketing services. The fee will be increased annually on January 1 by an amount equal to the increase in the U.S. consumer price index during the previous calendar year. *Pro forma* results for the year ended December 31, 2011 reflects an expense of $18 million, included in direct operating costs.

(iii) Transfer of Brookfield Renewable Power Fund Units

The transfer of the 66% of the Fund units not previously owned by Brookfield Asset Management was completed at fair value satisfied by the issuance of Partnership units. The result of this transaction is to reflect the settlement of the Fund unit liability and the issuance of Partnership units to satisfy the transfer as equity of Brookfield Renewable. As a result of this transaction, the loss on Fund unit liability, related to the change in fair value of the units and the distributions made for the year ended December 31, 2011 of $376 million, was eliminated.

(iv) Changes in Fair Value of Financial Instruments

During the year ended December 31, 2011 certain power guarantee agreements between Brookfield Renewable and Brookfield Asset Management were accounted for as financial instruments with unrealized losses of $20 million.

As a result of new agreements and changes in existing agreements with Brookfield Asset Management and its subsidiaries arising from the Combination, the contracts are not accounted for as financial instruments by Brookfield Renewable. Thus the unrealized financial instrument losses described above have been eliminated.

(v) Intercompany Settlements

Brookfield Renewable and its subsidiaries settled certain intercompany loans and transactions with Brookfield Asset Management upon completion of the Combination. During the year ended December 31, 2011 $19 million, of interest income was recorded in the *pro forma* statement of income to reflect these transactions.

(vi) Change in Depreciation Expense

The reduction in fair value of the power generating assets from Brookfield Renewable's statement of income and loss results in a decrease in *pro forma* depreciation expense for the year ended December 31, 2011 of $4 million.

(vii) Deferred Income Tax

Net income on a *pro forma* basis for the year ended December 31 2011, reflects an increase in deferred taxes by $10 million.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements and information, within the meaning of Canadian securities laws and "forward-looking statements" within the meaning of 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" of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations, concerning the business and operations of Brookfield Renewable. Forward-looking statements may include estimates, plans, expectations, opinions, forecasts, projections, guidance or other statements that are not statements of fact. Forward-looking statements in this Annual Report include statements regarding the quality of Brookfield Renewable's assets and the resiliency of the cash flow they will generate, Brookfield Renewable's anticipated financial performance, future commissioning of assets, expected completion of acquisitions, listing on the NYSE, future energy prices and demand for electricity, the future growth prospects and distribution profile of Brookfield Renewable and Brookfield Renewable's access to capital. Forward-looking statements can be identified by the use of words such as "plans", "expects", "scheduled", "estimates", "intends", "anticipates", "believes", "potentially", "tends", "continue", "attempts", "likely", "primarily", "approximately", "endeavours", "pursues", "strives", "seeks", "targets" or variations of such words and phrases, or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information in this Annual Report are based upon reasonable assumptions and expectations, we cannot assure you that such expectations will prove to have been correct. You should not place undue reliance on forward-looking statements and information as such statements and information involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements 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, but are not limited to: our limited operating history; the risk that we may be deemed an "investment company" under the Investment Company Act; the fact that we are not subject to the same disclosure requirements as a U.S. domestic issuer; the risk that the effectiveness of our internal controls over financial reporting could have a material effect on our business; changes to hydrology at our hydroelectric stations or in wind conditions at our wind energy facilities; the risk that counterparties to our contracts do not fulfill their obligations, and as our contracts expire, we may not be able to replace them with agreements on similar terms; increases in water rental costs (or similar fees) or changes to the regulation of water supply; volatility in supply and demand in the energy market; our operations being highly regulated and exposed to increased regulation which could result in additional costs; the risk that our concessions and licenses will not be renewed; increases in the cost of operating our plants; our failure to comply with conditions in, or our inability to maintain, governmental permits; equipment failure; dam failures and the costs of repairing such failures; exposure to force majeure events; exposure to uninsurable losses; adverse changes in currency exchange rates; availability and access to interconnection facilities and transmission systems; occupational, health, safety and environmental risks; disputes and litigation; losses resulting from fraud, bribery, corruption, other illegal acts, inadequate or failed internal processes or systems, or from external events; general industry risks relating to the North American and Brazilian power market sectors; advances in technology that impair or eliminate the competitive advantage of our projects; newly developed technologies in which we invest not performing as anticipated; labour disruptions and economically unfavourable collective bargaining agreements; our inability to finance our operations due to the status of the capital markets; the operating and financial restrictions imposed on us by our loan, debt and security agreements; changes in our credit ratings; changes to government regulations that provide incentives for renewable energy; our inability to identify and complete sufficient investment opportunities; the growth of our portfolio; our inability to develop existing sites or find new sites suitable for the development of greenfield projects; risks associated with the development of our generating facilities and the various types of arrangements we enter into with communities and joint venture partners; Brookfield Asset Management's election not to source acquisition opportunities for us and our lack of access to all renewable power acquisitions that Brookfield Asset Management identifies; our lack of control over all our operations conducted through joint ventures, partnerships and consortium arrangements; our ability to issue equity or debt for future acquisitions and *developments being dependent on capital markets; foreign laws or regulation to which we become subject as a result of future acquisitions in new markets; the departure of some or all of Brookfield's key professionals.*

We caution that the foregoing list of important factors that may affect future results is not exhaustive. The forward-looking statements represent our views as of the date of this Annual Report and should not be relied upon as representing our views as of any date subsequent to February [27], 2013, the date of this Annual Report. While we anticipate that subsequent events and developments may cause our views to change, we disclaim any obligation to update the forward-looking statements, other than as required by applicable law. For further information on these known and unknown risks, please see "Risk Factors" included in our Annual Information Form.

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS MEASURES

This Annual Report contains references to Adjusted EBITDA, funds from operations and net asset value which are not generally accepted accounting measures under IFRS and therefore may differ from definitions of Adjusted EBITDA, funds from operations and net asset value used by other entities. We believe that Adjusted EBITDA, funds from operations and net asset value are useful supplemental measures that may assist investors in assessing the financial performance and the cash anticipated to be generated by our operating portfolio. Neither Adjusted EBITDA, funds from operations nor net asset value should be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS. As a result of the Combination, we have presented these measurements of the 2011 results on a pro forma basis.

A reconciliation of Adjusted EBITDA and funds from operations to net income is presented in our Management's Discussion and Analysis and in Note 24 — Segmented information in our audited consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements have been prepared by the Brookfield Renewable Energy Partners L.P. ("Brookfield Renewable") management which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, Brookfield Renewable 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.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's judgment.

Ernst & Young LLP, the Independent Registered Chartered Accountants appointed by the directors of the general partner of Brookfield Renewable, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

The consolidated financial statements have been further reviewed and approved by the Board of Directors of the general partner of Brookfield Renewable acting through its Audit Committee, which is comprised of directors who are not officers or employees of Brookfield Renewable. 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.

Richard Legault	Sachin Shah
Chief Executive Officer	Chief Financial Officer

February [27], 2013

INDEPENDENT AUDITOR'S REPORT OF REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of Brookfield Renewable Energy Partners L.P.

We have audited the accompanying consolidated financial statements of Brookfield Renewable Energy Partners L.P. ("Brookfield Renewable"), which comprise the consolidated balance sheets as at December 31, 2012 and 2011, and the consolidated statements of income (loss), comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards [and the standards of the Public Company Accounting Oversight Board (United States)]. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We were not engaged to perform an audit of Brookfield Renewable's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of Brookfield Renewable's internal control over financial reporting. Accordingly, we express no such opinion.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Renewable Energy Partners L.P. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

[As discussed in Note 26 to the consolidated financial statements, the 2011 consolidated financial statements have been restated to correct the presentation of redeemable/exchangeable partnership units of a holding subsidiary on a comparative basis from limited partners' equity to participating non-controlling interests.]

[Auditor's signature]

Toronto, Canada

February [27], 2013

BROOKFIELD RENEWABLE ENERGY PARTNERS L.P.
CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31 (MILLIONS)	Notes	2012	2011 Restated (See Note 26)
Assets			
Current assets			
Cash and cash equivalents	5	$ 294	$ 267
Trade receivables and other current assets	6	194	158
Due from related parties	8	34	253
		522	678
Due from related parties	8	22	32
Equity-accounted investments	9	344	405
Property, plant and equipment, at fair value	10	15,658	13,945
Intangible assets	11	44	57
Deferred income tax assets	15	81	306
Other long-term assets	12	254	285
		$ 16,925	$ 15,708
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	$ 207	$ 190
Financial instrument liabilities	7	113	99
Due to related parties	8	107	139
Current portion of long-term debt	14	532	650
		959	1,078
Financial instrument liabilities	7	32	15
Due to related parties	8	2	8
Long-term debt and credit facilities	14	5,587	4,869
Deferred income tax liabilities	15	2,358	2,374
Other long-term liabilities	16	157	164
		9,095	8,508
Equity			
Non-controlling interests			
Preferred equity	18	500	241
Participating non-controlling interests - in operating subsidiaries	18	1,028	629
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield	18	3,112	3,127
Limited partners' equity	19	3,190	3,203
		7,830	7,200
		$ 16,925	$ 15,708

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of Brookfield Renewable Energy Partners L.P.:

Patricia Zuccotti
Director

David Mann
Director

BROOKFIELD RENEWABLE ENERGY PARTNERS L.P.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Notes		2012		2011 Restated (see Note 26)
Revenues	8	$	1,309	$	1,169
Other income			16		19
Direct operating costs	21		(486)		(407)
Management service costs	8		(36)		(1)
Interest expense – borrowings	24		(411)		(411)
Share of (loss) earnings from equity-accounted investments	9		(5)		10
Unrealized financial instrument loss	4,7		(23)		(20)
Loss on Fund unit liability	19		-		(376)
Depreciation and amortization	10, 11		(483)		(468)
Other	4		(16)		(8)
Loss before income taxes			(135)		(493)
Income tax (expense) recovery					
Current	15		(14)		(8)
Deferred	15		54		50
			40		42
Net loss		$	(95)	$	(451)
Net income (loss) attributable to:					
Non-controlling interests					
Preferred equity	18	$	16	$	13
Participating non-controlling interests - in operating subsidiaries	18		(40)		11
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield			(35)		(235)
Limited partners' equity			(36)		(240)
		$	(95)	$	(451)
Basic and diluted loss per LP Unit	19	$	(0.27)	$	(1.80)

The accompanying notes are an integral part of these consolidated financial statements.

BROOKFIELD RENEWABLE ENERGY PARTNERS L.P.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

FOR THE YEAR ENDED DECEMBER 31 (MILLIONS)	Notes	2012	2011 Restated (See Note 26)
Net loss		$ (95)	$ (451)
Other comprehensive income			
Revaluations of property, plant and equipment	9,10	784	1,774
Financial instruments designated as cash-flow hedges	7	21	(774)
Foreign currency translation		(145)	(169)
Deferred income taxes on above items, net	15	(227)	239
		433	1,070
Comprehensive income		$ 338	$ 619
Comprehensive income (loss) attributable to:			
Non-controlling interests			
Preferred equity	18	$ 23	$ 7
Participating non-controlling interests - in operating subsidiaries	18	(26)	211
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield		168	198
Limited partners' equity		173	203
		$ 338	$ 619

The accompanying notes are an integral part of these consolidated financial statements.

BROOKFIELD RENEWABLE ENERGY PARTNERS L.P.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31 (MILLIONS)	Limited partners' equity	Accumulated other comprehensive income: Foreign currency translation	Accumulated other comprehensive income: Revaluation surplus	Accumulated other comprehensive income: Cash flow hedges	Total Limited partners' equity	Preferred equity	Participating non-controlling interests - in operating subsidiaries	Participating non-controlling interests - in a holding subsidiary - Redeemable /Exchangeable units held by Brookfield	Total Equity
Restated (See Note 26)									
Balance, as at December 31, 2010	$ (794)	$ 268	$ 2,236	$ (4)	$ 1,706	$ 252	$ 206	$ 1,666	$ 3,830
Changes in period									
Net income (loss)	(240)	-	-	-	(240)	13	11	(235)	(451)
Other comprehensive income (loss)	-	(72)	786	(392)	322	(6)	200	315	831
Income tax expense on other comprehensive income (loss)	-	-	23	98	121	-	-	118	239
Acquisitions	-	-	-	-	-	-	223	-	223
Distributions	(50)	-	-	-	(50)	(13)	(25)	(48)	(136)
Adjustments related to the Combination									
Reversal of unrealized accounting losses on energy derivative contracts	-	-	-	267	267	-	-	260	527
Settlement of Fund unit liabilities	794	-	-	-	794	-	-	774	1,568
Derivative balances	82	-	-	-	82	-	-	81	163
Settlement of related party balances	177	-	-	-	177	-	-	173	350
Transfer of assets	24	-	-	-	24	-	-	23	47
Other	-	-	-	-	-	(5)	14	-	9
Change in period	787	(72)	809	(27)	1,497	(11)	423	1,461	3,370
Balance, as at December 31, 2011	$ (7)	$ 196	$ 3,045	$ (31)	$ 3,203	$ 241	$ 629	$ 3,127	$ 7,200
Changes in period									
Net income (loss)	(36)	-	-	-	(36)	16	(40)	(35)	(95)
Other comprehensive income (loss)	-	(70)	388	5	323	7	14	316	660
Income tax expense on other comprehensive income (loss)	-	-	(113)	(2)	(115)	-	-	(112)	(227)
Shares issued	-	-	-	-	-	252	-	-	252
Acquisitions	-	-	-	-	-	-	446	-	446
Distributions	(184)	-	-	-	(184)	(16)	(24)	(182)	(406)
Contributed surplus and other	(1)	-	-	-	(1)	-	3	(2)	-
Change in period	(221)	(70)	275	3	(13)	259	399	(15)	630
Balance, as at December 31, 2012	$ (228)	$ 126	$ 3,320	$ (28)	$ 3,190	$ 500	$ 1,028	$ 3,112	$ 7,830

The accompanying notes are an integral part of the consolidated financial statements.

BROOKFIELD RENEWABLE ENERGY PARTNERS L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31 (MILLIONS)	Notes	2012	2011
Operating activities			
Net loss		$ (95)	$ (451)
Adjustments for the following non-cash items:			
Depreciation and amortization	10,11	483	468
Unrealized financial instrument loss	7	23	20
Loss on Fund unit liability	19	-	376
Share of loss (earnings)from equity accounted investments	9	5	(10)
Deferred income tax recovery	15	(54)	(50)
Other non-cash items		46	-
Dividends received from equity-accounted investments		12	8
		420	361
Net change in working capital balances		(22)	(12)
		398	349
Financing activities			
Long-term debt – borrowings	14	2,451	880
Long-term debt – repayments	14	(2,398)	(215)
Capital provided by participating non-controlling interests - in operating subsidiaries	4	434	186
Issuance of preferred equity	18	248	-
Contributions from common parent		-	106
Distributions:			
To participating non-controlling interests - in operating subsidiaries and preferred equity	18	(38)	(39)
To unitholders of Brookfield Renewable, BRELP or the Fund	18,19	(362)	(109)
		335	809
Investing activities			
Acquisitions	4	(743)	(212)
Investment in:			
Sustaining capital expenditures	10	(55)	(66)
Development and construction of renewable power generating assets	10	(307)	(698)
Investment tax credits related to renewable power generating assets	10	209	-
Due to (from) related parties	8	172	(120)
Investment in securities	7	(28)	-
Restricted cash and other		54	6
		(698)	(1,090)
Foreign exchange gain (loss) on cash held in foreign currencies		(8)	11
Cash and cash equivalents			
Increase		27	79
Balance, beginning of year		267	188
Balance, end of year		$ 294	$ 267
Supplemental cash flow information:			
Interest paid		$ 380	$ 318
Interest received		16	27
Income taxes paid		10	48

The accompanying notes are an integral part of these consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF THE BUSINESS

The business activities of Brookfield Renewable Energy Partners L.P. ("Brookfield Renewable") consist of owning a portfolio of renewable power generating facilities in Canada, the United States and Brazil, which prior to November 28, 2011 were held as part of the power generating operations of Brookfield Renewable Power Inc. ("BRPI") and Brookfield Renewable Power Fund (the "Fund").

Brookfield Renewable is a publicly traded limited partnership established under the laws of Bermuda pursuant to an amended and restated limited partnership agreement dated November 20, 2011.

The registered office of Brookfield Renewable is 73 Front Street, Fifth Floor, Hamilton HM12, Bermuda.

The immediate parent of Brookfield Renewable is its general partner. The ultimate parent of Brookfield Renewable is Brookfield Asset Management Inc. ("Brookfield Asset Management").

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies used in the consolidated financial statements are based on the IFRS applicable as at December 31, 2012, and encompasses individual IFRS, International Accounting Standards ("IAS"), and interpretations made by the International Financial Reporting Interpretations Committee ("IFRIC") and the Standing Interpretations Committee ("SIC"). The policies set out below are consistently applied to all periods presented, unless otherwise noted.

