

Financial Statements

BROOKFIELD POWER CORPORATION

December 31, 2007

Auditors' Report

To the Shareholder of
Brookfield Power Corporation

We have audited the balance sheets of Brookfield Power Corporation (the "Company") as at December 31, 2007 and 2006 and the statements of deficit, loss and comprehensive loss, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"Deloitte & Touche LLP"

Chartered Accountants
Licensed Public Accountants
January 30, 2008

BROOKFIELD POWER CORPORATION
BALANCE SHEETS
As at December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Assets			
Current assets			
Cash		\$ 501	\$ 72
Accounts receivable and other		33	12
Interest receivable	4	3,931	4,095
Derivative asset	8	-	4,873
		4,465	9,052
Promissory notes from Brookfield Power Inc.	4	795,595	795,595
Deferred financing fees	6	305	5,346
Future income tax asset	10	1,487	1,216
		\$ 801,852	\$ 811,209
Liabilities and Shareholder's Deficit			
Current liabilities			
Accounts payable and other		\$ 194	\$ 269
Interest payable		3,924	4,141
Due to related parties	5	5,368	4,325
Derivative liability	8	-	4,873
		9,486	13,608
Long-term debt	7	795,948	800,059
		805,434	813,667
Shareholder's deficit	9	(3,582)	(2,458)
		\$ 801,852	\$ 811,209

See accompanying notes to the financial statements.

APPROVED ON BEHALF OF BROOKFIELD POWER CORPORATION

/s/ Richard Legault
Richard Legault
Director

/s/ Harry A. Goldgut
Harry A. Goldgut
Director

BROOKFIELD POWER CORPORATION
STATEMENTS OF DEFICIT
Years ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Deficit, beginning of year		\$ (2,458)	\$ (873)
Transitional adjustment for financial instruments	3	78	-
Net loss for the year		(1,202)	(1,585)
Deficit, end of year		\$ (3,582)	\$ (2,458)

See accompanying notes to the financial statements.

BROOKFIELD POWER CORPORATION
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
Years ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Revenues			
Interest	4	\$ 40,410	\$ 28,811
Expenses			
Interest	7	41,628	29,303
Amortization of deferred financing fees	6	230	1,506
Other		72	292
		41,930	31,101
		(1,520)	(2,290)
Income tax recovery			
Current		(8)	-
Future		(310)	(705)
	10	(318)	(705)
Net loss and comprehensive loss		\$ (1,202)	\$ (1,585)

See accompanying notes to the financial statements.

BROOKFIELD POWER CORPORATION
STATEMENTS OF CASH FLOWS
Years ended December 31

<i>thousands of CDN dollars</i>	Notes	2007	2006
Operating activities			
Net loss		\$ (1,202)	\$ (1,585)
Items not affecting cash			
Amortization of deferred financing fees	6	230	1,506
Non-cash interest	7	851	(58)
Derivative asset	8	3,006	(4,873)
Derivative liability	8	(3,006)	4,873
Future income taxes		(310)	(705)
		(431)	(842)
Net change in non-cash working capital			
Accounts receivable and other		(21)	(12)
Derivative asset	8	1,867	-
Derivative liability	8	(1,867)	-
Interest receivable		164	(3,023)
Accounts payable and other		(75)	254
Interest payable		(217)	3,096
		(149)	315
		(580)	(527)
Investing activities			
Repayment of promissory note		-	99,750
Purchase of promissory note		-	(348,235)
		-	(248,485)
Financing activities			
Repayment of term debentures		-	(100,000)
Issuance of medium term notes		-	349,885
Due to related parties		1,043	1,842
Financing fees paid	6,7	(34)	(2,715)
		1,009	249,012
Increase in cash		429	-
Cash, beginning of year		72	72
Cash, end of year		\$ 501	\$ 72
Supplementary information			
Interest paid		\$ 40,994	\$ 26,266
Cash taxes paid		47	41

See accompanying notes to the financial statements.

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars, except where otherwise specified)

1. NATURE AND DESCRIPTION OF THE COMPANY

Brookfield Power Corporation (the "Company") was incorporated under the laws of Ontario on June 20, 2002. The activities of the Company commenced on December 16, 2004, upon issuance of term debentures.

The Company is a wholly owned subsidiary of Brookfield Power Inc. ("BPI"). The Company intends to amalgamate with BPI, which is expected to occur by the end of the first quarter of 2008.

