

Financial Statements

BROOKFIELD POWER CORPORATION

December 31, 2005

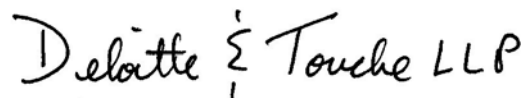
Auditors' Report

To the Shareholder of
Brookfield Power Corporation

We have audited the balance sheets of Brookfield Power Corporation (formerly Brascan Power Corporation) (the "Corporation") as at December 31, 2005 and 2004 and the statements of deficit, operations, and cash flows for the year ended December 31, 2005 and for the period from December 16, 2004 to December 31, 2004. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada
February 9, 2006

BROOKFIELD POWER CORPORATION
BALANCE SHEET
As at December 31

<i>thousands of CDN dollars</i>	Notes	2005	2004
Assets			
<i>Current assets</i>			
Cash		\$ 72	\$ -
Interest receivable	3	1,072	982
Promissory note	3	99,750	-
		100,894	982
Promissory notes	3	447,360	497,110
Deferred financing fees	5	4,137	4,095
Future income tax asset	8	511	14
		\$ 552,902	\$ 502,201
Liabilities and Shareholder's Equity			
<i>Current liabilities</i>			
Interest payable	6	\$ 1,045	\$ 959
Taxes payable		15	23
Due to related parties	4	2,483	1,252
Term debenture	6	100,000	-
		103,543	2,234
Term debentures	6	450,232	500,000
		553,775	502,234
Shareholder's deficit		(873)	(33)
		\$ 552,902	\$ 502,201

See accompanying notes to the financial statements

APPROVED ON BEHALF OF BROOKFIELD POWER CORPORATION



Richard Legault
President and Chief Operating Officer



Donald Tremblay
Executive Vice President and
Chief Financial Officer

BROOKFIELD POWER CORPORATION

STATEMENT OF DEFICIT

<i>thousands of CDN dollars</i>	Year ended December 31, 2005	16 days ended December 31, 2004
Deficit, beginning of period	\$ (33)	\$ -
Net loss for the period	(840)	(33)
Deficit, end of period	\$ (873)	\$ (33)

See accompanying notes to the financial statements

BROOKFIELD POWER CORPORATION

STATEMENT OF OPERATIONS

<i>thousands of CDN dollars</i>	Notes	Year ended December 31, 2005	16 days ended December 31, 2004
Revenues			
Interest	3	\$ 24,291	\$ 982
Expenses			
Interest	6	24,103	959
Amortization of deferred financing fees	5	1,429	47
Other		89	15
		25,621	1,021
		(1,330)	(39)
Income tax expense (recovery)	8		
Current		7	8
Future		(497)	(14)
		(490)	(6)
Net loss		\$ (840)	\$ (33)

See accompanying notes to the financial statements

BROOKFIELD POWER CORPORATION

STATEMENT OF CASH FLOWS

<i>thousands of CDN dollars</i>	Notes	Year ended December 31, 2005	16 days ended December 31, 2004
Operating activities			
Net loss		\$ (840)	\$ (33)
Items not affecting cash			
Amortization of deferred financing fees	5	1,429	47
Amortization of debenture premium	6	(61)	-
Future income taxes		(497)	(14)
Net change in non-cash working capital			
Interest receivable	3	(90)	(982)
Interest payable	4	86	959
Taxes payable		(8)	23
Due to related parties		1,231	1,252
		1,250	1,252
Investing activities			
Purchase of promissory notes	3	(50,000)	(497,110)
		(50,000)	(497,110)
Financing activities			
Issuance of term debentures	6	50,293	500,000
Financing fees paid	5	(1,471)	(4,142)
		48,822	495,858
Increase in cash		72	-
Cash, beginning of period		-	-
Cash, end of period		\$ 72	\$ -
Supplementary information			
Interest paid during period		\$ 24,078	\$ -
Cash taxes paid		\$ 3	\$ -

See accompanying notes to the financial statements

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of CDN dollars, except otherwise specified)

1. NATURE AND DESCRIPTION OF THE COMPANY

Brookfield Power Corporation (the "Corporation"), previously Brascan Power Corporation, was incorporated under the laws of Ontario on June 20, 2002. The activities of the Corporation commenced on December 16, 2004, upon the issuance of the term debentures as described in Note 6.

The Corporation is a wholly owned subsidiary of Brookfield Power Inc. ("BPI"), formerly Brascan Power Inc.

The Corporation has plans to acquire BPI's operating entities. More specifically, under the terms of an offering memorandum, the Corporation is expected to acquire all of the operating entities owned by BPI, including:

- (i) the power generating assets of Great Lakes Power Limited, which is wholly owned by BPI, the 50.1% equity ownership position in Great Lakes Hydro Income Fund, and the 100% equity ownership positions in Lake Superior Power, Valerie Falls Power, Hydro Pontiac Inc., Highvale Power Corporation, Seine River Power Inc., Brookfield Energy Marketing Inc., Brookfield Power US Holding America Co.,; and
- (ii) BPI's incorporated and unincorporated joint venture and partnership interests in Powell River Energy, Pingston Power, and Bear Swamp Power, and a 75% non-controlling residual interest in Louisiana Hydro Power.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The significant accounting policies are summarized below:

Deferred financing fees

Financing costs associated with the offering of term debentures are capitalized as deferred financing fees and are amortized over the term of the financing.

Premium on term debenture

Premiums received on the issue of term debentures are deferred and amortized into income over the term of the debenture.