These consolidated financial statements have been authorized for issuance by the Board of Directors of its general partner, Brookfield Renewable Partners Limited, on February [27], 2013.

Certain comparative figures have been reclassified to conform to the current year's presentation.

All figures are presented in millions of United States ("U.S.") dollars unless otherwise noted.

(b) Basis of presentation

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of property, plant and equipment and certain assets and liabilities which have been measured at fair value. Cost is recorded based on the fair value of the consideration given in exchange for assets.

(i) Consolidation

These consolidated financial statements include the accounts of Brookfield Renewable and its subsidiaries, which are the entities over which Brookfield Renewable has control. Control exists when Brookfield Renewable has the power, directly or indirectly, to govern the financial and operating policies of an entity, so as to obtain benefits from its activities. Non-controlling interests in the equity of Brookfield Renewable Group's subsidiaries are shown separately in equity in the consolidated balance sheets.

(ii) Strategic combination of the renewable power generating operations

On November 28, 2011, upon completion of the strategic combination (the "Combination") of the renewable power assets of BRPI and the Fund, the public unitholders of the Fund received one non-voting limited partnership unit ("LP Unit") of Brookfield Renewable in exchange for each trust unit of the Fund held and the Fund was wound up.

Also as part of the Combination, Brookfield Renewable entered into a voting agreement with Brookfield Asset Management and its subsidiaries, which provides Brookfield Renewable with control of the general partner of Brookfield Renewable Energy L.P. ("BRELP"), a holding subsidiary. Accordingly, Brookfield Renewable consolidates the accounts of BRELP and its subsidiaries. In addition, BRELP issued redeemable/exchangeable partnership units (the "Redeemable/Exchangeable Partnership Units"), to a subsidiary of Brookfield Asset Management, pursuant to which the holder may at its request require BRELP to redeem the Redeemable/Exchangeable Partnership Units for cash consideration after a mandatory two-year holding period from the date of issuance. This right is subject to Brookfield Renewable's right of first refusal which entitles it, at its sole discretion, to elect to acquire all of the Redeemable/Exchangeable Partnership Units so presented to BRELP that are tendered for redemption in exchange for Brookfield Renewable LP units. As Brookfield Renewable, at its sole discretion, has the right to settle the obligation with LP Units, the Redeemable/Exchangeable Partnership Units are classified as equity of Brookfield Renewable ("Participating non-controlling interests – in a holding subsidiary – Redeemable/Exchangeable units held by Brookfield").

At the date of the Combination, Brookfield Asset Management, Brookfield Renewable's ultimate parent company, held directly or indirectly, approximately a 73% limited partnership interest on a fully-exchanged basis and all general partnership units including a 0.01% general partnership interest in Brookfield Renewable. Brookfield Asset Management and its subsidiaries, other than Brookfield Renewable, are collectively referred to as Brookfield in these financial statements. In the first quarter of 2012, Brookfield sold LP Units in Brookfield Renewable and Brookfield Asset Management currently holds, directly or indirectly, approximately a 68% limited partnership interest on a fully-exchanged basis. On an unexchanged basis, Brookfield Asset Management holds a 36% direct limited partnership interest in Brookfield Renewable, a 49% direct interest in BRELP through the ownership of Redeemable/Exchangeable Partnership Units and a direct 1% general partnership interest in BRELP.

Effective November 30, 2011, Brookfield Renewable's LP Units traded under the symbol "BEP.UN" on the TSX. [Effective February •, Brookfield Renewable's LP Units traded under symbol ["BEP.UN"] on the New York Stock Exchange ("NYSE").]

Effective December 2011, Brookfield Renewable entered into voting arrangements with various affiliates of Brookfield Asset Management, whereby Brookfield Renewable gained control of the entities that own U.S. and Brazil renewable power generating operations (the "Voting Arrangements"). The Voting Arrangements provide Brookfield Renewable with all of the voting rights to elect the Boards of Directors of the relevant entities and therefore provides Brookfield Renewable with control. Accordingly, Brookfield Renewable consolidates the accounts of these entities. Refer to Note 8 - Related party transactions for further information.

The Combination and Voting Arrangements do not represent business combinations under IFRS 3, Business Combinations ("IFRS 3R"), as all combining businesses are ultimately controlled by Brookfield Asset Management both before and after the transactions were completed. Brookfield Renewable accounts for these reorganizations of entities under common control in a manner similar to a pooling of interest which requires the presentation of pre-Combination and Voting Arrangement financial information as if the transactions had always been in place. Refer to Note 2(o) (ii) for Brookfield Renewable's policy on accounting for transactions under common control.

Financial information for the periods prior to November 28, 2011 is presented based on the historical combined financial information for the contributed operations as previously reported by Brookfield Asset Management. For the period since completion of the Combination, the results are based on the actual results of the new entity, Brookfield Renewable, including the adjustments associated with the Combination and the execution of several new and amended agreements, including power purchase agreements and management service agreements. Refer to Note 8 - Related party transactions for further information.

(iii) Equity-accounted investments and joint ventures

Equity-accounted investments are entities over which Brookfield Renewable has significant influence or which it jointly controls. Significant influence is the ability to participate in the financial and operating policy decisions of the investee, but it has no control or joint control over those investees. Such investments are accounted for using the equity method. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control.

Brookfield Renewable accounts for its interests in jointly controlled entities using the equity method. Under the equity method, the carrying value of an interest in an investee is initially recognized at cost and adjusted for Brookfield Renewable's share of net income, other comprehensive income ("OCI"), distributions by the equity-accounted investment and other adjustments to Brookfield Renewable's proportionate interest in the investee.

(c) Foreign currency translation

All figures reported in the consolidated financial statements and tabular disclosures to the consolidated financial statements are reflected in millions of U.S. dollars, which is the functional currency of Brookfield Renewable. Each of the foreign operations included in these consolidated financial statements determines its own functional currency, and items included in the financial statements of each subsidiary are measured using that functional currency.

Assets and liabilities of foreign operations having a functional currency other than the U.S. dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at the rate of exchange prevailing at the dates of the transactions during the period. Gains or losses on translation of foreign subsidiaries are included in OCI. Gains or losses on foreign currency denominated balances and transactions that are designated as hedges of net investments in these operations are reported in the same manner.

In preparing the consolidated financial statements of Brookfield Renewable, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the closing rate at the applicable consolidated balance sheet dates. Non-monetary assets and liabilities, denominated in a foreign currency and measured at fair value, are translated at the rate of exchange prevailing at the date when the fair value was determined and non-monetary assets measured at historical cost are translated at the historical rate. Revenues and expenses are measured in the functional currency at the rates of exchange prevailing at the dates of the transactions with gains or losses included in income.

(d) Cash and cash equivalents

Cash and cash equivalents include cash, term deposits and money market instruments with original maturities of less than 90 days. Restricted cash expected to be used within the next twelve months has been classified as cash and cash equivalents.

(e) Property, plant and equipment and revaluation method

Power generating assets are classified as property, plant and equipment and are accounted for using the revaluation method under IAS 16, Property, Plant and Equipment ("IAS 16"). Property, plant and equipment are initially measured at cost and subsequently carried at their revalued amount, being the fair value at the date of the revaluation, less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Revaluations are made on an annual basis as at December 31 to ensure that the carrying amount does not differ significantly from fair value. Third party appraisers are retained to comment on management's fair value determination of selected Brookfield Renewable's power generating assets on a rotating basis every three to five years. Third party appraisers were involved in the fair value determinations during the year ended December 31, 2012.

Where the carrying amount of an asset increased as a result of a revaluation, the increase is recognized in income to the extent the increase reverses a previously recognized decrease recorded through income, with the remainder of the increase recognized in OCI and accumulated in equity under revaluation surplus. Where the carrying amount of an asset decreased, the decrease is recognized in OCI to the extent that a balance exists in revaluation surplus with respect to the asset, with the remainder of the decrease recognized in income.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Gains and losses on disposal of an item of property, plant and equipment are recognized in 'Other' in the consolidated statements of income (loss). The revaluation surplus is not reclassified to OCI when the assets are disposed.

Brookfield Renewable determines the fair value of its property, plant and equipment by using a 20-year discounted cash flow model. This model includes estimates of future electricity prices, anticipated long-term average generation, estimated operating and capital expenditures, and assumptions about future inflation rates by geographical location and discount rates. Discount rates are calculated, giving consideration to the price risk and geographical location of Brookfield Renewable's facilities.

Depreciation on power generating assets is calculated on a straight-line basis over the estimated service lives of the assets, which are as follows:

	Estimated service lives
Dams	Up to 115 years
Penstocks	Up to 60 years
Powerhouses	Up to 115 years
Hydroelectric generating units	Up to 115 years
Wind generating units	Up to 22 years
Gas-fired co-generating units	Up to 40 years
Other assets	Up to 60 years

Costs are allocated to significant components of property, plant and equipment. When items of property, plant and equipment have different useful lives, they are accounted for as separate items (significant components) and depreciated separately. To ensure the accuracy of useful lives and residual values, a review is conducted annually. Depreciation is calculated based on the cost of the asset less its residual value. Depreciation commences when the asset is in the location and conditions necessary for it to be capable of operating in the manner intended by management. It ceases at the earlier of the date the asset is classified as held-for-sale and the date the asset is de-recognized. An item of property, plant and equipment and any significant component is de-recognized upon disposal or when no future economic benefits are expected from its use. Other assets include equipment, buildings, gas-fired co-generating units and leasehold improvements. Buildings, furniture and fixtures, leasehold improvements and office equipment are recorded at historical cost, less accumulated depreciation. Land and construction work-in-progress ("CWIP") are not subject to depreciation.

The depreciation of property, plant and equipment in Brazil is based on the duration of the concession or authorization. The average remaining concession or authorization duration at December 31, 2012, is 17 years (2011: 18 years). Since land rights are part of the concession or authorization, this cost is also subject to depreciation.

Change in accounting estimates

Brookfield Renewable retained third party engineers to review the estimated useful lives of certain assets. As a result, Brookfield Renewable revised the estimated remaining useful life of certain assets to more accurately reflect the period over which they provide economic benefits. Brookfield Renewable accounted for these changes in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, which requires a change in accounting estimate to be applied prospectively from the date of the change based on timing of completion of the review. The effective dates of changes were January 1, 2012 or April 1, 2012 or July 1, 2012 based on the timing of completion of the review. The consolidated statement of income (loss) reflects a decrease in depreciation of $112 million for the year ended December 31, 2012, as a result of the changes in accounting estimate.

(f) Asset impairment

At each balance sheet date, management assesses whether there is any indication that assets are impaired. For non-financial tangible and intangible assets (including equity-accounted investments), an impairment is recognized, if the recoverable amount, determined as the greater of the estimated fair value, less costs to sell, and the discounted future cash flows generated from use and eventual disposal of an asset or cash generating unit, is less than its carrying 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 conditions anticipated to prevail. Should an impairment loss subsequently reverse, the carrying amount of the asset is increased to the lesser of the revised estimate of the recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(g) Trade receivable and other current assets

Trade receivables and other current assets are recognized initially at fair value, and subsequently measured at amortized cost using the effective interest method, less any allowance for uncollectability.

(h) Intangible assets

Intangible assets with finite lives are carried at cost, less any accumulated amortization and any accumulated impairment losses, and are amortized on a straight-line basis over their estimated useful lives of 4 to 25 years. Amortization commences when the asset is in the condition necessary for it to be capable of operating in the manner intended by management and ceases at the earlier of the date the asset is classified as held-for-sale and the date the asset is derecognized.

A service concession arrangement is an arrangement whereby a private sector entity (an operator) constructs or upgrades the infrastructure for public service, and operates and maintains that infrastructure for a specified period of time. The operator is paid for its services over the period of the arrangement. The grantor controls or regulates what services the operator using the assets must provide, to whom, and at what price, and also controls any significant residual interest in the assets at the end of the term of the arrangement. In Brazil, the power industry is regulated by the government and overseen by the National Agency of Electric Energy ("ANEEL").

At December 31, 2012, the consolidated financial statements include service concession arrangements in place relating to one of the Brazilian subsidiaries. The price of power sold under these concessions is set by ANEEL at the beginning of the concession period and is based on the recovery of Brookfield Renewable's costs incurred each year. Prices are regulated periodically throughout the term of the concession at the discretion of ANEEL. Brookfield Renewable is responsible for operating the hydroelectric facilities and to provide energy at ANEEL's regulatory and industry standards. At the end of the concession arrangement, Brookfield Renewable is obliged to return the hydroelectric facilities and land to ANEEL. Additional investments or expansions made to the facilities operated under these concession arrangements by Brookfield Renewable must be authorized by ANEEL and Brookfield Renewable has the right to be reimbursed for any authorized additions made to the facility at the end of the concession term. No additions were made to the facilities throughout 2012 and no such obligation exists at December 31, 2012. Current service concession arrangements expire within a range of 2 to 28 years, at which time management expects to request renewal from ANEEL.

Revenues earned from the service concession arrangements are recognized in accordance with the revenue recognition policies used in these consolidated financial statements. The service concession arrangements are recognized as intangible assets as Brookfield Renewable has a contractual right to charge users of the public service, through its power purchase agreements. The service concession agreement is initially recognized at fair value and subsequently recorded using amortized cost. Amortization commences upon approval of the arrangement by the grantor, ANEEL, and is amortized on a straight-line basis over the term of the concession.

(i) Financial instruments

All financial instruments are classified into one of the following categories: assets and liabilities at fair value through profit or loss ("FVTPL") cash, loans and receivables, financial instruments used for hedging, and other financial liabilities. All financial instruments are recorded at fair value at recognition. Subsequent to initial recognition, financial assets classified as loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Financial assets and liabilities classified as financial instruments used for cash-flow hedging continue to be recognized at fair value through OCI. Other financial assets and liabilities and non-hedging financial instruments are recorded at fair value through profit and loss.

Brookfield Renewable presents the liability and equity components separately upon recognition of such financial instruments. The amount of accretion relating to the liability component is recognized in profit or loss; and the amount of consideration relating to the equity component is recognized in equity.

Brookfield Renewable selectively utilizes derivative financial instruments to manage financial risks, including interest rate, commodity and foreign exchange risks. A derivative is a financial instrument, which requires no initial investment, settles at a future date, and has a value that changes in response to the change in a specified variable such as an interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure, and it is highly probable 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 recorded in equity by the application of hedge accounting is recognized in income over the remaining term of the original hedging relationship, unless the originally forecasted transaction is no longer expected to occur, at which point it is released to income. The fair values of derivative financial instruments are included in financial instrument assets or financial instrument liabilities, respectively.

(i) Items qualifying as hedges

Cash flow hedge

The effective portion of unrealized gains and losses on interest rate forward and swap contracts designated as hedges of future interest rate payments are included in equity as cash flow hedges 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 recorded in income over the term of the corresponding interest payments.

Net investment hedge
Realized and unrealized gains and losses on foreign exchange forward contracts designated as hedges of currency risks are included in equity when the currency risk relates to a net investment in a subsidiary with a functional currency other than the U.S. dollar and are included in income in the period in which the subsidiary is disposed.

(ii) Items not qualifying as hedges

Upon initial recognition of a derivative financial instrument that is not designated as a hedge, a derivative asset or liability is recorded with an offsetting deferred liability or asset, respectively. Gains or losses arising from changes in fair value of the derivative asset or liability are recognized in income through fair value gains or losses in the period the changes occur. The deferred liability or asset is amortized through income, on a straight-line basis, over the life of the derivative financial instrument.

(iii) Available-for-sale investments

Investments in publicly quoted equity securities are categorized as available-for-sale when it is not Brookfield Renewable's strategic intent to sell the securities and the securities were not acquired principally for their near-term sale. Available-for-sale equity investments are recorded at fair value with unrealized gains and losses recorded in OCI. Realized gains and losses are recorded in income when investments are sold and are calculated using the average carrying amount of securities sold. If the fair value of an investment declines below the carrying amount, we undertake qualitative and quantitative assessments of whether the impairment is either significant or prolonged. We consider all relevant facts and circumstances in this assessment, particularly the length of time and extent to which fair value has been less than the carrying amount.

(j) Revenue and expense recognition

Revenue from the sale of electricity is recorded when the power is delivered. The revenue must be considered collectible and the costs incurred to provide the electricity to be measurable before recognizing the related revenue. Costs related to the purchases of power or fuel are recorded upon delivery. All other costs are recorded as incurred.

(k) Income taxes

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current income tax assets and liabilities are included in trade receivables and other current assets and accounts payable and accrued liabilities, respectively.

Deferred tax is recognized on taxable temporary differences between the tax bases and the carrying amounts of assets and liabilities. Deferred tax is not recognized if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit. Deferred income tax assets are recognized for all deductible temporary differences, carry forwards of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the balance sheet dates.

Current and deferred income taxes relating to items recognized directly in OCI are also recognized directly in OCI.

Current and deferred income taxes are recorded based on the accounting records of the individual entities that are included within Brookfield Renewable. No additional allocation was considered necessary, prior to the Combination.