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 Company's credit facility are capitalized as deferred financing fees and amortized over the term of the financing.

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 years presented, management has made estimates and valuation assumptions in the determination of accruals, amortization and future income tax assets. 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.

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

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3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the following new accounting standards consistent with Canadian generally accepted accounting principles:

Handbook Section 1530, Comprehensive Income

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

Handbook Section 3251, Equity

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

Handbook Section 3855, Financial Instruments – Recognition and Measurement

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

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

(in thousands of CDN dollars, except where otherwise specified)

The Company has implemented the following classifications:

Cash is designated as a financial asset held-for-trading and is measured at fair value through net income at each period end.

Accounts receivable and other, interest receivable and the promissory notes from BPI are classified as loans and receivables. Accounts payable and other, interest payable and due to related parties are classified as other financial liabilities. These accounts are measured at fair value at inception and are subsequently measured at amortized cost.

Long-term debt is classified as other financial liabilities. After its initial fair value measurement, it is measured at amortized cost using the effective interest method.

Starting January 1, 2007, the Company began using the effective interest method to amortize its deferred financing fees, debt premiums and discounts; previously, these amounts were amortized on a straight-line basis over the term of the related financing.

Deferred financing fees related to the Company's available credit facility continue to be presented separately on the balance sheet and are being amortized on a straight-line basis over the remaining term of the credit facility.

The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative at its fair value with subsequent changes in fair value recorded in net income. This standard, as it relates to embedded derivatives, had no impact on the financial statements of the Company.

The adoption of this section was done retroactively without restatement of the financial statements of prior periods. As at January 1, 2007, the impact on the financial statements of measuring the financial assets and liabilities using the effective interest method and reclassifying the deferred financing fees directly attributable to the issuance of the long-term debt is summarized in the table below:

	December 31, 2006	January 1, 2007	Net Financial Impact
Long-term debt	\$ (800,059)	\$ (795,131)	\$ 4,928
Deferred financing fees	5,346	535	(4,811)
Future income tax asset	1,216	1,177	(39)
Shareholder's deficit (net of tax impact)	2,458	2,380	(78)

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Handbook Section 3865, Hedges

This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and is recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive (loss) income. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income ("AOCI") will be reclassified to net income in the periods in which the net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive (loss) income. There was no impact on the adoption of this new standard on the Company's financial statements as at January 1, 2007.

Future Accounting Policy Changes

On December 1, 2006, the Accounting Standards Board issued three new accounting standards: Handbook Section 1535, Capital Disclosures, Handbook Section 3862, Financial Instruments – Disclosures, and Handbook Section 3863, Financial Instruments – Presentation. These new standards will be effective for the Company on January 1, 2008.

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

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

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

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

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4. PROMISSORY NOTES

Issuer	Maturity	Interest rates	2007	2006
Brookfield Power Inc.	December 16, 2009	4.70%	\$ 397,360	\$ 397,360
Brookfield Power Inc.	December 16, 2009	4.70%	50,000	50,000
Brookfield Power Inc.	November 5, 2018	5.30%	199,028	199,028
Brookfield Power Inc.	November 5, 2036	5.89%	149,207	149,207
			\$ 795,595	\$ 795,595

Interest on outstanding promissory notes is receivable on a semi-annual basis.

The fair value of the promissory notes as at December 31, 2007 is \$793,972 (2006 - \$799,452) based on current market prices for investments with similar terms and risks.

Interest charged to BPI during the year was \$40,410 (2006 - \$28,811), of which \$3,931 (2006 - \$4,095) is classified as interest receivable as at December 31, 2007.

5. RELATED PARTY TRANSACTIONS

A net payable of \$5,368 (2006 - \$4,325) due to BPI and its wholly owned subsidiaries is included in current liabilities. These amounts are non-interest bearing, unsecured and are due on demand.

6. DEFERRED FINANCING FEES

	2007	2006
Cost	\$ 902	\$ 8,328
Accumulated amortization	(597)	(2,982)
Net book value	\$ 305	\$ 5,346

As of January 1, 2007, unamortized deferred financing fees totalling \$4,811 were netted against their respective debts in order to comply with new accounting standards. All remaining deferred financing fees on the Company's balance sheet are related to the credit facility. See notes 3 and 7 for more detail.