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of CDN dollars, except otherwise specified)

Income taxes

Income taxes are calculated using the asset and liability method. Temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes give rise to future income tax assets and liabilities. These temporary differences are measured using the tax rates substantively enacted at the balance sheet date.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the period. During the periods presented, management has made estimates and valuation assumptions including accruals and amortization. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from estimates.

Financial instruments

The carrying amount of financial instruments included in current assets and current liabilities approximate fair value due to their short-term nature.

3. PROMISSORY NOTES

On December 16, 2004, BPI issued two subordinated promissory notes to the Corporation. The first subordinated promissory note, for an amount of \$397,360, bears interest at 4.70% per annum payable semi-annually, and matures on December 16, 2009. The second promissory note, for an amount of \$99,750, bears interest at i) for the initial interest period from December 16, 2004 to March 18, 2005, the average of the 90 day bankers' acceptance rate and the 180 day bankers' acceptance rate plus 0.73%; ii) for each interest period following March 18, 2005, the 90 Day Bankers' Acceptance Rate plus 0.73% payable quarterly, and matures on December 18, 2006.

On January 26, 2005, BPI issued an additional \$50,000 subordinated promissory note to the Corporation. The additional promissory note bears interest at 4.70% per annum payable semi-annually and matures on December 16, 2009.

The fair value of the promissory notes as at December 31, 2005 is \$559,866 (2004 - \$497,110) based on current market prices for investments with similar terms and risks.

Interest charged to BPI during the period was \$24,291 (2004 - \$982), of which \$1,072 (2004 - \$982) is classified as interest receivable as at December 31, 2005.

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of CDN dollars, except otherwise specified)

4. RELATED PARTY TRANSACTIONS

A net payable of \$2,483 (2004 - \$1,252) due to BPI and its wholly owned subsidiaries is included in current liabilities. These advances are non-interest bearing, unsecured and are due on demand.

5. DEFERRED FINANCING FEES

The Corporation has incurred \$5,613 (2004 - \$4,142) of financing fees which have been deferred and are being amortized over the term of the underlying debt. Accumulated amortization at December 31, 2005 is \$1,476 (2004 - \$47).

6. TERM DEBENTURES

	2005	2004
Corporate debentures		
Series 1	\$ 450,000	\$ 400,000
Series 2	100,000	100,000
Unamortized premium on Series 1	232	-
	550,232	500,000
Less current portion of term debentures	(100,000)	-
	\$ 450,232	\$ 500,000

The \$450,000 Series 1 Canadian debentures bear interest at 4.65%, payable semi-annually and are due on December 16, 2009. The first offering of the Series 1 debentures was made in December 2004 for \$400,000. The second offering in January 2005 of \$50,000 was issued at a premium of \$293 which is being amortized over the life of the debentures. The total premium amortized to interest expense during the year ended December 31, 2005 was \$61.

The \$100,000 Series 2 Canadian debentures bear interest at Canadian Deposit Offering Rate ("CDOR") plus 68 basis points, payable quarterly and are due on December 18, 2006.

The fair value of the Corporation's term debentures is \$554,203 as at December 31, 2005 (2004 - \$500,000) based on current market prices for debt with similar terms and risks.

The debentures are unconditionally guaranteed by BPI as to the payment of principal, premium, if any, and interest.

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of CDN dollars, except otherwise specified)

7. SHAREHOLDER'S EQUITY

The Corporation is authorized to issue an unlimited number of common shares. As at December 31, 2005 there is 1 common share issued and outstanding.

8. INCOME TAXES

The Corporation's future income tax asset of \$511 is comprised of temporary differences relating to reserves net of unused non-capital losses. The difference between taxes calculated at the statutory rate and those recorded is reconciled as follows:

	2005	2004
Net loss before income tax	\$ (1,330)	\$ (39)
Statutory income tax rate	36%	36%
Statutory income tax rates applied to accounting income	(479)	(14)
Other	(11)	8
Provision for income taxes	\$ (490)	\$ (6)

The Corporation has \$1,892 (2004 - \$820) in non-capital losses which expire in 2014 and 2015 available to offset taxable income in future years. These losses have been recorded as a future income tax asset.

9. CREDIT FACILITY

In April 2005, the Corporation obtained a US \$200,000 revolving unsecured credit facility for general corporate purposes which can be drawn upon in Canadian or US dollars. The credit facility is due on April 29, 2008 and ranks pari passu with all senior unsecured indebtedness of the Company and BPI. The facility bears a floating interest rate and is unconditionally guaranteed by BPI. The guarantee will remain in place until such time as certain conditions with respect to its release are met. As at December 31, 2005, there were no direct borrowings under this credit facility but the Corporation has drawn CDN \$151,000 under this credit facility in the form of letters of credit.

10. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, the Corporation executes agreements that provide for indemnification and guarantees to third parties in transactions such as debt issuances. The nature of substantially all of the indemnification undertakings prevents management from making a reasonable estimate of the maximum potential amount the Corporation could be required to pay third parties as the agreements do not specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time.

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(in thousands of CDN dollars, except otherwise specified)

11. FINANCIAL INSTRUMENTS

Fair Value

The carrying amount of the Corporation's financial instruments included in current assets and current liabilities approximate fair value due to their short-term nature.

Credit risk

The Corporation is exposed to credit-related losses in the event of non-performance by a counterparty. BPI, the guarantor of the Corporation's debt, has investment grade issuer ratings which significantly reduces their credit risk.

Interest rate risk

The Corporation's long-term debt bears fixed and variable interest rates. Consequently, there is a cash flow exposure on the Series 2 debentures.