CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2007
(Unaudited)

Brookfield Power Inc. is a subsidiary of Brookfield Asset Management Inc., and provides certain guarantees for the operations and debt of Brookfield Power Corporation.

BROOKFIELD POWER INC.
CONSOLIDATED BALANCE SHEETS

(unaudited) *$ millions*	note	**March 31 2007**	December 31 2006
Assets			
Current assets			
Cash and cash equivalents	5	**$ 95**	$ 81
Accounts receivable and other		**251**	202
Derivative assets	10	**46**	19
Short-term investments		**158**	154
		550	456
Due from related party		**691**	686
Long-term investments		**161**	159
Power generating assets	4	**3,702**	3,623
Derivative and other assets	4, 6, 10	**1,001**	948
		$ 6,105	$ 5,872
Liabilities			
Current liabilities			
Accounts payable and other		**$ 201**	$ 170
Derivative liabilities	10	**92**	19
Credit facilities		**261**	249
Due to related party		**11**	1
Current portion of property specific borrowings and other long-term debt		**38**	37
		603	476
Due to related party		**107**	104
Property specific borrowings		**1,711**	1,729
Other long-term debt		**1,536**	1,531
Future income tax liability		**154**	167
Derivative and other long-term liabilities	7, 10	**221**	103
Debt portion of capital securities		**1,103**	1,104
		5,435	5,214
Non-controlling interests		**305**	249
Shareholder's equity	8	**365**	409
		$ 6,105	$ 5,872

See accompanying notes to the consolidated financial statements.

Approved on behalf of Brookfield Power Inc.:

/s/ Richard Legault
Richard Legault
President and
Chief Operating Officer

/s/ Donald Tremblay
Donald Tremblay
Executive Vice-President and
Chief Financial Officer

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF INCOME

(unaudited) *$ millions*	note		Three months ended March 31 **2007**		2006
Revenues		**$**	**257**	$	261
Operating expenses					
Operations, maintenance and administration			**42**		37
Fuel and power purchases			**16**		13
Property and other generation taxes			**17**		15
Net operating income			**182**		196
Investment income and other			**6**		8
Unrealized derivative (loss) gain	10		**(18)**		1
			170		205
Expenses					
Interest and financing fees			**66**		58
Interest on capital securities			**31**		31
Depreciation and amortization			**36**		29
Non-controlling interests			**9**		8
Provision for income taxes			**9**		22
			151		148
Net income		**$**	**19**	$	57

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(unaudited)	Three months ended March 31	
$ millions	**2007**	2006
Net income	**$ 19**	$ 57
Other comprehensive loss:		
Unrealized foreign currency translation gains (losses) of self-sustaining foreign operations	**6**	(6)
Net unrealized (losses) gains on hedges of investments in self-sustaining foreign operations	**(6)**	5
Unrealized foreign currency translation losses, net of hedging activities	**-**	(1)
Unrealized net losses on derivatives designated as cash flow hedges, net of income taxes of $8	**(18)**	-
Recognition in income of gains on derivatives designated as cash flow hedges in prior periods, net of income taxes of $3	**(6)**	-
Change in unrealized net losses on derivatives designated as cash flow hedges	**(24)**	-
Other comprehensive loss	**(24)**	(1)
Comprehensive (loss) income	**$ (5)**	$ 56

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE LOSS

(unaudited) *$ millions*	note	Three months ended March 31 **2007**	 2006
Accumulated other comprehensive loss, beginning of period		**$ (55)**	$ (53)
Transitional adjustment for financial instruments	3	**(1)**	-
Other comprehensive loss		**(24)**	(1)
Accumulated other comprehensive loss, end of period	8	**$ (80)**	$ (54)

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF DEFICIT

(unaudited) *$ millions*	note	Three months ended March 31 **2007**	 2006
Deficit, beginning of period, as previously reported		**$ (162)**	$ (215)
Transitional adjustment for financial instruments	3	**(27)**	-
Net income		**19**	57
Distributions to holders of common shares and capital securities		**(13)**	(13)
Deficit, end of period	8	**$ (183)**	$ (171)