(l) Business combinations

The acquisition of a business is accounted for using the acquisition method. The consideration for an acquisition is measured at the aggregate of the fair values, at the date of exchange, of the assets transferred, the liabilities incurred to former owners of the acquired business, and equity instruments issued by the acquirer in exchange for control of the acquired business. The acquired business' identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3R are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. These are recognized and measured at fair value, less costs to sell, income taxes which are measured in accordance with IAS 12, Income Taxes and share-based payments which are measured in accordance with IFRS 2, Share-based Payment. The non-controlling interest in the acquiree is initially measured at the non-controlling interest's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

To the extent that the aggregate of the fair value of consideration paid, the amount of any non-controlling interest and the fair value of any previously held interest in the acquiree exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent that this excess is negative, the excess is recognized as a gain in income.

When a business combination is achieved in stages, previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in income. Amounts arising from interests in the acquired business prior to the acquisition date that have previously been recognized in OCI are reclassified to income. Upon disposal or loss of control of a subsidiary, the carrying amount of the net assets of the subsidiary (including any OCI relating to the subsidiary) are derecognized with the difference between any proceeds received and the carrying amount of the net assets recognized as a gain or loss in income.

(m) Other items

(i) Capitalized costs

Capitalized costs related to CWIP include all eligible expenditures incurred in connection with the development and construction of the power generating asset. The expenditures consist of cost of materials, direct labor and any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Interest and borrowings costs are capitalized when activities that are necessary to prepare the asset for its intended use or sale are in progress, expenditures for the asset have been incurred and funds have been used or borrowed to fund the construction or development. Capitalization of costs ceases when the asset is ready for its intended use.

(ii) Pension and employee future benefits

Pension and employee future benefits are recognized in the consolidated financial statements in respect of employees of the operating entities within Brookfield Renewable. The costs of retirement benefits for defined benefit plans and post-employment benefits are recognized as the benefits are earned by employees. The consolidated financial statements use the accrued benefit pro-rated method, 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, amounts are expensed based on employee entitlement. The consolidated financial statements use the ‘corridor’ method of recognizing actuarial gains and losses. The ‘corridor’ method is based on recognizing actuarial gains and losses that fall outside the plus or minus 10% ‘corridor.’

(iii) Decommissioning, restoration and environmental liabilities

Legal and constructive obligations associated with the retirement of property, plant and equipment are recorded as liabilities when those obligations are incurred and are measured at the present value of the expected costs to settle the liability, discounted at a current credit-adjusted pre-tax rate specific to the liability. The liability is accreted up to the date the liability will be incurred with a corresponding charge to operating expenses. The carrying amount of decommissioning, restoration and environmental liabilities is reviewed annually with changes in the estimates of timing or amount of cash flows added to or deducted from the cost of the related asset.

(iv) Interest and borrowing costs

Interest and borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to prepare for its intended use.

(v) Provisions

A provision is a liability of uncertain timing or amount. A provision is recognized if Brookfield Renewable has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. The provision is measured at the present value of the best estimate of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to the passage of time is recognized as interest expense.

(vi) Interest income

Interest income is earned with the passage of time and is recorded on an accrual basis.

(vii) Government grant

Brookfield Renewable becomes eligible for government grants by constructing or purchasing renewable energy facilities, and by bringing those facilities to commercial operation, coupled with a successful application to the applicable program or agency. The assessment of whether or not a project has complied with the conditions and that there is reasonable assurance the grants will be received will be undertaken on a case by case basis. Brookfield Renewable reduces the cost of the asset by the amount of the grant. The grant amounts are recognized in income on a systematic basis as a reduction of depreciation over the periods, and in the proportions, in which depreciation on those assets is charged.

With respect to grants related to income, the government assistance (in the form of the guaranteed contract pricing supplement market based revenues) typically becomes payable once the renewable energy is produced and delivered to the relevant grid. It is at this point that the receipt of the grant becomes reasonably assured, and therefore the grant is recognized as revenue in the month that delivery of the energy occurs.

(n) Critical estimates

Brookfield Renewable makes estimates and assumptions that affect the carrying value of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of income and OCI for the year. Actual results could differ from these estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

(i) Property, plant and equipment
The fair value of Brookfield Renewable's property, plant and equipment is calculated using estimates and assumptions about future electricity prices from renewable sources, anticipated long-term average generation, estimated operating and capital expenditures, future inflation rates and discount rates, as described in "Note 10 - Property, Plant and Equipment". Judgment is involved in determining the appropriate estimates and assumptions in the valuation of Brookfield Renewable's property, plant and equipment. See "Note 2 (o) - Critical judgments in applying accounting policies" for further details.

Estimates of useful lives and residual values are used in determining depreciation and amortization. To ensure the accuracy of useful lives and residual values, these estimates are reviewed on an annual basis.

(ii) Financial instruments
Brookfield Renewable makes estimates and assumptions that affect the carrying value of its financial instruments, including estimates and assumptions about future electricity prices, long-term average generation, capacity prices, discount rates and the timing of energy delivery. Non-financial instruments are valued using estimates of future electricity prices which are estimated by considering broker quotes for the years in which there is a liquid market and for the subsequent years Brookfield Renewable's best estimate of electricity prices that would allow new entrants into the market. See "Note 7 – Risk Management and Financial Instruments" for more details.

(iii) Deferred income taxes
The consolidated financial statements include estimates and assumptions for determining the future tax rates applicable to subsidiaries and identifying the temporary differences that relate to each subsidiary. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the year when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the consolidated balance sheet dates. Operating plans and forecasts are used to estimate when the temporary difference will reverse.

(o) Critical judgements in applying accounting policies

The following are the critical judgments that have been made in applying the accounting policies used in the consolidated financial statements and that have the most significant effect on the amounts in the consolidated financial statements:

(i) Preparation of consolidated financial statements
These consolidated financial statements present the financial position, results of operations and cash flows of Brookfield Renewable. Judgment is required in determining what assets, liabilities and transactions are recognized in the consolidated financial statements as pertaining to Brookfield Renewable's operations.

(ii) Common control transactions
Common control business combinations specifically fall outside of scope of IFRS 3R and as such management has used its judgment to determine an appropriate policy to account for these transactions,

considering other relevant accounting guidance that is within the framework of principles in IFRS and that reflects the economic reality of the transactions, in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. As a result, the consolidated financial statements account for assets and liabilities acquired at the previous carrying value on the predecessor's financial statements. Differences between the consideration given and the assets and liabilities received are recorded directly to equity.

(iii) Property, plant and equipment

The accounting policy relating to Brookfield Renewable's property, plant and equipment is described in Note 2 (e). In applying this policy, judgment is used in determining whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance. If an asset has been developed, judgment is required to identify the point at which the asset is capable of being used as intended and to identify the directly attributable costs to be included in the carrying value of the development asset. The useful lives of property, plant and equipment are determined by independent engineers periodically with an annual review by management.

Annually, Brookfield Renewable determines the fair value of its property, plant and equipment using a methodology that it has judged to be reasonable. The methodology is a 20 year discounted cash flow model. Twenty years is the period considered reasonable as Brookfield Renewable has 20 year capital plans and it believes a reasonable third party would be indifferent between extending the cash flows further in the model versus using a discounted terminal value.

The valuation model incorporates future cash flows from the power purchase agreements that are in place where it is determined that the power purchase agreements are linked specifically to the related power generating assets. With respect to estimated future generation that does not incorporate power purchase agreement pricing, the cash flow model uses estimates of future electricity prices, considering broker quotes for the years in which there is a liquid market and for the subsequent years, its best estimate of electricity prices from renewable sources that would allow new entrants into the market.

Discount rates are determined each year by considering the current interest rates, average market cost of capital as well as the price risk and the geographical location of the operational facilities as judged by management. Inflation rates are also determined by considering the current inflation rates and the expectations of future rates by economists. Operating costs are based on long-term budgets escalated thereafter for inflation. Each operational facility has a 20 year capital plan that it follows to ensure the maximum life of its assets is achieved. Foreign exchange rates are forecasted by using the spot rates and the available forward rates, extrapolated beyond the period available. The inputs described above to the discounted cash flow model require management to consider facts, trends and plans in making its judgments as to what derives a reasonable fair value of its property, plant and equipment.

(iv) Consolidation of Brookfield Renewable Power Fund

Brookfield Renewable held a 34% investment in the Fund, on a fully-exchanged basis prior to November 28, 2011. As a result, Brookfield Renewable assessed whether it continued to control the Fund, given its reduced ownership level. In making this assessment, Brookfield Renewable considered the definition of control and guidance as set out in IAS 27, Consolidated and Separate Financial Statements ("IAS 27"). Brookfield Renewable concluded that control did exist as it had the power to govern the financial and operating policies of the Fund under specific agreements. Effective November 28, 2011, public unitholders of the Fund received one LP Unit of Brookfield Renewable for each trust unit of the Fund held, and the Fund was wound up.

(v) Financial instruments

The accounting policy relating to Brookfield Renewable's financial instruments is described in Note 2 (i). In applying the policy, judgments are made in applying the criteria set out in IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), to record financial instruments at fair value through profit and loss, and the assessments of the effectiveness of hedging relationships.

(vi) Deferred income taxes

The accounting policy relating to Brookfield Renewable's income taxes is described in Note 2 (k). In applying this policy, judgments are made in determining the probability of whether deductions, tax credits and tax losses can be utilized.

(p) Recently adopted accounting policies

(i) Income Taxes

On January 1, 2012, Brookfield Renewable adopted amendments to IAS 12, *Income Taxes*. Under these amendments, an entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. Implementation of amendments to IAS 12 did not have any material impact on Brookfield Renewable's annual consolidated financial statements.

(q) Future changes in accounting policies

(i) Financial Instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on October 28, 2010, and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, FVTPL and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. Management is currently evaluating the impact of IFRS 9 on the consolidated financial statements.

(ii) Consolidation

IFRS 10, Consolidation ("IFRS 10") was issued by the IASB on May 12, 2011, and replaces SIC-12, Consolidation – Special Purpose Entities and parts of IAS 27. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under IAS 27, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 10 on the consolidated financial statements.

(iii) Joint arrangements

IFRS 11, Joint Arrangements ("IFRS 11") was issued by the IASB on May 12, 2011, and replaces IAS 31, Interests in Joint Ventures ("IAS 31"), and SIC-13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, and revenue and expenses of the joint operation. Under IAS 31, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 11 on the consolidated financial statements.

(iv) Disclosure of interests in other entities

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12") was issued by the IASB on May 12, 2011. IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 12 on the consolidated financial statements.

(v) Fair value measurement

IFRS 13, Fair Value Measurement ("IFRS 13") a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards, was issued by the IASB on May 12, 2011. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It supersedes the fair value guidance that currently exists in IAS 16 concerning the use of the revaluation method. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Management is currently evaluating the impact of IFRS 13 on the consolidated financial statements.

(vi) Accounting for employee benefits and minimum funding requirements

In June 2011, the IASB issued significant amendments to IAS 19, Employee Benefits ("IAS 19"). These changes affect the recognition of actuarial gains and losses by removing the option to use the corridor approach and requiring immediate recognition in OCI. These OCI amounts cannot be recycled to the income statement. There are also changes to the recognition, measurement and presentation of past service costs, cost of benefits and finance expense or income relating to employee benefits. Further, termination benefits are recognized as a liability only when the entity can no longer withdraw the offer of the termination benefit or recognizes any related restructuring costs. There are additional disclosure requirements. The amendment is effective for periods beginning on or after January 1, 2013. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

(vii) Presentation of items of OCI

In June 2011, IASB issued amendments to IAS 1, Presentation of Financial Statements. These amendments include a requirement for entities to group items presented in OCI on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments), and emphasize the importance of presenting profit or loss and OCI together and with equal prominence. The amendment is effective for annual periods starting on or after July 1, 2012. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

(viii) Consolidation and Separate Financial Statements

In May 2011, IASB amended and reissued IAS 27. The amended standard is to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. The amendment is effective for annual periods starting on or after January 1, 2013. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

(ix) Investment in Associates

In May 2011, IASB amended and reissued IAS 28, Investment in Associates and Joint Ventures. The amended standard prescribes the accounting treatment for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amendment is effective for annual periods starting on or after January 1, 2013. Management is currently evaluating the impact of these amendments on the consolidated financial statements.

3. PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of Brookfield Renewable which, in the opinion of management, significantly affects its financial position and results of operations as at December 31, 2012:

	Country of incorporation, registration or operations	Proportionate interest held by Brookfield Renewable	
		Ownership	Voting power
		(%)	(%)
Brookfield Renewable Energy L.P.	Bermuda	50	100
BRP Bermuda Holdings I Limited	Bermuda	100	100
Brookfield Renewable Power Preferred Equity Inc.	Canada	100	100
Brookfield Renewable Energy Partners ULC(1)	Canada	100	100
Brookfield BRP Canada Corp.	Canada	100	100
Great Lakes Power Limited	Canada	100	100
Mississagi Power Trust	Canada	100	100
Lievre Power L.P.	Canada	100	100
BAIF U.S. Renewable Power Holdings LLC(2)	U.S.	22	22
Catalyst Old River Hydroelectric L.P.	U.S.	75	75
Erie Boulevard Hydropower L.P.	U.S.	100	100
Brookfield Energia Renovavel S.A.	Brazil	100	100
Itiquira Energetica S.A.	Brazil	100	100

(1) Formerly BRP Finance ULC.

(2) Effective December 2011, Brookfield Renewable entered into Voting Arrangements with various affiliates of Brookfield Asset Management, whereby Brookfield Renewable gained control (as discussed in Note 4 - Business Combinations).

4. BUSINESS COMBINATIONS

Completed During 2012

California Wind Generation Assets

In March 2012, the following investments were made by Brookfield Renewable and certain institutional partners through BAIF U.S. Renewable Power Holdings LLC (“BAIF U.S. Holdings”), in which Brookfield Renewable holds a 22% controlling interest. The investments were accounted for using the acquisition method, and the results of operations have been included in the audited consolidated financial statements since the respective dates of acquisition.

BAIF U.S. Holdings acquired 100% interests in two wind generation facilities in California. BAIF U.S. Holdings also acquired the remaining 50% interest in a wind generation facility, bringing Brookfield Renewable's total investment to 100% (the "Step Acquisition"). Total consideration paid of $206 million for these interests included $180 million in cash and the settlement of certain liabilities.

The Step Acquisition required Brookfield Renewable to re-measure its previously held 50% interest to fair value of $63 million and to reverse any amounts previously recorded in OCI related to the initial 50% interest. Net income for year ended December 31, 2012 reflects an expense of $11 million related to the reclassification from OCI on financial instruments designated as cash flow hedges prior to the Step Acquisition. In addition, $5 million related to revaluation surplus on the initial 50% interest was reclassified within equity.

Acquisition costs of $2 million related to the above acquisitions were expensed as incurred.

These wind generating facilities are now all in commercial operation.

Brazil Hydroelectric Generation Asset

In July 2012, a Brookfield Americas Infrastructure Fund ("BAIF") entity, in which Brookfield Renewable holds a 25% controlling interest, acquired a 100% interest in a hydroelectric generation facility in Brazil for cash consideration of $14 million. A bargain purchase gain of $12 million was recognized, from the excess fair value of the assets acquired over the consideration paid. The bargain purchase gain was recorded in Other, and acquisition costs were expensed at the acquisition date.

Southern United States Hydroelectric Generation Assets

In November 2012, a BAIF entity, in which Brookfield Renewable holds a 22% controlling interest, acquired a 100% interest in a portfolio of hydroelectric generation facilities, located in Tennessee and North Carolina in the southern region of the United States, for cash consideration of $597 million. The acquisition costs of $7 million were expensed as incurred. If the acquisition had taken place at the beginning of the year ended December 31, 2012, revenue would have increased by $41 million and contributions to net loss would have been $7 million, for the year ended December 31, 2012.

Purchase price allocations, at fair values, with respect to the acquisitions in 2012 were as follows:

(MILLIONS)	California	Brazil	Southern United States	Total
Current assets[1]	$ 50	$ -	$ 4	$ 54
Property, plant and equipment	748	32	594	1,374
Other long-term assets	9	-	-	9
Current liabilities	(102)	-	(1)	(103)
Long-term debt	(436)	(6)	-	(442)
Net assets acquired	$ 269	$ 26	$ 597	$ 892

(1) Includes $49 million of cash and cash equivalents.

Any changes from the preliminary amounts will be directly attributable to the finalization of valuations and revisions to current calculations. The estimated fair values of the assets acquired and liabilities assumed are expected to be finalized within the next twelve months.

<u>Completed During 2011</u>

BAIF

The entities that own the U.S. and Brazil renewable power generating operations completed the following acquisitions in 2011:

In February 2011, a 75% controlling interest in a 99 MW wind development project located in Northeastern United States was acquired, with a further 15% acquired in July 2011. Cash consideration paid in the first quarter of 2011 was $25 million, with a further $5 million paid in the third quarter of 2011, for a total cash consideration of $30 million.

