Financial Statements

BROOKFIELD POWER CORPORATION

September 30, 2007
(unaudited)

BROOKFIELD POWER CORPORATION
BALANCE SHEETS

(unaudited) *thousands of CDN dollars*	Notes		**September 30 2007**		December 31 2006
Assets					
Current assets					
Cash		**$**	**-**	$	72
Accounts receivable and other			**46**		12
Interest receivable			**13,976**		4,095
Derivative asset	4		**3,510**		4,873
			17,532		9,052
Promissory notes from Brookfield Power Inc.			**795,595**		795,595
Deferred financing fees	3		**363**		5,346
Future income tax asset	3		**1,538**		1,216
		$	**815,028**	$	811,209
Liabilities and Shareholder's Deficit					
Current liabilities					
Bank indebtedness		**$**	**24**	$	-
Accounts payable and other			**154**		269
Interest payable			**13,909**		4,141
Due to related parties			**4,808**		4,325
Derivative liability	4		**3,510**		4,873
			22,405		13,608
Long-term debt	3		**795,762**		800,059
			818,167		813,667
Shareholder's deficit	3		**(3,139)**		(2,458)
		$	**815,028**	$	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

(unaudited) *thousands of CDN dollars*	Notes		**Three months ended September 30** **2007**		2006		**Nine months ended September 30** **2007**		2006
Deficit, beginning of period		**$**	**(2,958)**	$	(1,481)	**$**	**(2,458)**	$	(873)
Transitional adjustment for financial instruments	3		**-**		-		**78**		-
Net loss for the period			**(181)**		(483)		**(759)**		(1,091)
Deficit, end of period		**$**	**(3,139)**	$	(1,964)	**$**	**(3,139)**	$	(1,964)

See accompanying notes to the financial statements.

BROOKFIELD POWER CORPORATION
STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(unaudited) *thousands of CDN dollars*		Three months ended September 30 **2007**		2006		Nine months ended September 30 **2007**		2006
Revenues								
Interest	**$**	**10,119**	$	6,574	**$**	**30,195**	$	19,273
Expenses								
Interest		**10,430**		6,862		**31,207**		19,584
Amortization of deferred financing fees		**58**		380		**172**		1,119
Other		**(75)**		49		**(64)**		130
		10,413		7,291		**31,315**		20,833
		(294)		(717)		**(1,120)**		(1,560)
Income tax recovery								
Future		**(113)**		(234)		**(361)**		(469)
Net loss and comprehensive loss	**$**	**(181)**	$	(483)	**$**	**(759)**	$	(1,091)

See accompanying notes to the financial statements.

BROOKFIELD POWER CORPORATION
STATEMENTS OF CASH FLOWS

(unaudited) *thousands of CDN dollars*	Three months ended September 30 **2007**	2006	Nine months ended September 30 **2007**	2006
Operating activities				
Net loss	**$ (181)**	$ (483)	**$ (759)**	$ (1,091)
Items not affecting cash				
Amortization of deferred financing fees	**58**	380	**172**	1,119
Non-cash interest	**216**	(15)	**665**	(44)
Derivative asset	**(317)**	5,986	**(5,161)**	(4,858)
Derivative liability	**317**	(5,986)	**5,161**	4,858
Future income taxes	**(113)**	(234)	**(361)**	(469)
	(20)	(352)	**(283)**	(485)
Net change in non-cash working capital				
Accounts receivable and other	**(15)**	19	**(34)**	(28)
Derivative asset	**6,524**	-	**6,524**	-
Derivative liability	**(6,524)**	-	**(6,524)**	-
Interest receivable	**(10,120)**	(5,288)	**(9,881)**	(5,262)
Accounts payable and other	**(75)**	183	**(115)**	201
Interest payable	**10,075**	5,392	**9,768**	5,379
	(135)	306	**(262)**	290
	(155)	(46)	**(545)**	(195)
Financing activities				
Due to related parties	**(4)**	475	**483**	768
Financing fees paid	**-**	(243)	**(34)**	(499)
	(4)	232	**449**	269
(Decrease) increase in cash	**(159)**	186	**(96)**	74
Cash (bank indebtedness), beginning of period	**135**	(40)	**72**	72
(Bank indebtedness) cash, end of period	**$ (24)**	$ 146	**$ (24)**	$ 146
Supplementary information				
Interest paid	**$ 139**	$ 1,485	**$ 20,774**	$ 14,249
Cash taxes paid	**14**	4	**47**	41

See accompanying notes to the financial statements.