Amortization of deferred financing fees on the Company's credit facility totalled \$230 in 2007 (2006 - \$222). In 2006, the Company amortized \$1,284 related to the deferred financing fees that were reclassified to debt on January 1, 2007.

During the year, the Company did not incur any deferred financing fees related to the credit facility (2006 - \$257).

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NOTES TO FINANCIAL STATEMENTS

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7. LONG-TERM DEBT

	Maturity	Notional Value	2007	2006
Term Debentures				
Series 1 - 4.65%	December 16, 2009	\$ 450,000	\$ 448,436	\$ 450,173
Medium-Term Notes				
Series 3 - 5.25%	November 5, 2018	200,000	198,650	199,929
Series 4 - 5.84%	November 5, 2036	150,000	148,862	149,957
		\$ 800,000	\$ 795,948	\$ 800,059

During the year, the Company incurred \$34 in deferred financing fees related to the medium-term notes (2006 - \$2,458).

The fair value of the Company's long-term debt is \$790,114 as at December 31, 2007 (2006 - \$802,184) based on current market prices.

The debentures and notes are unconditionally guaranteed by BPI as to the payment of principal and interest.

Included in the Company's interest expense are the following:

	2007	2006
Interest on term debentures and medium-term notes	\$ 40,180	\$ 28,747
Amortization of deferred financing fees	904	-
Stand-by fees on credit facility	597	614
Amortization of premium	(58)	(59)
Amortization of discount	5	1
	\$ 41,628	\$ 29,303

8. DERIVATIVE FINANCIAL INSTRUMENTS

In 2006, the Company entered into forward-starting interest rate swap agreements with major financial institutions on behalf of a subsidiary of BPI, with the intention of locking in a fixed interest rate on the anticipated issuance of long-term debt to finance the wind power facility operating in Northern Ontario. On the same date, the Company entered into offsetting forward-starting interest rate swap agreements with the subsidiary of BPI that anticipated issuing the fixed rate debt. As at December 31, 2006, the Company had an offsetting derivative asset and derivative liability of \$4,873.

During 2007, due to changes in the financing strategy related to the anticipated debt issuance by a subsidiary of BPI, the Company first replaced and then terminated all forward-starting interest rate swap agreements. As a result of these transactions, the Company received a total cash settlement of \$1,867 from third parties, which was offset

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by a net cash payment of \$1,867 to the subsidiary of BPI. The Company realized offsetting gains and losses related to these transactions totalling \$3,006. The net impact on the Company's statements of loss and comprehensive loss was \$nil.

As at December 31, 2007, there were no derivative financial instruments held by the Company.

9. SHAREHOLDER'S DEFICIT

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2007 and 2006, there was 1 common share issued and outstanding.

10. INCOME TAXES

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

	2007	2006
Net loss before income tax	\$ (1,520)	\$ (2,290)
Statutory income tax rate	36%	36%
Statutory income tax rates applied to accounting losses	(547)	(824)
Impact of rate change	147	72
Other	82	47
Income tax recovery	\$ (318)	\$ (705)

The Company's future income tax asset of \$1,487 (2006 - \$1,216) is comprised of the following tax affected temporary differences:

	2007	2006
Non-capital losses	\$ 1,902	\$ 1,421
Other temporary differences	(415)	(205)
	\$ 1,487	\$ 1,216

The Company has \$6,559 (2006 - \$4,305) in non-capital losses which expire as follows:

2014	\$ 820
2015	1,072
2026 and after	4,667
	\$ 6,559

BROOKFIELD POWER CORPORATION

NOTES TO FINANCIAL STATEMENTS

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(in thousands of CDN dollars, except where otherwise specified)

11. CREDIT FACILITY

The Company has a US \$350,000 revolving unsecured credit facility for general corporate purposes which can be drawn upon in Canadian or US dollars. The credit facility agreement expires in April 2009 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, 2007, there were no direct borrowings under this credit facility but the Company has issued letters of credit totalling US \$134,849 (2006 – US \$117,082).

12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of operations, the Company 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 Company 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.

13. FINANCIAL INSTRUMENTS

Financial instruments

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

Credit risk

The Company is exposed to credit-related losses in the event of non-performance by a counterparty, BPI, on the promissory notes issued. BPI has investment grade issuer ratings, which significantly reduces the Company's credit risk.

Interest rate risk

The Company is not exposed to interest rate risk due to the fact that all long-term debt and promissory notes bear interest at fixed rates.