In July 2011, a 100% interest in a 30 MW hydroelectric facility located in Brazil was acquired for consideration of $190 million. The acquisition cost was partially funded from the issuance of debt in the amount of $77 million.

Other

In January 2011, a 50.25% controlling interest in an early stage wind development project located in Western Canada was acquired. Cash consideration paid in the first quarter of 2011 was $7 million.

Purchase price allocations, at fair values, with respect to the acquisitions in 2011 were as follows:

(MILLIONS)	United States	Canada	Brazil	Total
Cash and cash equivalents	$ 4	$ -	$ -	$ 4
Trade receivables and other current assets	-	-	5	5
Property, plant and equipment	30	14	190	234
Total assets	34	14	195	243
Accounts payable and accrued liabilities	(1)	-	(5)	(6)
Non-controlling interests	(3)	(7)	-	(10)
Total liabilities acquired	(4)	(7)	(5)	(16)
Net assets acquired	$ 30	$ 7	$ 190	$ 227

During the year ended December 31, 2012, the purchase price allocations for the acquisitions in 2011 were finalized. No changes to the provisional purchase price allocations disclosed in the audited consolidated financial statements for 2011 had to be considered for acquisitions made in 2011.

5. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents are as follows as at December 31:

(MILLIONS)	2012	2011
Cash	$ 91	$ 106
Short-term deposits	46	119
Restricted cash	157	42
	$ 294	$ 267

At December 31, 2012, $103 million of restricted cash (2011: $nil) was held to meet short-term obligations relating to a hydroelectric facility under construction in British Columbia.

6. TRADE RECEIVABLES AND OTHER CURRENT ASSETS

The composition of trade receivables and other current assets as at December 31 are as follows:

(MILLIONS)	2012	2011
Trade receivables	$ 106	$ 84
Prepaids and other	88	74
	$ 194	$ 158

As at December 31, 2012, 99% (2011: 100%) of trade receivables were current. Trade receivables are generally on 30-day terms and credit limits are assigned and monitored for all counterparties. In determining the recoverability of trade receivables, management performs a risk analysis considering the type and age of the outstanding receivables and the credit worthiness of the counterparties. Management also reviews trade receivable balances on an ongoing basis. Bad debt expense related to trade receivables is recognized at the time an account is deemed uncollectible. Accordingly, as at December 31, 2012 and 2011 an allowance for doubtful accounts was not deemed necessary.

7. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

RISK MANAGEMENT

Brookfield Renewable's activities expose it to a variety of financial risks, including market risk (i.e., commodity price risk, interest rate risk, and foreign currency risk), credit risk and liquidity risk. Brookfield Renewable uses financial instruments primarily to manage these risks.

(a) Market risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by Brookfield Renewable will fluctuate because of changes in market prices.

Brookfield Renewable faces market risk from foreign currency assets and liabilities, the impact of changes in interest rates, and floating rate liabilities. Market risk is managed by funding assets with financial liabilities in the same currency and with similar interest rate characteristics and holding financial contracts, such as interest rate swaps and foreign exchange contracts, to minimize residual exposures. Financial instruments held by Brookfield Renewable that are subject to market risk include borrowings and financial instruments, such as interest rate, currency and commodity contracts. The categories of financial instruments that can give rise to significant variability are described below:

(i) Commodity price risk

Commodity price risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by Brookfield Renewable will fluctuate because of changes in commodity prices. Commodity price risk arises from the sale of Brookfield Renewable's uncontracted generation, stabilization of the gas purchases, as well as impacts on the carrying values of Brookfield Renewable's non-financial derivative contracts.

Brookfield Renewable sells electricity under long-term contracts to secure stable prices and mitigate its exposure to wholesale markets. As at December 31, 2012, virtually all (98%) of Brookfield Renewable's generation was sold pursuant to purchase price agreements, either to third parties or through entities of Brookfield. During 2012, certain of the long-term contracts were considered financial instruments, and were recorded at fair value in the consolidated financial statements. The change in fair value of long-term contracts was recorded in either income as "unrealized financial instrument (losses) gains" or OCI, as applicable.

The table below summarizes the impact of changes in the market price of electricity and gas as at December 31. The impact is expressed in terms of the effect on net income and OCI. The sensitivities are based on the assumption that the market price changes by five percent with all other variables held constant.

Impact of a 5% change in the market price of gas and electricity for the year ended December 31:

(MILLIONS)	Effect on net income 2012	Effect on net income 2011	Effect on OCI 2012	Effect on OCI 2011
5% increase	$ 1	$ 2	$ -	$ -
5% decrease	$ (1)	$ (2)	$ -	$ -

(ii) Interest rate risk

Interest rate risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by Brookfield Renewable will fluctuate, because of changes in interest rates.

Brookfield Renewable's assets largely consist of long duration physical assets. Brookfield Renewable's financial liabilities consist primarily of long-term fixed rate debt or floating-rate debt that has been swapped to fixed rates with interest rate financial instruments. All non-derivative financial liabilities are recorded at their amortized cost. Brookfield Renewable also holds interest rate contracts to lock-in fixed rates on anticipated future debt issuances.

Fluctuations in interest rates could impact Brookfield Renewable's cash flows, primarily with respect to the interest payable against Brookfield Renewable's variable rate debt, which is limited to certain subsidiary borrowings with a total principal value of $1,592 million (2011: $1,382 million). Of this amount, $1,102 million (2011: $730 million) has been hedged through the use of interest rate swaps. Brookfield Renewable's subsidiaries will enter into agreements designed to minimize the exposure to interest rate fluctuations on these debts. The fair values of the recognized liability for these agreements were calculated using a valuation model with observable interest rates.

The table below summarizes the impact of changes in the interest rate as at December 31. The impact is expressed in terms of the effect on income and OCI. The sensitivities are based on the assumption that the interest rate changes by one percent with all other variables held constant.

Impact of a 1% change in interest rates for the year ended December 31:

(MILLIONS)	Effect on net income 2012	Effect on net income 2011	Effect on OCI 2012	Effect on OCI 2011
1% increase	$ (7)	$ (7)	$ 51	$ 48
1% decrease	$ 7	$ 7	$ (51)	$ (48)

(b) Credit risk

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. Brookfield Renewable's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding energy contracts, interest rate swaps, forward foreign exchange contracts and physical electricity and gas transactions.

Brookfield Renewable minimizes credit risk with counterparties through the selection, monitoring and diversification of counterparties, and the use of standard trading contracts, and other credit risk mitigation techniques. In addition, Brookfield Renewable's purchase price agreements are reviewed regularly and are almost exclusively with customers having long standing credit histories or investment grade ratings, which limit the risk of non-collection. As at December 31, 2012, 99% (2011: 100%) of Brookfield Renewable's trade receivables of $106 million were current. See Note 6 - Trade receivables and other current assets, for additional details regarding Brookfield Renewable's trade receivables balance.

The maximum credit exposure at December 31 was as follows:

(MILLIONS)	2012	2011
Cash and cash equivalents	$ 294	$ 267
Trade receivables and other current assets	194	158
Due from related parties[(1)]	56	285
	$ 544	$ 710

(1) Includes both the current and long-term amounts.

(c) Liquidity risk

Liquidity risk is the risk that Brookfield Renewable cannot meet a demand for cash or fund an obligation when due. Liquidity risk is mitigated by Brookfield Renewable's cash and cash equivalent balances and its access to undrawn credit and hydrology reserve facilities. Details of the undrawn credit facilities are included in Note 14 - Debt obligations. Brookfield Renewable also ensures that it has access to public debt markets by maintaining a strong credit rating of BBB (high).

Brookfield Renewable is also subject to the risk associated with debt financing. This risk is mitigated by the long-term duration of debt instruments and the diversification in maturity dates over an extended period of time.

The sensitivity analysis discussed above reflects only the risks associated with instruments that we consider are market sensitive and the potential loss resulting from one or more selected hypothetical changes. Therefore, the discussion above is not intended to reflect fully Brookfield Renewable's market risk exposure.

The table below classifies the cash obligations related to Brookfield Renewable's liabilities into relevant maturity groupings based on the remaining period from the balance sheet dates to the contractual maturity date. As the amounts are the contractual undiscounted cash flows (gross of unamortized financing fees and accumulated amortization, where applicable), they may not agree with the amounts disclosed in the consolidated balance sheets.

AS AT DECEMBER 31, 2012 (MILLIONS)	< 1 year	2-5 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 207	$ -	$ -	$ 207
Financial instrument liabilities(1)(2)	113	30	2	145
Due to related parties(2)	107	2	-	109
Other long-term liabilities - concession payments	8	22	104	134
Long-term debt and credit facilities(2)	532	1,902	3,739	6,173
Interest payable on long-term debt(3)	284	931	1,331	2,546
Total	$ 1,251	$ 2,887	$ 5,176	$ 9,314

AS AT DECEMBER 31, 2011 (MILLIONS)	< 1 year	2-5 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 190	$ -	$ -	$ 190
Financial instrument liabilities(1)(2)	99	15	-	114
Due to related parties(2)	139	8	-	147
Other long-term liabilities - concession payments	4	24	120	148
Long-term debt and credit facilities(2)	650	1,806	3,118	5,574
Interest payable on long-term debt(3)	298	827	1,082	2,207
Total	$ 1,380	$ 2,680	$ 4,320	$ 8,380

(1) Financial instruments liabilities exclude amounts determined to be non-financial derivatives.
(2) Includes both the current and long-term amounts.
(3) Represents aggregate interest payable expected to be paid over the entire term of the obligations, if held to maturity. Variable rate interest payments have been calculated based on current rates.

FINANCIAL INSTRUMENT DISCLOSURES

Brookfield Renewable classifies its assets and liabilities as outlined below:

AS AT DECEMBER 31, 2012 (MILLIONS)	Financial assets and liabilities						
	Cash, loans and receivables	Assets[(1)] liabilities	Derivatives used for hedging	Derivatives not used for hedging	Other financial liabilities	Non-financial assets and liabilities	Total
Cash and cash equivalents	$ 294	$ -	$ -	$ -	$ -	$ -	$ 294
Trade receivables and other current assets[(2)]	194	-	-	-	-	-	194
Due from related parties[(2)(3)]	56	-	-	-	-	-	56
Equity-accounted investments	-	-	-	-	-	344	344
Property, plant and equipment	-	-	-	-	-	15,658	15,658
Intangible assets	-	-	-	-	-	44	44
Deferred income tax assets	-	-	-	-	-	81	81
Other long-term assets	100	26	-	-	-	128	254
Total assets	$ 644	$ 26	$ -	$ -	$ -	$ 16,255	$ 16,925
Accounts payable and accrued liabilities[(2)]	$ -	$ -	$ -	$ -	$ 207	$ -	$ 207
Financial instrument liabilities[(3)]	-	13	65	67	-	-	145
Due to related parties[(2)]	-	-	-	-	109	-	109
Long-term debt and credit facilities[(2)(3)]	-	-	-	-	6,119	-	6,119
Deferred income tax liabilities	-	-	-	-	-	2,358	2,358
Other long-term liabilities	-	-	-	-	157	-	157
Total liabilities	$ -	$ 13	$ 65	$ 67	$ 6,592	$ 2,358	$ 9,095

(1) Measured at fair value with all gains and losses recorded in the consolidated statement of (loss) income.
(2) Measured at fair value at inception and subsequently recorded at amortized cost using the effective interest rate method.
(3) Includes both the current and long-term amounts.

AS AT DECEMBER 31, 2011 (MILLIONS)	Financial assets and liabilities: Cash, loans and receivables	Assets[1] liabilities	Derivatives used for hedging	Other financial liabilities	Non-financial assets and liabilities	Total
Cash and cash equivalents	$ 267	$ -	$ -	$ -	$ -	$ 267
Trade receivables and other current assets[2]	122	-	-	-	36	158
Due to related parties[2][3]	285	-	-	-	-	285
Equity-accounted investments	-	-	-	-	405	405
Property, plant and equipment	-	-	-	-	13,945	13,945
Intangible assets	-	-	-	-	57	57
Deferred income tax assets	-	-	-	-	306	306
Other long-term assets	156	-	-	-	129	285
Total assets	$ 830	$ -	$ -	$ -	$ 14,878	$ 15,708
Accounts payable and accrued liabilities[2]	$ -	$ -	$ -	$ 190	$ -	$ 190
Financial instrument liabilities[3]	-	26	88	-	-	114
Due to related parties[2]	-	-	-	147	-	147
Long-term debt and credit facilities[2][3]	-	-	-	5,519	-	5,519
Deferred income tax liabilities	-	-	-	-	2,374	2,374
Other long-term liabilities	-	-	-	164	-	164
Total liabilities	$ -	$ 26	$ 88	$ 6,020	$ 2,374	$ 8,508

(1) Measured at fair value with all gains and losses recorded in the consolidated statement of (loss) income.
(2) Measured at fair value at inception and subsequently recorded at amortized cost using the effective interest rate method.
(3) Includes both the current and long-term amount.

The fair value of 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 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, management looks primarily to external readily observable market inputs such as interest rate yield curves, currency rates, and price, as applicable. 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 and applicable credit spreads.

Financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

Level 1 – inputs are based on unadjusted quoted prices in active markets for identical assets and liabilities;

Level 2 – inputs, other than quoted prices in Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data.

The following table presents Brookfield Renewable's financial assets and financial liabilities measured at fair value classified by the fair value hierarchy as at December 31:

(MILLIONS)		Level 1		Level 2		Level 3		2012		2011
Cash and cash equivalents	$	294	$	-	$	-	$	294	$	267
Financial instrument liabilities, net:										
Energy derivative contracts		(1)		(12)		-		(13)		(26)
Interest rate swaps		-		(132)		-		(132)		(88)
Total	$	293	$	(144)	$	-	$	149	$	153

There were no transfers between levels during the year.

The aggregate amount of Brookfield Renewable's net financial instrument positions are as follows as at December 31:

					2012				2011
(MILLIONS)	Notes		Asset		Liabilities		Net		Net
Energy derivative contracts	(a)	$	-	$	13	$	13	$	26
Interest rate swaps	(b)		-		132		132		88
Total			-		145		145		114
Less: current portion			-		113		113		99
Long-term portion		$	-	$	32	$	32	$	15

The following table presents the change in Brookfield Renewable's total net financial instrument position as at and for the year ended December 31:

(MILLIONS)	Note		2012		2011
Balance, beginning of year		$	114	$	246
(Decreases) increases in the net financial position:					
Unrealized (gain) loss through income on energy derivative contracts	(a)		(16)		19
Unrealized accounting loss through OCI on energy derivative contracts	(a)		4		708
Unrealized loss through income on interest rate swaps	(b)		39		1
Unrealized (gain) loss through OCI on interest rate swaps	(b)		(18)		66
Reversal of energy derivative contracts designated as cash-flow hedges through accumulated OCI and non-controlling interests			-		(704)
Reversal of energy derivative contracts designated as cash-flow hedges through retained earnings			-		(222)
Foreign exchange and other settlements through income or OCI			22		-
Balance, end of year		$	145	$	114
Derivative liabilities not designated as hedging instruments:					
Energy derivative contracts	(a)	$	13	$	26
Interest rate swaps	(b)		67		-
Net position		$	80	$	26
Derivate liabilities designated as hedging instruments:					
Interest rate swaps	(b)	$	65	$	88
Net positions		$	65	$	88

(a) Energy derivative contracts

Brookfield Renewable has entered into long-term energy derivative contracts primarily to eliminate the price risk on the sale of future power generation. All energy contracts are recorded in Brookfield Renewable's audited consolidated financial statements at an amount equal to fair value, using quoted market prices or, in their absence, a valuation model using both internal and third-party evidence and forecasts.

On April 1, 2011, Brookfield Renewable designated its two significant long-term energy contracts with related parties as cash-flow hedges. As a result of new agreements and changes in existing agreements with Brookfield Asset Management and its subsidiaries arising from the Combination, these contracts are no longer accounted for as derivatives by Brookfield Renewable effective November 28, 2011. For the period from April 1, 2011 to November 28, 2011, Brookfield Renewable recorded accounting losses of $708 million related to these contracts that were recorded in OCI. On formation of Brookfield Renewable, $704 million of unrealized accounting losses were reversed.

Amendments made to certain energy derivative contracts and other agreements with the related parties, effective November 28, 2011, resulted in the energy derivative contracts no longer meeting the derivatives definition under the IFRS. Since these amendments arose from the common control reorganization with Brookfield Asset Management the amounts were adjusted directly into equity.

In the next 12 months, it is expected that a $4 million loss (2011: $4 million loss) will be settled or reclassified into income.

(b) Interest rate swaps

Brookfield Renewable has entered into interest rate swap contracts primarily to minimize exposure to interest rate fluctuations on its variable rate debt or to lock in interest rates on future debt refinancing. All interest rate swap contracts are recorded in the consolidated financial statements at an amount equal to fair value.