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited) *$ millions*	note		Three months ended March 31 **2007**		2006
Operating activities					
Net income		**$**	**19**	$	57
Add (deduct) non-cash items					
Depreciation and amortization			**36**		29
Unrealized derivative loss (gain)			**18**		(1)
Non-controlling interests			**9**		8
Future income taxes			**7**		17
Other			**7**		3
			96		113
Net change in non-cash working capital	9		**(16)**		23
			80		136
Financing activities and shareholder distributions					
Borrowings			**8**		-
Debt repayments			**(6)**		(4)
Due to related party			**10**		(72)
Distributions:					
- To non-controlling interest			**(7)**		(7)
- To common shareholders and holders of capital securities			**(13)**		(13)
			(8)		(96)
Investing activities					
Change in demand deposits			**-**		111
Additions to long-term investments			**-**		(14)
Additions to power generating assets			**(20)**		(43)
Acquisitions of power generating assets	4		**(16)**		-
Acquisition of businesses	4		**(3)**		(74)
Other assets			**(20)**		(2)
			(59)		(22)
Effect of foreign exchange rate changes on cash and cash equivalents			**1**		(1)
Cash and cash equivalents					
Increase			**14**		17
Balance, beginning of period			**81**		100
Balance, end of period		**$**	**95**	$	117
Supplementary information					
Interest paid		**$**	**49**	$	45
Taxes paid		**$**	**5**	$	3

See accompanying notes to the consolidated financial statements.

BROOKFIELD POWER INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007
(Unaudited)

1. NATURE AND DESCRIPTION OF THE COMPANY

Brookfield Power Inc. (the "Company") is incorporated under the laws of Ontario and develops and operates hydroelectric, wind and other power generating facilities in Canada and the United States and a transmission and distribution system in Northern Ontario. The Company is wholly owned by Brookfield Asset Management Inc. ("Brookfield").

2. SUMMARY OF ACCOUNTING POLICIES

The Company's unaudited interim consolidated financial statements have been presented in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements. All figures are reported in United States dollars, unless otherwise noted. These unaudited interim consolidated financial statements should be read in conjunction with the 2006 annual audited consolidated financial statements.

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the interim consolidated financial statements and the accompanying notes. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments (which include normal, recurring adjustments) that are necessary to state fairly the results for the periods presented. During the periods presented, management has made a number of estimates and valuation assumptions in the determination of accruals, levelized accounting, valuation of derivatives, useful lives, asset impairment, future income tax liabilities, purchase price allocations and pension amounts. Actual results could differ from these estimates and the results reported for the interim periods presented are not necessarily indicative of results that may be expected for the full year.

Bear Swamp Power Co. LLC ("Bear Swamp"), through both of its partners, signed a 15 year agreement to supply the Long Island Power Authority with capacity and energy as described in note 12. As a result of this contract and its related derivatives, Bear Swamp, a 50% joint venture, is now fully consolidated by the Company as of March 23, 2007.

These unaudited interim consolidated financial statements have been prepared on a basis consistent with the accounting policies disclosed in the consolidated financial statements for the fiscal year ended December 31, 2006, except for the full consolidation of Bear Swamp as described above and the changes in accounting policies described in note 3 to these unaudited interim consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, the Company adopted the following accounting policies in accordance 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.

Accordingly, the Company now presents a consolidated statement of comprehensive (loss) income and includes accumulated other comprehensive loss (AOCL) as a component of shareholder's equity. The comparative statements are restated to reflect the application of this section for the presentation of the changes in the balances for foreign currency translation of self-sustaining foreign operations, formerly presented as cumulative translation adjustment.

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 the reporting period as a result of application of Section 1530, Comprehensive income.

Handbook Section 3855, *Financial Instruments – Recognition and Measurement*

Under this standard, all financial instruments are classified as one of the following categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale financial assets or other financial liabilities. 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. Available-for-sale 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 and cash equivalents are designated as financial assets held for trading and are measured at fair value through net income at each period end.

