2006 Management's Discussion and Analysis

BROOKFIELD POWER CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The management's discussion and analysis ("MD&A") for 2006 has been prepared in compliance with the requirements of the Canadian Securities National Instrument 51-102, to the extent that they apply. The MD&A provides a framework for understanding Brookfield Power Corporation's (the "Company") business activities and is intended to complement and supplement the Company's financial statements. The MD&A should be read in conjunction with those financial statements.

The Company was incorporated and organized under the Business Corporations Act (Ontario) on June 20, 2002 and is a wholly owned subsidiary of Brookfield Power Inc. ("BPI").

The Company was established as a financing subsidiary of BPI and commenced its activities on December 16, 2004. It has stated its intentions to acquire all of the power operations of BPI as part of a reorganization which is expected to occur in the future. BPI, through predecessor companies, has conducted a number of business activities, including power generation, merchant banking and investment banking. As a result, BPI's assets are comprised of a blend of power generating and investment assets. Following the expected reorganization, BPI will retain ownership of the non-core investment assets that are not related to the power operations and the Company will own all of the power operations currently owned by BPI.

Presently, the Company has no significant assets or liabilities other than promissory notes and long-term debt, and has no employees and no subsidiaries.

Additional information relating to BPI can also be found on its website at www.brookfieldpower.com and on the SEDAR website under Brookfield Power Corporation. Unless expressly indicated otherwise, all amounts are reflected in Canadian dollars.

OPERATING RESULTS

The net loss of the Company for the year ended December 31, 2006 totalled $1.6 million. Interest revenue of $28.8 million corresponds to the interest income earned from BPI on the promissory notes of $795.6 million. Interest expense of $29.3 million relates to the Series 1 and 2 debentures and the Series 3 and 4 medium-term notes issued by the Company. These debentures and notes are unconditionally guaranteed by BPI and the guarantee will remain in place until certain conditions are met. Included in interest expense is $0.6 million of stand-by charges related to the Company's credit facility.

PROVISION FOR INCOME TAXES

For the year ended December 31, 2006, the Company recognized a future income tax recovery of $0.7 million. Taxes are accounted for under the asset and liability method.

TOTAL ASSETS

The total assets of $811.2 million at December 31, 2006 (2005 - $552.9 million) consist mainly of promissory notes issued by BPI.

SHAREHOLDER'S DEFICIT

The authorized capital of the Company consists of an unlimited number of common shares. As at December 31, 2006 and the date of this MD&A, there was 1 common share of the Company issued and outstanding. The Company has not paid dividends.

CAPITAL STRUCTURE AND FINANCING

The Company has a US $350 million 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 December 31, 2006, there are no direct borrowings under this credit facility but the Company has issued letters of credit totalling USD $117.1 million (2005 – USD $130.1 million) under this credit facility.

On September 28, 2006, the Company issued a short form base shelf prospectus that will allow the Company to issue up to USD$750 million over the 25-month term of the prospectus. These funds can be used for general corporate purposes, including, but not limited to, the repayment of loans with BPI or the repayment of corporate debt. The Company has incurred costs totalling $2.5 million as a result of the prospectus issuance, which have been capitalized and included in deferred financing fees on the Company's balance sheet.

Following the issuance of the prospectus, the Company issued two series of medium-term notes totalling $350 million. Series 3, in the amount of $200 million, matures in 2018. Series 4, in the amount of $150 million, becomes due in 2036. Both notes are unsecured, rank pari passu with all other existing debt, and have semi-annual interest payments of 5.25% and 5.84%, respectively. Proceeds from these notes were used to repay the $100 million debenture that matured in December 2006 and the remaining amount was invested in additional promissory notes from BPI.