At December 31, 2012, agreements with a total notional value of $1,698 million were outstanding (2011: $1,226 million). The fixed interest rates resulting from these agreements range from 0.42% to 5.30% (2012: 2.03% to 4.50%).

(c) Cash flow hedges

During the year ended December 31, 2012, gains of $20 million relating to cash flow hedges were realized and reclassified from OCI to net loss, respectively (2011: loss of $4 million).

Available-for-sale investments

Investment in securities classified as available-for-sale investments as at December 31, 2012 totaled $26 million (December 31, 2011: $nil) and have been included in Other long-term assets.

8. RELATED PARTY TRANSACTIONS

Brookfield Renewable's related party transactions are recorded at the exchange amount. Brookfield Renewable's related party transactions are primarily with Brookfield Asset Management and its subsidiaries.

As discussed in the Significant Accounting Policies Note 2(b) - Basis of Presentation, effective November 28, 2011, Brookfield Asset Management and Brookfield Renewable completed the Combination agreement. This resulted in the strategic combination of all the renewable power assets of the Fund and certain Brookfield Asset Management subsidiaries to create Brookfield Renewable.

At the date of Combination, Brookfield Asset Management owned an approximate 73% limited partnership interest in Brookfield Renewable, on a fully-exchanged basis. In the first quarter of 2012, a bought-deal secondary offering was completed, through which a wholly-owned subsidiary of Brookfield Asset Management sold 13,144,500 of its limited partnership units of Brookfield Renewable (11,430,000 limited partnership units plus 1,714,500 limited partnership units pursuant to an over-allotment option that was exercised in full) at an offering price of C $26.25 per limited partnership unit.

Consequent to the secondary offering, and giving effect to the over-allotment option, Brookfield Asset Management at the date of this report owned, directly and indirectly, 177,750,609 limited partnership units, representing approximately 68% of Brookfield Renewable on a fully-exchanged basis and all general partnership units totaling a 0.01% general partnership interest in Brookfield Renewable. The remaining 32% limited partnership interest was held by the public.

Agreements relating to the Combination

In connection with the completion of the Combination, Brookfield Renewable and its subsidiaries entered into a number of agreements with Brookfield Asset Management, including the following agreements:

Principal Agreements

Combination Agreement

The Combination was effected pursuant to a Combination Agreement which contains covenants, representations and warranties of and from each of BRPI, the Fund, Brookfield Renewable Power Trust ("BRPT") and Brookfield Renewable pursuant to which Brookfield Renewable agreed to acquire all of the assets of the Fund and all of the other renewable power assets of BRPI pursuant to a court-approved Plan of Arrangement under Ontario corporate law.

Limited Partnership Agreements

Each of the amended and restated limited partnership agreements of Brookfield Renewable and BRELP outline the key terms of the partnerships, including provisions relating to management, protections for limited partners, capital contributions, distributions and allocation of income and losses. Pursuant to BRELP's amended and restated limited partnership agreement, BRELP's general partner is entitled to receive incentive distributions from BRELP as a result of its ownership of the general partnership interest in BRELP. The incentive distributions are to be calculated in increments based on the amount by which quarterly distributions on the limited partnership units of BRELP exceed specified target levels as set forth in the amended and restated partnership agreement.

Relationship Agreement

Brookfield Asset Management and certain of its subsidiaries entered into an agreement with Brookfield Renewable pursuant to which Brookfield Asset Management agreed that Brookfield Renewable will serve as its primary vehicle through which it will acquire renewable power assets on a global basis.

Master Services Agreement

Brookfield Renewable entered into an exclusive agreement with Brookfield Asset Management pursuant to which Brookfield Asset Management has agreed to provide oversight of the business and provide the services of senior officers to Brookfield Renewable for a management service fee. The fee is paid on a quarterly basis and has a fixed quarterly component of $5 million and a variable component calculated as a percentage of the increase in the total capitalization value of Brookfield Renewable over an initial reference value (subject to an annual escalation by a specified inflation factor beginning on January 1, 2013). The Master Services Agreement continues in perpetuity, until terminated in accordance with its terms.

BRELP Voting Agreement

Pursuant to a voting agreement dated November 28, 2011 (the "Voting Agreement"), between Brookfield Renewable and Brookfield Asset Management, Brookfield Renewable, through the Managing General Partner, has a number of voting rights, including the right to direct all eligible votes in the election of the directors of BRELP's general partner.

Revenue Agreements

Contract Amendments

Two long-term power purchase agreements on generating assets in Ontario were amended to increase the price from C$68 per MWh to an average of C$88 per MWh on a portfolio basis. The agreements described below are with respect to generating assets held by the Mississagi Power Trust ("MPT"), and Great Lakes Power Limited ("GLPL"). In addition, the term of the Mississagi power purchase agreement has been extended to December 1, 2029 and MPT has been granted the unilateral option to terminate the agreement, on 120 days written notice, at certain times between 2017 and 2024.

As amended, the GLPL power purchase agreement requires a subsidiary of Brookfield Asset Management to support the price that GLPL receives for energy generated by certain facilities in Canada at a price of C$82 per MWh subject to an annual adjustment equal to 40% of the Consumer Price Index ("CPI") in the previous year. The GLPL agreement has an initial term to 2029, and the contract automatically renews for successive 20-year periods with certain termination provisions. If the contract is not terminated prior to 2029, the price under this agreement reverts back to the original C$68 per MWh subject to an annual adjustment equal to 40% of the CPI for each year.

As amended, the MPT power purchase agreement requires a subsidiary of Brookfield Asset Management to purchase the energy generated at a price of C$103 per MWh subject to an annual adjustment equal to 20% of the CPI in the previous year. The MPT contract terminates on December 1, 2029, subject to the early termination options described above.

Energy Revenue Agreement

The Energy Revenue Agreement was entered into between a subsidiary of Brookfield Asset Management and Brookfield Power U.S. Holdings America Co. ("BPUSHA") that indirectly owns substantially all of the U.S. facilities of Brookfield Renewable. The subsidiary of Brookfield Asset Management will support the price that BPUSHA receives for energy generated by certain facilities in the United States at a price $75 per MWh. This price is to be increased annually on January 1 by an amount equal to 40% of the increase in the CPI during the previous calendar year, but not exceeding an increase of 3% in any calendar year. The Energy Revenue Agreement will have an initial term of 20 years, with automatic renewals for successive 20-year periods with certain termination provisions.

Power Services Agreements

Power Agency Agreements

In conjunction with the Energy Revenue agreement, certain Brookfield Renewable subsidiaries entered into Power Agency Agreements appointing a subsidiary of Brookfield Asset Management as the exclusive agent of the owner in respect of the sales of electricity, including the procurement of transmission and other additional services. In addition, this subsidiary will schedule, dispatch and arrange for transmission of the power produced and the power supplied to third-parties in accordance with prudent industry practice. Pursuant to each Agreement, the subsidiary will be entitled to be reimbursed for any third-party costs incurred, and, except in a few cases, receives no additional fee for its services in connection with the sale of power and for providing the other services.

Energy Marketing Agreement

A subsidiary of Brookfield Asset Management has agreed to provide energy marketing services to Brookfield Renewable's North American businesses. Under this Agreement, Brookfield Renewable pays an annual energy marketing fee of $18 million per year (subject to increase by a specified inflation factor beginning on January 1, 2013).

Development Projects Agreement

As part of the Combination, Brookfield Renewable indirectly acquired a number of development projects in the United States, Canada and Brazil from a subsidiary of Brookfield Asset Management. This subsidiary received no upfront proceeds on closing for the transfer of these projects, but is entitled to receive on commercial operation or sale of the projects, in each case if developed or sold in the 25 years following closing, up to 100% of the development costs that it contributed to each project and 50% of the fair market value of the projects in excess of a priority return on each party's invested capital. These amounts will only be payable on projects upon substantial completion or sale of the project. With respect to the projects located in the United States and Canada, the Development Projects Agreement provides for the reimbursement of expenses to a subsidiary of Brookfield Asset Management for such projects, and a separate royalty agreement exists to provide royalties on each project. With respect to projects located in Brazil, a subsidiary of Brookfield Asset Management subscribed for special shares which contain a redemption feature that provides for the reimbursement of expenses as well as the sharing of the fair market value on projects.

Voting Agreements

In December 2011, Brookfield Renewable entered into voting agreements with subsidiaries of Brookfield Asset Management whereby these subsidiaries, as managing members of entities related to Brookfield Americas Infrastructure Fund (the "BAIF Entities") in which Brookfield Renewable holds investments with institutional investors, agreed to assign to Brookfield Renewable their voting rights to appoint the directors subsidiaries of the BAIF Entities. Brookfield Renewable's economic interests in the BAIF Entities in the United States and Brazil are 22% and 25%, respectively.

Other Agreements

In addition, the following related party agreements were in place with either the Fund or BRPI and continue to be in effect, and were thus transferred to Brookfield Renewable on the effective date of the Combination.

Revenue Agreements

Pursuant to a 20-year power purchase agreement, a subsidiary of Brookfield Asset Management purchases all energy from several power facilities in Maine and New Hampshire held by Great Lakes Holding America ("GLHA") at $37 per MWh. The energy rates are subject to an annual adjustment equal to 20% of the increase in the CPI during the previous year.

Pursuant to a 20-year power purchase agreement, a subsidiary of Brookfield Asset Management purchases all energy from Lievre Power in Quebec at C$68 per MWh. The energy rates are subject to an annual adjustment equal to the lesser of 40% of the increase in the CPI during the previous calendar year or 3%.

Pursuant to a power guarantee agreement, a subsidiary of Brookfield Asset Management will purchase all energy from the two facilities of Hydro Pontiac Inc. at a price of C$68 per MWh, to be increased annually each calendar year beginning in 2010 by an amount equal to 40% of the increase in the CPI during the previous calendar year. This power guarantee agreement is scheduled to commence in 2019 for one facility and in 2020 for the other, upon the expiration of existing power agreements. This agreement has an initial term to 2029 and automatically renews for successive 20-year period with certain termination provisions.

Pursuant to a 10-year Wind Levelization agreement expiring in 2019, a subsidiary of Brookfield Asset Management mitigates any potential wind variation from the expected annual generation of 506 GWh with regards to the Prince Wind assets in Ontario. Any excess generation compared to the expected generation results in a payment from Brookfield Renewable to the subsidiary of Brookfield Asset Management, while a shortfall would result in a payment from a subsidiary of Brookfield Asset Management to Brookfield Renewable.

Payment obligations relating to power purchase agreements

Pursuant to a 20-year power purchase agreement guarantee, expiring in 2021, a subsidiary of Brookfield Asset Management guarantees to Powell River Energy the payment of obligations of an industrial power purchaser for an annual fee of C$0.5 million.

Purchase of natural gas

A subsidiary of Brookfield Asset Management acting as an agent on behalf of Brookfield Renewable secures the price of natural gas with respect to a gas plant in Ontario until the end of 2013 for a weighted average price of $6 per MMbtu.

Insurance services

In the normal course of operations, an insurance broker affiliated with Brookfield Asset Management, entered into transactions with Brookfield Renewable to provide insurance services. These transactions are measured at fair value.

The following table reflects the related party agreements and transactions on the consolidated statements of income (loss) for the year ended December 31:

(MILLIONS)	2012	2011
Revenues		
Purchase and revenue support agreements	$ 376	$ 254
Wind levelization agreement	2	7
	$ 378	$ 261
Direct operating costs		
Energy purchases	$ (40)	$ (41)
Operations, maintenance and administration services	(18)	(11)
Insurance services	(18)	(18)
	$ (76)	$ (70)
Interest expense	$ -	$ (19)
Management service costs	$ (36)	$ (1)

Current assets

Amounts due from Brookfield Asset Management are non-interest bearing, unsecured and due on demand.

Amounts due from related parties

Amounts due from Brookfield Asset Management are non-interest bearing, unsecured and due on demand. The note receivable from an equity-accounted investment is unsecured, due on demand and interest bearing with the annual interest rate between 10% and 18%. The rate for 2012 was 18% (2011: 13%). The note is due December 2020.

Amounts and the note receivable are not considered impaired based on the credit worthiness of the related- party counterparties. Accordingly, as at December 31, 2012 and 2011, an allowance for doubtful accounts was not deemed necessary.

Current liabilities

Amounts due to Brookfield Asset Management are unsecured, payable on demand and relate to recurring transactions. Brookfield Asset Management has provided a hydrology reserve facility to Brookfield Renewable to be used to maintain cash distributions due to changes in hydrology from year to year.

Amounts due to related parties

The note payable to Brookfield Asset Management was settled during the year and the interest for 2011 was 10%.

The following table reflects the impact of the related party agreements and transactions on the consolidated balance sheets as at December 31:

(MILLIONS)	Related party	2012	2011
Current assets			
Due from related parties			
Amounts due from	Brookfield Asset Management	$ 20	$ 227
Note receivable	Coram California Development	-	26
	Equity accounted and other	14	-
		$ 34	$ 253
Due from related parties			
Amounts due from	Brookfield Asset Management, Brascan Energetica	$ 3	$ 13
Note receivable	Powell River Energy Inc.	19	19
		$ 22	$ 32
Current liabilities			
Due to related parties			
Amount due to and current portion of note payable	Brookfield Asset Management	$ 45	$ 74
Accrued unitholders distributions payable	Brookfield Asset Management	61	65
	Equity accounted	1	-
		$ 107	$ 139
Due to related parties			
Note payable	Brookfield Asset Management	$ -	$ 8
	Equity accounted	2	-
		$ 2	$ 8

9. EQUITY-ACCOUNTED INVESTMENTS

The following are Brookfield Renewable's equity-accounted investments as at December 31:

	Ownership interest	Carrying Value	
(MILLIONS, EXCEPT AS NOTED)	%	2012	2011
Bear Swamp Power Co L.L.C.	50	$ 155	$ 130
Galera Centrais Eletricas S.A.	50	67	86
Pingston Power Inc.	50	59	49
Brookfield Americas Infrastructure Fund Investees(1)	50	41	119
Powell River Energy Inc.	50	22	21
		$ 344	$ 405

(1) In 2011, there were ownership interests in two separate entities. In 2012, Brookfield Americas Infrastructure Fund acquired the remaining 50% interest in one of these entities, bringing the total investment to 100%, and its results were fully consolidated.

The following table outlines the changes in Brookfield Renewable's equity-accounted investments for the year ended December 31:

(MILLIONS)	2012	2011
Balance, beginning of year	$ 405	$ 269
Acquisitions	(63)	-
Revaluation recognized through OCI	16	136
Share of OCI	-	(7)
Share of net income	(5)	10
Other	(9)	(3)
Balance, end of year	$ 344	$ 405

The following tables summarize certain financial information of equity-accounted investments:

(MILLIONS)	2012	2011
As at December 31:		
Current assets	$ 66	$ 76
Property, plant and equipment	995	1,081
Other assets	263	451
Current liabilities	46	183
Long-term debt	324	454
Other liabilities	268	156
For the year ended December 31:		
Revenue	$ 106	$ 117
Net income	(11)	19
Share of net income		
Cash earnings	13	23
Non-cash loss	(18)	(13)

10. PROPERTY, PLANT AND EQUIPMENT, AT FAIR VALUE

The composition of the net book value of Brookfield Renewable's property, plant and equipment, is presented in the following table:

(MILLIONS)	Hydroelectric	Wind energy	Other[1]	Total
As at December 31, 2010	$ 10,957	$ 555	$ 661	$ 12,173
Foreign exchange	(293)	(12)	(89)	(394)
Additions/transfers[2]	514	396	119	1,029
Revaluation recognized through OCI	1,094	489	55	1,638
Disposals	(2)	-	(29)	(31)
Revaluations recognized through net income	(13)	-	-	(13)
Depreciation[3]	(381)	(33)	(43)	(457)
As at December 31, 2011	$ 11,876	$ 1,395	$ 674	$ 13,945
Foreign exchange	(44)	40	(29)	(33)
Additions/transfers[2]	780	854	(152)	1,482
Revaluation recognized through OCI	699	63	6	768
Disposals	(3)	-	(15)	(18)
Revaluations recognized through net income	(20)	(4)	11	(13)
Depreciation[3]	(311)	(113)	(49)	(473)
As at December 31, 2012	$ 12,977	$ 2,235	$ 446	$ 15,658

(1) Included in "Other" is land, buildings, roads, decommissioning assets and leasehold improvements, gas-fired generating ("co-gen") units and CWIP.
(2) Includes acquisitions of $1,374 (2011: $234 million) (Note 3).
(3) Assets not subject to depreciation include CWIP and land.

Certain of Brookfield Renewable's property, plant and equipment, comprised of hydroelectric, wind, and gas-fired generating units are carried at fair market value as opposed to historical cost. These items of property, plant and equipment were revalued by using a discounted cash flow model that incorporates management's expectations about future cash inflows from power purchase agreements that are in place with certain of Brookfield Renewable's customers and Brookfield Asset Management, future electricity prices in geographic areas in which it operates for generation that is estimated using power purchase agreement pricing, anticipated long-term average generation, estimated capital expenditures and future major maintenance expenditures for each of Brookfield Renewable's respective plants over a 20-year period, and assumptions about future inflation rates and discount rates.