Short-term investments and long-term investments are classified as available-for-sale and will thus be recorded at fair value with changes in fair value recorded through comprehensive (loss) income at each period end when the active quoted market information is readily determinable. Where market information is not readily determinable, the investments will be presented at cost.

Accounts receivable and other and due from related party are classified as loans and receivables and accounts payable and other and due to related party are classified as other financial liabilities and each 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.

Credit facilities, property specific borrowings, other long-term debt, other long-term liabilities and debt portion of capital securities are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

All derivatives are recorded on the balance sheet at fair value. Fair value adjustments on these instruments will be included in net income, unless the instruments are designated as part of a cash flow hedge relationship, in which case they will be reported in comprehensive (loss) income. Gains and losses related to hedge ineffectiveness will be included in net income.

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. There was no impact on the consolidated interim financial statements with respect to this item.

The adoption of this Section was done prospectively to the consolidated financial statements, with the exception of the presentation of the changes in the balances for foreign currency translation of self-sustaining foreign operations, formerly presented as cumulative translation adjustment. As at January 1, 2007, the effect on the consolidated financial statements of measuring the financial assets and liabilities using the effective interest method, reclassifying the deferred financing fees directly attributable to the issuance of the property specific borrowings and other long-term debt, and the valuing of all derivative contracts, assets available for sale, and certain power purchase agreements is summarized in the table below:

$ millions	December 31 2006	January 1 2007	Net Impact
Derivative assets - current	$ 19	$ 41	$ 22
Short-term investments	154	156	2
Derivative and other assets – deferred financing fees	48	18	(30)
Derivative and other assets	900	907	7
Long-term investments	159	161	2

$ millions	December 31 2006	January 1 2007	Net Impact
Derivative liabilities - current	(19)	(44)	(25)
Property specific debt	(1,755)	(1,727)	28
Other long-term debt	(1,542)	(1,538)	4
Derivative and other long-term liabilities	(103)	(148)	(45)
Future income tax liability	(167)	(160)	7
Accumulated other comprehensive loss	-	56	56
Deficit	162	189	27
Cumulative translation adjustment	55	-	(55)

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 AOCL 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.

4. ACQUISITIONS

All acquisitions that represent business combinations have been accounted for using the purchase method of accounting and the results of their operations have been included in these consolidated interim financial statements from the date of acquisition.

On February 14, 2007, the Company purchased two run-of-the-river hydroelectric generating facilities located on the Raquette River in Potsdam, New York for cash consideration of $16 million. The two hydroelectric facilities have a combined capacity of 6 MW and are capable of generating approximately 35 GWhs of hydroelectricity per year. All generation will be sold under a long-term power purchase agreement expiring in 2018, which includes a fixed rate until August 2008 and a floating price thereafter.

The preliminary assignment of fair values to the net assets acquired was as follows:

$ millions	
Power generating assets	$ **17**
Other assets	**(1)**
Net assets acquired	$ **16**

On February 27, 2007, the Company acquired an interest in a development project to build a 10 MW hydroelectric generating facility in St. Anthony Falls, Minnesota for cash consideration of $3 million. The preliminary assignment of the purchase price is to other assets. All power produced by the facility will be sold under a contract expiring in 2029. Construction of the project has begun and is expected to be completed in 2008.

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were composed of the following:

$ millions	**March 31 2007**	December 31 2006
Cash	**$ 81**	$ 61
Short-term deposits	**14**	20
	$ 95	$ 81

6. DERIVATIVE AND OTHER ASSETS

Derivative and other assets were composed of the following:

$ millions	**March 31 2007**	December 31 2006
Derivative assets	**$ 72**	$ 3
Other assets	**929**	945
	$ 1,001	$ 948

7. DERIVATIVE AND OTHER LONG-TERM LIABILITIES

Derivative and other liabilities were composed of the following:

$ millions	**March 31 2007**	December 31 2006
Derivative liabilities	**$ 121**	$ 4
Other long-term liabilities	**100**	99
	$ 221	$ 103