BROOKFIELD POWER CORPORATION
NOTES TO FINANCIAL STATEMENTS
September 30, 2007
(unaudited)

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").

2. BASIS OF PRESENTATION

The Company's unaudited interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to interim financial statements. All amounts are reported in thousands of Canadian dollars, except as otherwise noted. These unaudited interim financial statements should be read in conjunction with the 2006 annual audited financial statements.

These unaudited interim financial statements have been prepared on a basis consistent with the disclosed audited financial statements for the fiscal year ended December 31, 2006, with the exception of the changes in accounting policies described in note 3.

The preparation of these unaudited interim financial statements requires management to make assumptions and estimates that affect the amounts reported in the financial statements and the notes. Actual results could differ from these estimates. The results reported in these financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

3. CHANGES IN ACCOUNTING POLICIES

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

Handbook Section 1530, Comprehensive Income

This section establishes standards for reporting and presenting comprehensive (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.

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, interest receivable and the promissory notes from BPI are classified as loans and receivables. Accounts payable, 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. Due to their short-term nature, amortized cost approximates fair value.

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

Starting January 1, 2007, the Company is now using the effective interest method to amortize its deferred financing fees; 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 the statement of loss and comprehensive loss 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)

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 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.

4. DERIVATIVE FINANCIAL INSTRUMENTS

On August 22, 2007, due to changes in the timing of the anticipated debt issuance by a subsidiary of BPI, the Company terminated the forward-starting interest rate swap agreements entered into with major financial institutions in March 2006. Simultaneously, the Company terminated the offsetting agreements with the subsidiary of BPI that anticipates issuing the fixed rate debt. As a result of these transactions, the Company received a total cash settlement of $6,524 from third parties, which was recorded as a gain on the statements of loss and comprehensive loss. This gain was offset by a cash payment of $6,524 to the Company's related party, with a corresponding charge on the statements of loss and comprehensive loss. The net impact on the Company's statements of loss and comprehensive loss was $nil.

Also on August 22, 2007, the Company entered into new forward-starting interest rate swap agreements with major financial institutions on behalf of the same subsidiary of BPI, which does not currently maintain the necessary credit facilities to execute agreements of this nature. The agreements, which have a notional amount totalling $300,000, are intended to lock in a fixed rate on the issuance of long-term debt to finance a wind farm operating in Northern Ontario.

On that same day, the Company entered into new offsetting forward-starting interest rate swap agreements with the subsidiary of BPI that anticipates issuing the fixed rate debt. As a result of these offsetting positions, the Company will pay to or receive from its related party amounts that exactly offset its rights and obligations under the forward-starting interest rate swaps with the third party financial institutions.

As of September 30, 2007, the fair value of the new swaps with third parties of ($3,510) was recognized as a derivative liability with the corresponding loss reflected in net loss. At the same time, the fair value of the swaps with a related party of $3,510 was recognized as a derivative asset with the corresponding gain reflected in net loss. The net impact of the revaluation of all swaps on the Company's statements of loss and comprehensive loss for the period ended September 30, 2007 was $nil.

5. 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 is due 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 September 30, 2007, there were no direct borrowings under this credit facility but the Company has issued letters of credit totalling USD $141,176 (2006 – USD $117,036).

6. COMPARATIVE FIGURES

Certain of the prior period's figures have been reclassified to conform to the 2007 presentation.