The additions/transfers to the property, plant and equipment also reflect the deduction of $209 million of investment tax credits pursuant to government incentives to build new renewable power assets (2011: $nil).

The key valuation metrics of the discounted cash flow valuation model as at December 31, the dates of the last revaluations are set out in the following table:

	United States		Canada		Brazil	
	2012	2011	2012	2011	2012	2011
Discount rate	5.7%	5.6%	5.2%	5.4%	9.4%	9.9%
Terminal capitalization rate	7.0%	7.2%	6.5%	6.8%	N/A	N/A
Exit date	2032	2031	2032	2031	2029	2029

The valuation metrics above are based on weighted-average, post-tax discount and terminal capitalization rates. The valuations are impacted primarily by the discount rate and anticipated long-term electricity prices.

The following table summarizes the impact of a 50 bps change in discount rates on the fair value of property, plant and equipment:

	Effect on fair value of property, plant and equipment			
(BILLIONS)		2012		2011
50 bps increase in discount rates	$	(1.2)	$	(1.0)
50 bps decrease in discount rates	$	1.4	$	1.0

A revaluation increase of $768 million was recorded through OCI on December 31, 2012 (2011: $1,638 million increase). Certain contract amendments and agreements related to the Combination resulted in changes in the fair value of certain power generating facilities. The impact of these changes is included in OCI for the year ended December 31, 2011. For the year ended December 31, 2012, Brookfield Renewable recognized a net revaluation impairment of $13 million included in “Other” in the consolidated statements of income (loss) (2011: $13 million impairment loss) due to changes in discount rates and long-term electricity prices in the valuation model.

For the year ended December 31, 2012, $7 million of interest was capitalized (2011: $11 million) and the average borrowing rate for the year was 7.38% (2011: 5.16%).

Had Brookfield Renewable’s revalued property, plant and equipment been measured on a historical cost basis, the carrying amounts, net of accumulated depreciation would have been as follows at December 31:

(MILLIONS)		2012		2011
Hydroelectric	$	4,595	$	4,137
Wind		1,405		824
Other[1]		655		654
	$	6,655	$	5,615

(1) Included within the “Other” category are land, roads, decommissioning assets, leasehold improvements, gas-fired generating units and CWIP.

In the normal course of operations, Brookfield Renewable has committed as at December 31, 2012, to spend approximately $11 million (2011: $3 million) on sustaining capital expenditures over the next year. Sustaining capital expenditures relate to maintaining currently owned power generating assets, whereas development and construction expenditures include project costs for new facilities.

11. INTANGIBLE ASSETS

The composition of Brookfield Renewable's intangible assets as at December 31 is presented in the following table:

(MILLIONS)	Cost	Accumulated Amortization	Net Book Value	Net book value
	2012			2011
Service concession arrangements	$ 68	$ (24)	$ 44	$ 55
FERC Licences	-	-	-	2
	$ 68	$ (24)	$ 44	$ 57

The following table describes the changes in the carrying value of intangible assets for the year ended December 31:

(MILLIONS)	2012	2011
Balance, beginning of period	$ 57	$ 87
Foreign exchange and other	(3)	(19)
Amortization	(10)	(11)
Balance, end of period	$ 44	$ 57

12. OTHER LONG-TERM ASSETS

The composition of Brookfield Renewable's other long-term assets as at December 31 is presented in the following table:

(MILLIONS)	Cost 2012	Accumulated Amortization 2012	Net Book Value 2012	Net book value 2011
Water rights	$ 115	$ (31)	$ 84	$ 89
Restricted cash	80	-	80	139
Available-for-sale investments	26	-	26	-
Unamortized financing fees	36	(25)	11	10
Other	57	(4)	53	47
	$ 314	$ (60)	$ 254	$ 285

Brookfield Renewable is required to pay the Brazilian Federal Government for the usage of public assets ("Water rights") over the concession terms associated with two of its Brazilian facilities. Water rights are monetarily adjusted by the Brazilian General Market Price Index. As at December 31, 2012, an asset of $84 million (2011: $89 million) was included in other long-term assets and corresponding liability of $101 million was recorded within other long-term liabilities (Note 16) (2011: $107 million).

At December 31, 2012, $80 million of long-term restricted cash (2011: $139 million) was held to satisfy lease payments and meet debt service obligations.

At December 31, 2012, investment in securities owned by Brookfield Renewable classified as available-for-sale totaled $26 million (2011: $nil). No gains (losses) have been recorded in OCI.

The unamortized fees primarily relate to the sale and leaseback of a hydroelectric facility. Unamortized fees are amortized on a straight-line basis over the term of the arrangement to interest expense. In 2012, Brookfield Renewable capitalized financing fees of $3 million (2011: $nil).

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The composition of accounts payable and accrued liabilities as at December 31 are as follows:

(MILLIONS)	2012	2011
Operating accrued liabilities	$ 80	$ 73
Interest payable on corporate and subsidiary borrowings	41	36
Accounts payable	40	30
Unitholders' distribution and preferred dividends payable	34	26
Sales taxes (recoverable) payable	(4)	14
Other	16	11
	$ 207	$ 190

14. LONG-TERM DEBT AND CREDIT FACILITIES

The composition of debt obligations as at December 31 is presented in the following table:

(MILLIONS EXCEPT AS NOTED)	2012 Weighted-average Interest rate (%)	2012 Weighted-average Term (years)			2011 Weighted-average Interest rate (%)	2011 Weighted-average Term (years)		
Corporate borrowings								
Series 3 (CDN$200)	5.3	5.8	$	202	5.3	6.8	$	196
Series 4 (CDN$150)	5.8	23.9		151	5.8	24.9		147
Series 6 (CDN$300)	6.1	3.9		302	6.1	4.9		294
Series 7 (CDN$450)	5.1	7.8		454	5.1	8.8		440
Series 8 (CDN$400)	4.8	9.1		403	-	-		-
	5.3	8.7	$	1,512	5.5	9.6	$	1,077
Subsidiary borrowings								
United States	6.4	11.4	$	2,264	7.0	12.6	$	2,021
Canada	5.9	12.7		1,781	6.2	8.3		1,572
Brazil	8.5	9.7		348	12.1	6.2		653
	6.4	11.8	$	4,393	7.5	10.0	$	4,246
Credit facilities(1)	2.0	3.8	$	268	2.8	2.3	$	251
Total debt			$	6,173			$	5,574
Less: Unamortized financing fees(2)				(54)				(55)
Less: Current portion				(532)				(650)
			$	5,587			$	4,869

(1) Amounts are unsecured and revolving. Interest rate is at the London Interbank Offered Rate ("LIBOR") plus 1.75% for 2012 (2011: Canadian Dealer Offered Rate ("CDOR") plus 1.75%).
(2) Unamortized financing fees are amortized to interest expense over the terms of the borrowing.

Future maturities of Brookfield Renewable's debt obligations, for each of the next five years and thereafter are as follows:

(MILLIONS)	2013	2014	2015	2016	2017	Thereafter	Total
Corporate borrowings	$ -	$ -	$ -	$ 302	$ -	$ 1,210	$ 1,512
Subsidiary borrowings							
United States	69	434	63	88	460	1,150	2,264
Canada	435	29	30	28	26	1,233	1,781
Brazil	28	89	31	28	26	146	348
	532	552	124	144	512	2,529	4,393
Credit facilities	-	-	-	268	-	-	268
	$ 532	$ 552	$ 124	$ 714	$ 512	$ 3,739	$ 6,173

Future maturities of borrowings for subsidiaries accounted for on an equity-accounted basis for each of the next five years and thereafter are as follows:

(MILLIONS)	2013	2014	2015	2016	2017	Thereafter	Total
United States	$ 1	$ 1	$ 1	$ 1	$ 126	$ 6	$ 136
Canada	-	-	35	96	-	21	152
	$ 1	$ 1	$ 36	$ 97	$ 126	$ 27	$ 288

The unamortized financing fees of each debt obligation as at December 31 are as follows:

(MILLIONS)	2012	2011
Corporate borrowings		
Unamortized financing fees, beginning of year	$ 6	$ 6
Additional financing fees	3	-
Amortization of financing fees	(1)	-
Unamortized financing fees, end of year	$ 8	$ 6
Subsidiary borrowings		
Unamortized financing fees, beginning of year	$ 49	$ 44
Additional financing fees	15	15
Amortization of financing fees	(18)	(10)
Unamortized financing fees, end of year	$ 46	$ 49
Total	$ 54	$ 55

Long-term debt and credit facilities are recorded at amortized cost.

The following table provides information about management's best estimate of the fair value of long-term debt and credit facilities as at December 31:

	2012		2011	
(MILLIONS)	Carrying value(1)	Fair value	Carrying value(1)	Fair value
Corporate borrowings	$ 1,504	$ 1,700	$ 1,071	$ 1,203
Subsidiary borrowings				
United States	$ 2,244	$ 2,440	$ 2,002	$ 2,187
Canada	1,755	2,004	1,550	1,763
Brazil	348	348	645	653
	4,347	4,792	4,197	4,603
Credit facilities	268	268	251	251
	$ 6,119	$ 6,760	$ 5,519	$ 6,057

(1) Net of unamortized financing fees.

Corporate borrowings

Corporate borrowings are obligations of a finance subsidiary of Brookfield Renewable (Note 23: - Subsidiary Public Issuers). The finance subsidiary may redeem some or all of the borrowings from time to time, pursuant to the terms of the indenture. The balance is payable upon maturity. Interest on corporate borrowings is paid semi-annually. For periods prior to November 28, 2011, interest on corporate borrowings of $77 million was paid by BRPI on behalf of Brookfield Renewable.

In February 2012, Brookfield Renewable issued C$400 million of 10-year term corporate notes bearing interest at a rate of 4.79% per annum. Proceeds of the offering were used to reduce borrowings, extend the term on the overall maturity profile and reduce overall cost of capital.

Subsidiary borrowings

Subsidiary borrowings are generally asset-specific, long-term, non-recourse borrowings denominated in the domestic currency of the subsidiary. Subsidiary borrowings in the United States and Canada consist of both fixed and floating interest rate debt. Brookfield Renewable uses interest rate swap agreements to minimize its exposure to floating interest rates. Subsidiary borrowings in Brazil consist of floating interest rates of TJLP, the Brazil National Bank for Economic Development's long-term interest rate, or Interbank Deposit Certificate rate, plus a margin.

As part of the acquisition of wind development and hydroelectric generation assets in California and Brazil, Brookfield Renewable acquired $442 million of subsidiary borrowings.

In May 2012, Brookfield Renewable refinanced indebtedness associated with the hydroelectric pumped storage facility in New England, of which it owns 50%, through a $125 million loan for a term of five years at a rate of LIBOR + 2.25%.

In November 2012, Brookfield Renewable secured financing for a 45 MW British Columbia hydroelectric development project through a C$175 million bond with a term of 41 years at an interest rate of 4.45%.

In November 2012, Brookfield Renewable refinanced indebtedness associated with a 189 MW Ontario wind facility through a C$232 million loan for a term of 15 years at a rate of CDOR + 2.25% to 3.25%.

Credit facilities

In November 2011, Brookfield Renewable negotiated a $600 million committed unsecured revolving credit facility used for general working capital purposes, expiring in October 2014. The credit facility is available by way of advances in either Canadian or U.S. dollars of (i) prime rate loans (ii) bankers' acceptance ("BA") loans and (iii) letters of credit. Refer to Note 25 – Commitments, Contingencies and Guarantees for further details. The credit facility bears interest at the applicable BA rate or LIBOR plus an applicable margin. The applicable margin is tiered on the basis of Brookfield Renewable's unsecured long-term debt rating. At December 31, 2012, the margin was 1.75% (2011: 1.75%). Standby fees are charged on the undrawn balance.

Brookfield Renewable expanded its revolving credit facilities from $600 million to $900 million in March 2012, and extended the maturity for the new facilities to October 2016. In May 2012, Brookfield Renewable entered into an additional credit agreement for $90 million on similar terms and conditions as the other lenders and with an expiry of October 31, 2016, subject to additional one-year extensions.

Refer to Note 17 - Capital Management for a discussion regarding the various covenants in place with lenders.

Brookfield Renewable and its subsidiaries issue letters of credit from its credit facilities for general corporate purposes, which include, but are not limited to, security deposits, performance bonds and guarantees for debt service reserve accounts.

(MILLIONS)	2012	2011
Available revolving credit facilities	$ 990	$ 601
Drawings	(268)	(251)
Issued letters of credit	(182)	(160)
Unutilized revolving credit facilities	$ 540	$ 190

15. INCOME TAXES

The major components of income tax recovery (expense) for the year ended December 31 are as follows:

(MILLIONS)	2012	2011
Income tax recovery (expense) applicable to:		
Current taxes		
Attributed to the current period	$ (14)	$ (8)
	$ (14)	$ (8)
Deferred Taxes		
Income taxes - origination and reversal of temporary differences	$ 82	$ 75
Relating to change in tax rates / imposition of new tax laws	(5)	(3)
Relating to unrecognized temporary differences and tax losses	(23)	(22)
	$ 54	$ 50
Total income tax recovery	$ 40	$ 42

The major components of deferred income tax recovery (expense) for the year ended December 31 recorded directly to OCI are as follows:

(MILLIONS)	2012	2011
Deferred income taxes attributed to:		
Financial instruments designated as cash flow hedges	$ (1)	$ 194
Revaluation surplus		
Origination and reversal of temporary differences	(220)	(270)
Relating to changes in tax rates / imposition of new tax laws	(6)	315
	$ (227)	$ 239

Brookfield Renewable's effective income tax recovery for the year ended December 31 is different from its recovery at its statutory income tax rate due to the differences below:

(MILLIONS)	2012	2011
Statutory income tax recovery (expense) (calculated at the domestic rates applicable to the profits in the country concerned)	$ 47	$ 173
(Reduction) increase resulting from:		
Increase in tax assets not recognized	(23)	(21)
Deemed profit method differences in Brazil	11	11
Differences between statutory rate and future tax rate	25	15
Other	(20)	(27)
Effective income tax recovery, before change in Fund unit liability	$ 40	$ 151
Change in Fund unit liability	-	(109)
Effective income tax recovery	$ 40	$ 42

As Brookfield Renewable is not subject to tax, the above reconciliation has been prepared by aggregating the separate reconciliations for its subsidiaries using the domestic rate in each tax jurisdiction.

The following table details the expiry date, if applicable, of the unrecognized deferred tax assets as at December 31:

(MILLIONS)	2012	2011
2013 to 2017	$ 1	$ 1
2018 and thereafter	71	44
	$ 72	$ 45

The deferred tax assets and liabilities of the following temporary differences have been recognized in the financial statements for the year ended December 31:

(MILLIONS)	Balance Jan 1, 2012	Recognized in Net income (loss)	Recognized in Equity	Business Combinations	Foreign Exchange	Balance 2012
Non-capital losses	$ 168	$ 114	$ -	$ -	$ 5	$ 287
Amount available for future deductions	138	(14)	-	-	7	131
Difference between tax and carrying value	(2,374)	(46)	(227)	(2)	(46)	(2,695)
Net deferred tax assets / (liabilities)	$ (2,068)	$ 54	$ (227)	$ (2)	$ (34)	$ (2,277)

(MILLIONS)	Balance Jan 1, 2011	Recognized in Net income (loss)	Recognized in Equity	Business Combinations	Foreign Exchange	Balance 2011
Non-capital losses	$ 124	$ 44	$ -	$ -	$ -	$ 168
Capital losses	5	(5)	-	-	-	-
Amount available for future deductions	147	(9)	-	-	-	138
Difference between tax and carrying value	(2,429)	20	239	-	(204)	(2,374)
Net deferred tax assets / (liabilities)	$ (2,153)	$ 50	$ 239	$ -	$ (204)	$ (2,068)

The deferred income tax liabilities includes $2,395 million (2011: $2,174 million) of liabilities which relate to property, plant and equipment revaluations included in Accumulated Other Comprehensive income.

The taxable temporary differences attributable to the Partnerships interest in its subsidiaries, branches, associates, and joint ventures is $[] million (2011: $[ ] million).

16. OTHER LONG-TERM LIABILITIES

Brookfield Renewable's other long-term liabilities as at December 31 are comprised of the following:

(MILLIONS)	2012	2011
Concession payment liability	$ 101	$ 107
Decommissioning retirement obligations	27	24
Pension obligations (Note 20)	16	17
Other	13	16
	$ 157	$ 164

At December 31, 2012, Brookfield Renewable recorded a liability associated with a future obligation relating to Concession payments of $101 million (2011: $107 million). The future obligation is being settled through monthly payments made over the concession term. In 2012, $1 million of concessions payments were made to the Brazilian Federal Government. See Note 12 – Other long-term assets for additional details regarding water rights.