8. SHAREHOLDER'S EQUITY

The Company is authorized to issue an unlimited number of common shares, of which 101,512,218 were issued and outstanding as at March 31, 2007 (2006 – 101,512,218):

$ millions	**March 31 2007**	December 31 2006
Common shares	**$ 422**	$ 422
Deficit	**(183)**	(162)
Contributed surplus	**200**	199
Accumulated other comprehensive loss	**(80)**	(55)
	359	404
Equity component of capital securities	**6**	5
	$ 365	$ 409

The Company is authorized to issue an unlimited number of preferred shares, none of which were outstanding as at March 31, 2007 or December 31, 2006.

9. CHANGE IN NON-CASH WORKING CAPITAL

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

	Three months ended March 31	
$ millions	**2007**	2006
Accounts receivable and other	**$ (64)**	$ 16
Accounts payable and other	**52**	7
Effect of foreign exchange	**(4)**	-
	$ (16)	$ 23

10. FINANCIAL RISK MANAGEMENT

The Company uses derivative financial instruments including commodity and interest rate swaps, commodity options and forward commodity and forward foreign exchange contracts in order to manage risk. Derivative financial instruments involve credit and market risk.

(a) Commodity price

The Company enters into energy derivative contracts primarily to manage the price risk associated with the sale of generated power at spot prices. The Company also enters into gas derivative contracts for the sale of gas purchased under long-term contracts that is not required in its operations. At the hedge's inception and on an ongoing basis, the Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

At March 31, 2007, the current and long-term portions of the fair value of the commodity swap assets, included in derivative assets, was $46 million and $72 million, respectively (2006 - $19 million and $3 million, respectively) and the current and long-term portions of the fair value of the commodity swap liabilities, included in derivative liabilities, was $89 million and $121 million, respectively (2006 - $19 million and $4 million, respectively). At December 31, 2006, only the non-hedging portion of the Company's commodity derivatives was recorded on the balance sheet.

For the period ended March 31, 2007, the Company's unrealized derivative loss of $18 million included $17 million related to the change in value of the Company's outstanding commodity derivatives (Q1 2006 - $1 million gain) and $1 million related to the ineffectiveness of hedging contracts (Q1 2006 - $nil). The loss included in other comprehensive loss for the period related to the Company's commodity derivatives and the recognition to income of prior period gains or losses was $26 million net of tax (Q1 2006 - $nil).

The Company's derivatives are composed of financial contracts that are in place to economically hedge physical generation in future months and also the 15-year contract with LIPA and a long-term power purchase agreement with an affiliate of Brookfield that were both determined to be non-financial derivatives.

As the power purchase agreements with LIPA and the Brookfield affiliate are derivatives, they are recorded at fair value and are included in the aforementioned commodity swap assets and liabilities, with fluctuations in fair value included in the $18 million unrealized derivative loss discussed above. The resulting impact on the financial statements related to these two power purchase agreements is as follows:

$ millions	**March 31, 2007**
Derivative assets – current	$ 4
Derivative assets – long-term	23
Derivative liabilities – current	(18)
Derivative liabilities – long-term	(56)
Deficit - transitional adjustment for financial instruments	33
Unrealized derivative loss	(14)

(b) Interest rate

On March 22, 2006, the Company entered into forward-starting interest rate swaps with a notional amount totalling $300 million to hedge the interest rate risk associated with the anticipated issuance of fixed rate debt. At March 31, 2007, the amount included in short-term derivative liability is $3 million (2006 – $nil). For the period ended March 31, 2007, the gain included in other comprehensive loss related to the interest rate swaps was $2 million net of tax (Q1 2006 - $nil).

(c) Foreign exchange

Derivatives that are not designated in an eligible hedge relationship are carried at fair value with changes in fair value recorded in earnings in the period in which they occur. Changes in fair value represent the difference between the market value at the measurement date and the notional amount of the contract. As at March 31, 2007, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $4 million (2006 - $4 million) and a nominal amount was included in net income for the period (Q1 2006 - $nil).