Brookfield Renewable has recorded decommissioning retirement obligations associated with its power generating assets. The estimated cost of decommissioning activities is based on a third party assessment and has been discounted using the interest rate of the related property-specific debt or the terminal capitalization rate. The decommissioning retirement liability of $27 million at December 31, 2012 (2011: $24 million), has been established for wind operation sites in Canada and United States and are expected to be restored between the years 2031 to 2064.

17. CAPITAL MANAGEMENT

Brookfield Renewable's primary capital management objectives are to ensure the sustainability of its capital to support continuing operations, meet its financial obligations, allow for growth opportunities and provide stable distributions to its unitholders. Brookfield Renewable's capital is monitored through total debt to total debt plus equity which is defined as the total long-term debt and credit facilities divided by total long-term debt and credit facilities plus equity.

Brookfield Renewable has provided covenants to certain of its lenders for its corporate borrowings and credit facilities. The covenants require Brookfield Renewable to meet minimum debt to capitalization ratios. Subsidiaries of Brookfield Renewable have provided covenants to certain of their lenders for their property-specific borrowings. These covenants vary from one agreement to another and include ratios that address debt service coverage. Certain lenders have also put in place requirements that oblige Brookfield Renewable and its subsidiaries to maintain debt and capital expenditure reserve accounts. The consequences to the subsidiaries as a result of failure to comply with their covenants could include a limitation of distributions from the subsidiaries to Brookfield Renewable, as well as repayment of outstanding debt. Brookfield Renewable is dependent on the distributions made by its subsidiaries to service its debt.

Financial covenants associated with Brookfield Renewable's various banking and debt arrangements are reviewed regularly and controls are in place to maintain compliance with these covenants. Brookfield Renewable complied with all financial covenants for the years ended December 31, 2012 and 2011.

Brookfield Renewable's strategy during 2012, which was unchanged from 2011, was to maintain the measure set out in the following schedule as at December 31:

(MILLIONS)		2012		2011
Total debt				
Current portion of long-term debt	$	532	$	650
Long-term debt and credit facilities		5,587		4,869
	$	6,119	$	5,519
Deferred income tax liability, net[1]		2,277		2,068
Preferred equity		500		241
Participating non-controlling interests - in operating subsidiaries		1,028		629
Participating non-controlling interests - in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield		3,112		3,127
Limited partners' equity		3,190		3,203
Total capitalization[2]	$	16,226	$	14,787
Debt to total capitalization		38%		37%

(1) Deferred income tax liability minus deferred income tax asset.

(2) Total debt plus deferred income tax liability, net, and equity.

18. NON-CONTROLLING INTERESTS

Brookfield Renewable's non-controlling interests is comprised of the following:

	2012	2011
Preferred equity	$ 500	$ 241
Participating non-controlling interests - in operating subsidiaries	1,028	629
Participating non-controlling interests - in a holding subsidiary- Redeemable/Exchangeable units held by Brookfield	3,112	3,127
Total	$ 4,640	$ 3,997

Preferred equity

In March 2010, Brookfield Renewable Power Preferred Equity Inc. ("BRP Equity") issued 10 million Series 1 preferred shares at a price of C$25 per share. The holders of the Series 1 preferred shares are entitled to receive fixed cumulative dividends at an annual rate of C$1.3125 per share, a yield of 5.25% for the initial five-year period ending April 30, 2015. The dividend rate will reset on April 30, 2015 and every five years thereafter at a rate equal to the then five-year Government of Canada Bond yield plus 2.62%. Brookfield Renewable, BRELP and certain key holding company subsidiaries fully and unconditionally guarantee the payment of dividends on the preferred shares, the amounts due on redemption, and the amounts due on the liquidation, dissolution or winding-up of BRP Equity. For the year ended, December 31, 2012, dividends declared on the Series 1 preferred shares were $13 million (2011: $13 million).

In October 2012, BRP Equity issued 10 million Series 3 preferred shares at a price of C$25 per share. The holders of the preferred shares are entitles to receive fixed cumulative dividends at an annual rate of C$1.10 per share, a yield of 4.4% for the initial period ending July 31, 2019. The dividend will reset on July 31, 2019 and every five years thereafter at a rate equal to the then five-year Government of Canada Bond yield plus 2.94%. Brookfield Renewable, BRELP and certain key holding company subsidiaries fully and unconditionally guarantee the payment of dividends on the preferred shares, the amount due on redemption, and the amounts due on the liquidation, dissolution or winding-up of BRP Equity. For the year ended December 31, 2012, dividends declared on the Series 3 preferred shares were $3 million (2011: nil).

As at December 31, 2012, none of the Series 1 or Series 3 preferred shares have been redeemed.

Participating non-controlling interests – in operating subsidiaries

The net change in participating non-controlling interests – in operating entities is as follows:

(MILLIONS)	Brookfield Americas Infrastructure Fund	The Catalyst Group	Brascan Energetica	Other[1]	Total
As at December 31, 2010	$ -	$ 143	$ 63	$ -	$ 206
Net income	1	5	5	-	11
OCI	173	16	11	-	200
Acquisitions	209	-	-	14	223
Distributions	-	(14)	(5)	(6)	(25)
Other	(3)	17	-	-	14
As at December 31, 2011	$ 380	$ 167	$ 74	$ 8	$ 629
Net income (loss)	(44)	2	2	-	(40)
OCI	24	(28)	(7)	25	14
Acquisitions and contributions	447	-	(9)	8	446
Distributions	-	(18)	(6)	-	(24)
Other	(1)	-	4	-	3
As at December 31, 2012	$ 806	$ 123	$ 58	$ 41	$ 1,028
Interests held by third parties	75-80%	25%	20-30%	24-50%	

(1) Includes the acquisition of a controlling interest in wind development project in Western Canada in 2011 and contributions to a hydroelectric development project in British Columbia in 2012.

Participating non-controlling interests – in a holding subsidiary - Redeemable/Exchangeable units held by Brookfield

Consolidated equity includes Redeemable/Exchangeable Partnership Units issued by BRELP. The Redeemable/Exchangeable Partnership Units are held 100% by Brookfield Asset Management, which at its discretion has the right to redeem these units for cash consideration after a mandatory holding period expiring on November 28, 2013. Since this redemption right is subject to Brookfield Renewable's right, at its sole discretion, to satisfy the redemption request with LP Units of Brookfield Renewable, the Redeemable/Exchangeable Partnership Units are classified as equity in accordance with IAS 32, *Financial Instruments: Presentation*. Both the LP Units issued by Brookfield Renewable and the Redeemable/Exchangeable Partnership Units issued by its subsidiary BRELP have the same economic attributes in all respects, except for the redemption right described above. The Redeemable/Exchangeable Partnership Units participate in earnings and distributions on a per unit basis equivalent to the per unit participation of the LP Units of Brookfield Renewable.

As at December 31, 2012, Redeemable/Exchangeable Partnership Units outstanding were 129,658,623 (December 31, 2011: 129,658,623).

Consistent with the basis of presentation for the Combination (Note 2(b) (ii)), income (loss) attributable to Redeemable/Exchangeable Partnership Units held by Brookfield Asset Management has been calculated as if the Redeemable/Exchangeable Partnership Units had always been issued and outstanding.

For the year ended December 31, 2011, BRELP also declared Redeemable/Exchangeable Partnership Unit and general partnership distributions to Brookfield Asset Management and general partnership distributions to Brookfield Asset Management of $44 million payable on January 31, 2012.

For the year ended December 31, 2012, BRELP declared Redeemable/Exchangeable Partnership Unit and general partnership distributions to Brookfield Asset Management of $182 million.

19. LIMITED PARTNERS' EQUITY

Limited partners' equity

Brookfield Renewable's equity is comprised of general partnership interests and LP Units.

As at December 31, 2012, LP Units outstanding were 132,901,916 (December 31, 2011: 132,827,124) including 48,091,986 held by Brookfield Asset Management and general partnership interests represent 0.01% of Brookfield Renewable.

Consistent with the basis of presentation for the Combination (Note 2(b) (ii)), net loss per LP Unit has been calculated as if the LP Units had always been issued and outstanding.

During 2012, a distribution re-investment plan was implemented, allowing holders of LP Units who are resident in Canada to acquire additional LP Units by reinvesting all or a portion of their cash distributions without paying commissions. During the year ended December 31, 2012, 74,792 LP Units were issued.

Distributions

Distributions may be made by the general partner of Brookfield Renewable with the exception of instances that there is insufficient cash available, payment rends Brookfield Renewable unable to pay its debt or payment of which might leave Brookfield Renewable unable to meet any future contingent obligations.

Prior to the Combination, the Fund made distributions of $103 million consisting of $33 million paid to Brookfield and $70 million paid to the external unitholders of the Fund. In December 2011, Brookfield Renewable declared distributions on it LP Units of $45 million ($0.3375 per LP Unit) payable on January 31, 2012, consisting of $21 million payable to Brookfield Asset Management and $24 million payable to external unitholders of Brookfield Renewable.

For the year ended December 31, 2012, Brookfield Renewable declared distributions on its LP Units of $184 million ($1.38 per LP Unit), consisting of $66 million payable to Brookfield Asset Management and $118 million payable to external unitholders of Brookfield Renewable.

In March 2012, unitholder distributions were increased to $1.38 per unit from $1.35 per unit, on an annualized basis.

Transactions related to the Combination

This note should be read in conjunction with Note 2(b)—Basis of presentation. Brookfield Renewable Group's consolidated balance sheet was adjusted for the effects of the following transactions that took place on the effective date of the Combination:

Settlement of the Fund unit liability

At December 31, 2010, Brookfield Renewable Group recorded a $1,355 million liability relating to the Fund unit liability. In 2010, Brookfield reduced its ownership in the Fund from 50.01% to 34%, on a fully-exchanged basis. Through various management, administration, agency and PPAs with the Fund, along with BRPI's 34% ownership interest, BRPI continued to control the Fund, and therefore, consolidated its results. As at the date of the Combination, the Fund units, not previously owned by Brookfield, were transferred to Brookfield Renewable Group. The transfer was completed at fair value and satisfied by the issuance of LP Units of Brookfield Renewable. The result of this transaction is to reflect the settlement of the Fund unit liability at the date of the Combination of $1,568 million and the LP Units issued to satisfy the transfer are treated as equity of Brookfield Renewable. As a result of the Combination, $775 million of equity was allocated to the Redeemable/Exchangeable Partnership Units to reflect the relative interests of Brookfield Renewable and Brookfield Asset Management in BRELP. For the year ended December 31, 2011, and prior to the Combination, Brookfield Renewable Group recorded a mark-to-market loss of $306 million and expensed $70 million of distributions to external unitholders of the Fund.

Settlement of related party balances

Brookfield Renewable Group settled certain intercompany loans and transactions with Brookfield. The consolidated balance sheets include the reduction in amounts due from and amounts due to related parties, as they were exchanged for LP Units in lieu of a cash settlement.

Derivative balance

Amendments were made to certain energy revenue agreements with the related parties which resulted in those agreements no longer meeting the derivatives definition under the IFRS. Since this change arose from the common control reorganization with Brookfield Asset Management the amounts were adjusted directly into equity.

20. PENSION AND EMPLOYEE FUTURE BENEFITS

Brookfield Renewable offers a number of pension plans to its employees, as well as certain health care, dental care, life insurance and other benefits to certain retired employees pursuant to Brookfield Renewable's policy. The plans are funded by contributions from Brookfield Renewable and from plan members. Pension benefits are based on length of service and final average earnings and some plans are indexed for inflation after retirement. The pension plans relating to employees of Brookfield Renewable have been included in the consolidated financial statements.

Actuarial valuations for Brookfield Renewable's pension plans are required as per governing provincial regulations or state. For Québec registered plans, actuarial valuations are required annually. For Ontario registered plans, actuarial valuations are required on a triennial basis if the funding level of the plan is above a certain threshold. Currently, all Ontario registered plans are on a triennial schedule. The dates of the most recent actuarial valuations for Brookfield Renewable's pension and non-pension benefit plans range from December 31, 2010 to April 1, 2012. Brookfield Renewable measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

Brookfield Renewable has elected under IFRS 1 to not disclose the five year history of the defined benefits obligations and plan assets, and of experience adjustments. The benefit liabilities represent the amount of pension and other employee future benefits that Brookfield Renewable's employees and retirees have earned at year-end. The benefit obligation under these plans is determined through periodic actuarial reports which were based on the assumptions indicated in the following table.

Actuarial assumptions as at December 31:

	Defined benefit pension plans	Non-pension benefit plans	Defined benefit pension plans	Non-pension benefit plans
	2012 (%)		2011 (%)	
Discount rate				
Benefit obligation	3.5 - 4.5	4.1 - 4.5	4.2 - 5.3	4.5 - 5.3
Benefit expense	4.2 - 5.3	4.3 - 5.3	5.1 - 5.8	5.4 - 5.8
Long-term rate of return on plan assets	5.9 - 7.5	N/A	6.2 - 7.5	N/A
Rate of compensation increases	3.0 - 4.0	3.0 - 4.0	3.5 - 4.0	3.5 - 4.0

Plan obligations and the annual pension expense are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the long-term rate of return on plan assets, discount rates, rate of compensation increases and other assumptions. The discount rate, assumed long-term rate of return on plan assets and compensation increases are the assumptions that generally have the most significant impact on the pension cost and obligation.

The discount rate for benefit obligation and benefit expense purposes is the rate at which the pension obligation could be effectively settled. The long-term rate of return on assets for pension cost purposes is the weighted average of expected long-term asset rate of return assumptions for the various categories of plan assets held. The assessment of the expected return is based on historical return trends and analysts' predictions of the market for the assets in the next twelve months. Rate of compensation increases reflect the best estimate of merit increases to be provided, consistent with assumed inflation rates.

The assumed health care cost trend had a minimal effect on the amounts reported. A one percentage point change in the assumed health care cost trend rate at December 31, 2012 would have had no significant effect on the post-retirement obligation and would have had no significant effect on the benefit expense for 2012.

Expense recognized in the Statement of income (loss) for the year ended December 31:

(MILLIONS)	Defined benefit pension plans 2012	Non-pension benefits plans 2012	Defined benefit pension plans 2011	Non-pension benefits plans 2011
Current service costs	$ 2	$ 1	$ 2	$ 1
Interest on accrued benefits	3	1	3	1
Expected return on plan assets	(3)	-	(3)	-
Amortization of net loss	1	-	-	-
Recognition of past service cost	1	1	-	-
Settlement/curtailment gain	(1)	-	-	-
	$ 3	$ 3	$ 2	$ 2

Plan obligations as at December 31:

(MILLIONS)	Defined benefit pension plans 2012	Non-pension benefits plans 2012	Defined benefit pension plans 2011	Non-pension benefits plans 2011
Deficit for funded plans	$ 14	$ -	$ 14	$ -
Present value of wholly unfunded obligations	1	28	1	23
Unrecognized net actuarial loss	(19)	(6)	(15)	(5)
Unrecognized past service cost	-	(2)	-	(1)
	$ (4)	$ 20	$ -	$ 17

Defined benefit obligations

The movement in the defined benefit obligation for the year ended December 31 is as follows:

(MILLIONS)	Defined benefit pension plans 2012	Non-pension benefits plans 2012	Defined benefit pension plans 2011	Non-pension benefits plans 2011
Balance, beginning of year	$ 61	$ 23	$ 59	$ 23
Current service cost	2	1	1	1
Interest cost	3	1	3	1
Benefits paid	(2)	(1)	(2)	(1)
Actuarial loss (gain)	5	2	3	(1)
Plan settlements and amendments	(1)	2	(2)	-
Foreign exchange rate changes	1	-	(1)	-
Balance, end of year	$ 69	$ 28	$ 61	$ 23

Expected contributions to the defined pension plans for the year ended December 31, 2013 are $6 million.

Fair value of plan assets

The movement in the fair value of plan assets for the year ended December 31 is as follows:

(MILLIONS)	Defined benefit pension plans 2012	Non-pension benefits plans 2012	Defined benefit pension plans 2011	Non-pension benefits plans 2011
Balance, beginning of year	$ 47	$ -	$ 47	$ -
Expected return on plan assets	3	-	3	-
Actuarial (loss) gain	1	-	(3)	-
Employer contributions	6	1	5	1
Benefits paid	(3)	(1)	(2)	(1)
Plan settlements	(2)	-	(2)	-
Foreign exchange rate changes	1	-	(1)	-
Balance, end of year	$ 53	$ -	$ 47	$ -

AS AT DECEMBER 31	2012 (%)	2011 (%)
Asset category:		
Equity securities	66	62
Debt securities	34	38
	100	100

21. DIRECT OPERATING COSTS

Brookfield Renewable's direct operating costs for the year ended December 31 are comprised of the following:

(MILLIONS)	2012	2011
Operations, maintenance and administration	$ 292	$ 254
Water royalties, property taxes and other	112	97
Fuel and power purchases (Note 7)	64	44
Energy marketing fees (Note 8)	18	12
Total direct operating costs	$ 486	$ 407

The remuneration of key management personnel of Brookfield Renewable for the years ended December 31, was as follows:

(MILLIONS)	2012	2011
Share-based benefits	$	$ 6
Salaries and benefits		3
	$ -	$ 9

Key management personnel include those individuals having authority and responsibility for planning, directing and controlling the activities of Brookfield Renewable, directly or indirectly. Key management personnel include the Chairman, Chief Executive Officer, Chief Financial Officers and Chief Operating Officer. Share-based benefits relate to costs allocated from Brookfield Asset Management.

22. SUPPLEMENTAL INFORMATION

The net change in non-cash working capital for the year ended December 31 shown in the consolidated statements of cash flows is comprised of the following:

(MILLIONS)	2012	2011
Trade receivables and other current assets	$ (22)	$ (12)
	$ (22)	$ (12)

23. SUBSIDIARY PUBLIC ISSUERS

As a result of the Combination, Brookfield Renewable created Brookfield Renewable Energy Partners ULC (formerly BRP Finance ULC) ("BREP Finance") to contractually assume BRPI's term notes with maturities ranging from 2016 and 2036 with a principal value of approximately C$1.1 billion. BREP Finance assumed these term notes, including accrued interest, in exchange for an interest-bearing demand promissory note issued by another wholly-owned subsidiary of Brookfield Renewable. The term notes payable by BREP Finance are unconditionally guaranteed by Brookfield Renewable, BRELP and certain other subsidiaries.

See Note 14 – Long-term debt and credit facilities for additional details regarding issuances of mid-term corporate notes.

See Note 19 – Limited partners' equity and Note 27 – Subsequent events for additional details regarding the issuances of Class A Preference Shares.

The following tables set forth certain consolidated summary financial information for Brookfield Renewable, BRP Equity, and BREP Finance:

(MILLIONS)	Brookfield Renewable	BRP Equity	BREP Finance	Other Subsidiaries(1)	Consolidating adjustments(2)	Brookfield Renewable consolidated
As at December 31, 2012:						
Current assets	$ 46	$ -	$ 1,528	$ 530	$ (1,582)	$ 522
Long-term assets	3,196	495	-	16,398	(3,686)	16,403
Current liabilities	52	7	16	2,466	(1,582)	959
Long-term liabilities	-	-	1,506	7,122	(492)	8,136
Preferred equity	-	500	-	-	-	500
Participating non-controlling interests - in operating subsidiaries	-	-	-	1,028	-	1,028
As at December 31, 2011:						
Current assets	$ 45	$ -	$ 1,087	$ 678	$ (1,132)	$ 678
Long-term assets	3,203	244	-	15,024	(3,441)	15,030
Current liabilities	45	8	9	2,148	(1,132)	1,078
Long-term liabilities	-	-	1,071	6,597	(238)	7,430
Preferred equity	-	241	-	-	-	241
Participating non-controlling interests - in operating subsidiaries	-	-	-	629	-	629

(1) Includes subsidiaries of Brookfield Renewable other than BRP Equity and BREP Finance.
(2) Includes elimination of intercompany transactions and balances necessary to present Brookfield Renewable on a consolidated basis.

(MILLIONS)	Brookfield Renewable	BRP Equity	BREP Finance	Other Subsidiaries[1]	Consolidating adjustments[2]	Brookfield Renewable consolidated
For the year ended December 31, 2012						
Revenues	$ -	$ -	$ -	$ 1,309	$ -	$ 1,309
Net income (loss)	(36)	-	(2)	(93)	36	(95)
For the year ended December 31, 2011						
Revenues	$ -	$ -	$ -	$ 1,169	$ -	$ 1,169
Net loss	(240)	-	2	(453)	240	(451)

(1) Includes subsidiaries of Brookfield Renewable other than BRP Equity and BREP Finance.

(2) Includes elimination of intercompany transactions and balances necessary to present Brookfield Renewable on a consolidated basis.

24. SEGMENTED INFORMATION

Brookfield Renewable operates mostly renewable power assets, which include conventional hydroelectric generating assets located in the United States, Canada and Brazil, a pumped storage hydroelectric facility located in the United States and wind farms located in Canada and the United States. Brookfield Renewable also operates two co-gen facilities, one in Canada and one in the United States. Management evaluates the business based on the type of power generation (Hydroelectric, Wind and Other). Hydroelectric and wind are further evaluated by major region (United States, Canada and Brazil). "Equity-accounted investments" includes Brookfield Renewable's interest in hydroelectric facilities. The "Other" segment includes co-gen facilities, CWIP and corporate costs.

In accordance with IFRS 8, Operating Segments, Brookfield Renewable discloses information about its reportable segments based upon the measures used by management in assessing performance. The accounting policies of the reportable segments are the same as those described in Note 2 of these consolidated financial statements. Brookfield Renewable analyzes the performance of its operating segments based on revenues, earnings before interest, tax, depreciation and amortization ("Adjusted EBITDA"), and funds from operations. Adjusted EBITDA means revenues less direct costs (including energy marketing costs), plus Brookfield Renewable's share of cash earnings from equity-accounted investments and other income, before interest, current income taxes, depreciation, amortization and management service costs and the cash portion of non-controlling interests. Funds from operations is defined as Adjusted EBITDA less interest, current income taxes and management service cost, which is then adjusted for the cash portion of non-controlling interests included in funds from operations. Transactions between the reportable segments occur at fair value.

	Hydroelectric			Wind energy		Other	Total
(MILLIONS)	U.S.	Canada	Brazil	U.S.	Canada		
For the year ended Dec 31, 2012:							
Revenues	$ 438	$ 272	$ 340	$ 58	$ 131	$ 70	$ 1,309
Adjusted EBITDA	294	213	236	31	113	(35)	852
Interest expense - borrowings	(137)	(65)	(58)	(23)	(44)	(84)	(411)
Funds from operations prior to non-controlling interests	159	148	162	8	69	(155)	391
Cash portion of non-controlling interests	(11)	-	(11)	(6)	-	(16)	(44)
Funds from operations	148	148	151	2	69	(171)	347
Depreciation and amortization	(116)	(81)	(152)	(38)	(75)	(21)	(483)
For the year ended Dec 31, 2011:							
Revenues	$ 467	$ 237	$ 335	$ -	$ 70	$ 60	$ 1,169
Adjusted EBITDA	336	179	269	-	58	(38)	804
Interest expense - borrowings	(149)	(68)	(94)	-	(25)	(75)	(411)
Funds from operations prior to non-controlling interests	189	116	160	-	33	(114)	384
Cash portion on non-controlling interests	(26)	-	(13)	-	-	(13)	(52)
Funds from operations	163	116	147	-	33	(127)	332
Depreciation and amortization	(130)	(151)	(138)	-	(35)	(14)	(468)

The following table reconciles Adjusted EBITDA and funds from operations, presented in the above tables, to net loss as presented in the consolidated statements of income (loss) for the year ended December 31:

(MILLIONS)	Notes	2012	2011
Revenues	8	$ 1,309	$ 1,169
Other income		16	19
Share of cash earnings from equity-accounted investments	9	13	23
Direct operating costs		(486)	(407)
Adjusted EBITDA		852	804
Interest expense - borrowings	14	(411)	(411)
Management service costs	8	(36)	(1)
Current income tax recovery (expense)	15	(14)	(8)
Funds from operations prior to non-controlling interests		391	384
Less: cash portion of non-controlling interests		(44)	(52)
Funds from operations		347	332
Add: cash portion of non-controlling interests		44	52
Depreciation and amortization	10	(483)	(468)
Unrealized financial instruments gain (loss)	7	(23)	(20)
Loss on Fund unit liability	18	-	(376)
Share of non-cash loss from equity-accounted investments	9	(18)	(13)
Deferred income tax recovery	15	54	50
Other		(16)	(8)
Net loss		$ (95)	$ (451)

The following table presents information about Brookfield Renewable's certain balance sheet items on a segmented basis:

(MILLIONS)	Hydroelectric U.S.	Hydroelectric Canada	Hydroelectric Brazil	Wind energy U.S.	Wind energy Canada	Equity-accounted investments	Other	Total
As at December 31, 2012								
Property, plant and equipment	$ 5,244	$ 5,191	$ 2,526	$ 834	$ 1,410	$ -	$ 453	$ 15,658
Additions to property, plant and equipment	621	85	147	610	14	-	5	1,482
Total assets	5,418	5,386	2,805	910	1,452	344	610	16,925
Total borrowings	1,784	1,126	348	460	629	-	1,772	6,119
Total liabilities	2,993	2,144	556	531	957	-	1,914	9,095
As at December 31, 2011:								
Property, plant and equipment	$ 4,547	$ 4,908	$ 2,626	$ 57	$ 1,343	$ -	$ 464	$ 13,945
Additions to property, plant and equipment	136	46	210	397	2	-	238	1,029
Total assets	5,064	5,139	2,963	97	1,218	405	822	15,708
Total borrowings	1,838	928	645	164	621	-	1,323	5,519
Total liabilities	3,008	2,098	869	176	894	-	1,463	8,508

The following information is about Brookfield Renewable's equity accounted investment:

(MILLIONS)	Hydroelectric U.S.	Hydroelectric Canada	Hydroelectric Brazil	Wind energy U.S.	Wind energy Canada	Other	Total
As at December 31, 2012	$ 196	$ 81	$ 67	$ -	$ -	$ -	$ 344
As at December 31, 2011	$ 169	$ 70	$ 86	$ 80	$ -	$ -	$ 405

25. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Commitments

In the course of its operations, Brookfield Renewable and its subsidiaries has entered into agreements for the use of water, land and dams. Payment under those agreements varies with the amount of power generated. The various agreements are renewable and extend up to 2054.

Brookfield Renewable has recorded decommissioning retirement obligations associated with its power generating assets. Refer to Note 16 – Other long-term liabilities for details.

In December 2012, Brookfield Renewable and certain institutional partners entered into an agreement to acquire a portfolio of 19 hydroelectric generating stations in Maine (United States) from a subsidiary of NextEra Energy Inc. for a total enterprise value of $760 million. Brookfield Renewable will own an approximate 50% interest. The acquisition will add 351 MW of capacity and approximately 1.6 million MWh of average annual generation. Over the next several months, Brookfield Renewable will be working to meet regulatory requirements and other customary closing conditions. Closing and integration efforts will start immediately.

At the balance sheet date, Brookfield Renewable had commitments for future minimum lease payments under non-cancellable leases which fall due as follows:

(MILLIONS)	2013	2014	2015	2016	2017	Thereafter	Total
Operating leases	$ 8	$ 6	$ 6	$ 6	$ 6	$ 53	$ 85
Capital leases	-	-	-	1	1	51	53
Total	$ 8	$ 6	$ 6	$ 7	$ 7	$ 104	$ 138

Contingencies

Brookfield Renewable and its subsidiaries are subject to various legal proceedings, arbitrations and actions arising in the normal course of business. While the final outcome of such legal proceedings and actions cannot be predicted with certainty, it is the opinion of management that the resolution of such proceedings and actions will not have a material impact on Brookfield Renewable's consolidated financial position or results of operations.

Guarantees

Brookfield Renewable, on behalf of Brookfield Renewable's subsidiaries, and subsidiaries of Brookfield Renewable provided letters of credit, which include, but are not limited to, guarantees for debt service reserves, capital reserves, construction completion and performance. The activity on the issued letters of credit by Brookfield Renewable can be found in Note 14: Long-term debt and credit facilities. As at December 31, 2012, letters of credit issued by subsidiaries of Brookfield Renewable amounted to $92 million.

In the normal course of operations, Brookfield Renewable and its subsidiaries execute agreements that provide for indemnification and guarantees to third parties of transactions such as business dispositions, capital project purchases, business acquisitions, and sales and purchases of assets and services. Brookfield Renewable has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents Brookfield Renewable from making a reasonable estimate of the maximum potential amount that Brookfield Renewable could be required to pay third parties as the agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, neither Brookfield Renewable nor its subsidiaries have made significant payments under such indemnification agreements.

26. RESTATEMENT

Brookfield Renewable reflects the Redeemable/Exchangeable Partnership Units issued to Brookfield Asset Management by BRELP as consolidated equity in accordance with IAS 32, *Financial Instruments: Presentation* since Brookfield Renewable can, at its sole discretion, elect to satisfy a redemption request by Brookfield Asset Management of the Redeemable/Exchangeable Partnership Units by issuing an equal number of LP Units (see note 18). Brookfield Renewable elected to change its accounting policy for the Redeemable/Exchangeable Partnership Units that were previously presented as limited partners' equity to be presented as Participating non-controlling interests – in a holding subsidiary – Redeemable/Exchangeable units held by Brookfield since the Redeemable/Exchangeable Partnership Units provide Brookfield Asset Management the direct economic benefits and exposures to the underlying performance of BRELP. These revisions were made in order to better conform with the substance of the ownership interests since on an unexchanged basis the Redeemable/Exchangeable Partnership Units are not held by Brookfield Renewable and provide Brookfield Asset Management with a direct non-controlling interest in BRELP.

This restatement has no impact on the Brookfield Renewable's reported consolidated income (loss), income (loss) per LP Unit, comprehensive income (loss) or total equity. Consistent with the basis of presentation for the Combination (Note 2(b) (ii)), amounts attributed to the Redeemable/Exchangeable Partnership Units prior to the Combination have been calculated as if the Redeemable/Exchangeable Partnership Units and LP Units issued upon the completion of the Combination had always been issued and outstanding. The equity investment held by Brookfield Asset Management prior to the Combination did not contain any similar redeemable or exchangeable features. The impact of this restatement on the consolidated balance sheet, statements of (loss) income, comprehensive income (loss) and changes in equity as at December 31, 2011 and for the year ended December 31, 2011 is shown in the following table. Accumulated other comprehensive income has also been revised to reflect the allocation of amounts to the Redeemable/Exchangeable Partnership Units as at December 31, 2011 of $3,134 million. This restatement has no impact on the consolidated statements of cash flows.

(MILLIONS)	Previously presented	Restated
As at December 31, 2011:		
Consolidated Balance Sheet		
Participating non-controlling interests - in a holding subsidiary		
- Redeemable/Exchangeable units held by Brookfield	$ -	$ 3,127
Limited partners' equity	6,330	3,203
For the year ended December 31, 2011:		
Consolidated Statements of (Loss) Income		
Net loss attributable to:		
Participating non-controlling interests - in a holding subsidiary		
- Redeemable/Exchangeable units held by Brookfield	$ -	$ (235)
Limited partners' equity	(475)	(240)
Consolidated Statements of Comprehensive Income (Loss)		
Comprehensive income attributable to:		
Participating non-controlling interests - in a holding subsidiary		
- Redeemable/Exchangeable units held by Brookfield	$ -	$ 198
Limited partners' equity	401	203
Consolidated Statements of Changes in Equity		
Participating non-controlling interests - in a holding subsidiary		
- Redeemable/Exchangeable units held by Brookfield	$ -	$ 3,127
Limited partners' equity	6,330	3,203

27. SUBSEQUENT EVENTS

On January 18, 2013, Brookfield Renewable announced an increase in unitholder distributions to $1.45 per unit on an annualized basis, an increase of seven cents per unit per year, to take effect during the first quarter distribution payable in April 2013.

On January 22, 2013, Brookfield Renewable issued C$175 million of Class A Preference Shares with fixed, annual cumulative dividends yielding 5%. The net proceeds were used to repay outstanding indebtedness and for general corporate purposes. The shares commenced trading on January 29, 2013 on the Toronto Stock Exchange under the ticker symbol BRF.PR.E.

[On November 26, 2012, the Brookfield Renewable launched an offer to purchase, through an indirect wholly-owned subsidiary, all of the issued and outstanding common shares of Western Wind Energy Corp.("Western Wind") (excluding those the Brookfield Renewable already owns) for C$2.50 in cash per common share, representing a total equity purchase price of approximately C$145 million. Western Wind has 165 MW of wind and solar assets operating in California and Arizona. On January 28, 2013, the Brookfield Renewable increased the offer price to C$2.60 per common share and extended the expiry time of the offer to February 11, 2013. On February 11, 2013, Brookfield Renewable extended the expiring time of the offer to February 21, 2013. The offer will be subject to acceptance by shareholders independent of Brookfield Renewable owning more than 50% of the common shares outstanding and other offer conditions customary in the circumstances. The offer is not supported by the board of Western Wind and there is no assurance that it will be accepted by independent shareholders.]

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Exchange Listing
TSX: BEP.UN (L.P. Units)
[NYSE: BEP.UN (L.P. Units)]
TSX: BRF.PR.A (Preferred shares)
TSX: BRF.PR.C (Preferred shares)
TSX: BRF.PR.E (Preferred shares)

Investor Information

Visit Brookfield Renewable online at *www.brookfieldrenewable.com* for more information. The 2012 Annual Report is also available online. For detailed and up-to-date news and information, please visit the News Press Release section.

Additional financial information is filed electronically with various securities regulators in Canada and United States through SEDAR at www.sedar.com and through EDGAR at www.sec.gov.

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