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

11. SEGMENTED INFORMATION

The Company operates high quality hydroelectric generating assets located in Canada and the United States with operations in six power markets across North America: Ontario, Quebec, British Columbia, New England, New York and other northeast markets, and Louisiana. The "Other" reporting segment consists of the activities of the Company's wind operations, cogenerating stations, pumped storage facility, and transmission and distribution business. These seven segments represent the Company's reportable segments, which are used to manage the business, and are generally based on the location of the underlying generating and infrastructure facilities. The accounting policies of these reportable segments are the same as those described in note 2 of the 2006 annual consolidated financial statements and note 3 of these financial statements.

The Company analyzes the performance of its operating segments based on net operating income which consists of revenues from the Company's power operations, net of operating and maintenance costs, fuel purchases for its cogeneration plants, power purchases, marketing and administration expenses and municipal and other generation taxes on its facilities. Net operating income is not a measure of performance under Canadian generally accepted accounting principles; however, management uses this measure to assess the operating performance of its reportable segments.

Three months ended March 31, 2007

$ millions	**Ontario**	**Quebec**	**British Columbia**	**New England**	**New York & other**	**Louisiana**	**Other**	**Total**
Revenue	**$ 41**	**$ 28**	**$ 4**	**$ 24**	**$ 68**	**$ 43**	**$ 49**	**$ 257**
Net operating income	**30**	**22**	**2**	**17**	**49**	**37**	**25**	**182**
Interest and financing fees	**10**	**4**	**2**	**2**	**8**	**24**	**16**	**66**
Depreciation and amortization	**5**	**2**	**1**	**4**	**7**	**6**	**11**	**36**
Power generating assets	**770**	**376**	**135**	**382**	**986**	**335**	**718**	**3,702**
Total assets	**1,112**	**378**	**138**	**409**	**1,142**	**1,104**	**1,822**	**6,105**

Three months ended March 31, 2006

$ millions	Ontario	Quebec	British Columbia	New England	New York & other	Louisiana	Other	Total
Revenue	$ 50	$ 46	$ 5	$ 22	$ 67	$ 35	$ 36	$ 261
Net operating income	40	40	4	16	51	29	16	196
Interest and financing fees	8	4	2	2	8	24	10	58
Depreciation and amortization	5	2	1	3	6	6	6	29
Power generating assets	764	369	130	237	845	348	411	3,104
Total assets	1,267	387	137	275	1,070	1,138	1,188	5,462

12. COMMITMENTS, CONTINGENCIES AND GUARANTEES

The Company has commitments, contingencies and guarantees as described in note 27 of the 2006 annual consolidated financial statements.

On March 23, 2007, a 15-year power purchase agreement with the Long Island Power Authority ("LIPA") received final regulatory approval. The LIPA contract consists of power generation and other ancillaries.

With the exception of the LIPA contract, there have been no material changes to the Company's other commitments, contingencies and guarantees during the period ended March 31, 2007.

13. SUBSEQUENT EVENTS

On April 5, 2007, Brookfield Power Wind Prince LP, a subsidiary of the Company, received consent to extend the maturity date of its CDN$300M credit facility from August 1, 2007 to December 1, 2007. All other terms of the agreement remain unchanged.

On May 2, 2007, the Bear Swamp joint venture completed a senior secured non-revolving credit facility in the amount of $125 million. The credit facility is secured by the power generating assets acquired by the joint venture in April 2005, matures in April 2012, and has variable quarterly interest payments of LIBOR plus a specified margin, with principal repayments beginning in May 2011.

On May 2, 2007, Brookfield announced plans to transfer its infrastructure assets, which is expected to include the transmission assets owned by the Company, into a new publicly traded partnership, in which it will operate and retain an approximate 40% ownership. The transaction, which requires regulatory approval, is expected to close later in the year.

On May 8, 2007, the Company secured new property specific debt related to the Rumford facility acquired in June 2006. The debt, in the amount of $95 million, matures in 2012 and has variable quarterly interest payments of LIBOR plus a specified margin, with principal repayments beginning in May 2010.

14. COMPARATIVE FIGURES

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