CONTRACTUAL OBLIGATIONS

As at December 31, 2006, the Company's significant contractual obligations are due in the following periods:

CDN$ millions	*Total*	*2007*	*2008*	*2009*	*Thereafter*
Long-term debt	$ 800.0	$ -	$ -	$ 450.0	$ 350.0
Interest	$ 447.4	$ 40.2	$ 40.2	$ 39.3	$ 327.7

Series 1 Term debentures totalling $450 million are due on December 16, 2009.
Series 3 Medium-term notes totalling $200 million are due on November 5, 2018.
Series 4 Medium-term notes totalling $150 million are due on November 5, 2036.

INTEREST RATE SWAP AGREEMENTS

The Company has entered into forward-starting interest rate swap agreements with major financial institutions on behalf of other subsidiaries of BPI that do not currently maintain the necessary credit facilities to execute agreements of this nature. The agreements, which have a notional amount totalling $300 million, are intended to lock 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 subsidiaries of BPI that anticipate issuing the fixed rate debt. As a result of these offsetting positions, the Company will pay to or receive from its related parties amounts that exactly offset its rights and obligations under the forward-starting interest rate swaps with the third party financial institutions.

As of December 31, 2006, the fair value of the swaps with third parties of ($4.9) million 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 related parties of $4.9 million was recognized as a derivative asset with the corresponding gain reflected in net loss. The net impact of the mark-to-market of all swaps on the Company's net loss for the year was $nil.

SOURCES OF LIQUIDITY

As at December 31, 2006, the Company maintained a current cash balance of $0.1 million in addition to USD$232.9 million of availability on its credit facilities, net of outstanding letters of credit.

The following table explains the change in our liquidity for the year ended December 31, 2006:

CDN$ millions	***2006***	*2005*
Cash, beginning of year	**$ 0.1**	$ -
Provided by (used in)		
Operating activities	**(0.5)**	-
Investing activities	**(248.5)**	(50.0)
Financing activities	**249.0**	50.1
Cash, end of year	**$ 0.1**	$ 0.1

Operating activities - Cash flows used in operating activities totalled $0.5 million for the year ended December 31, 2006 due primarily to the Company's net loss.

Investing activities - In the fourth quarter of 2006, an additional $348.2 million of promissory notes were purchased by the Company from BPI, offset partially by the repayment of a $99.7 million promissory note.

Financing activities - In November 2006, $350 million in medium-term notes were issued with a discount of $0.1 million, offset by the repayment in December of the $100 million Series 2 term debentures. Financing fees related to the issuance of the medium-term notes, as well as the increase in the Company's credit facility, totalled $2.7 million for the year. Also, amounts owed to related parties increased by $1.8 million in 2006.

Related Party Transactions

As at December 31, 2006, the Company has amounts payable to BPI and some of its affiliates in the amount of $4.3 million (2005 - $2.5 million). These amounts are non-interest bearing, unsecured, and are due on demand.

All of the promissory notes owed to the Company have been issued by BPI, the sole shareholder of the Company.

Critical Accounting Estimates

The financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in Note 2 (Summary of Significant Accounting Policies) of the 2006 annual audited financial statements are considered critical accounting estimates as defined in National Instrument 51-102. Key estimates for the Company include determination of accruals, amortization and valuation of tax assets. Actual results could differ from those estimates.

Changes in Accounting Policies

There have been no changes to the Company's significant accounting policies during the year ended December 31, 2006. Refer to Note 2 (Summary of Significant Accounting Policies) of the 2006 annual audited financial statements for details of all significant accounting policies applicable to the Company.

The Company will be required to adopt the following accounting standards for Canadian generally accepted accounting principle purposes on January 1, 2007:

Financial Instruments

On January 27, 2005, the CICA issued three new accounting standards: Handbook Section 1530, Comprehensive Income; Handbook Section 3855, Financial Instruments – Recognition and Measurement; and Handbook Section 3865, Hedges. In addition, on December 1, 2006, the CICA issued two new accounting standards: Handbook Section 3862, Financial Instruments – Disclosures; and Handbook Section 3863, Financial Instruments – Presentation.

Comprehensive Income

As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income (AOCI), will be added to the shareholder's equity section on the balance sheet. Major components for this category will 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. As at January 1, 2007, the Company's AOCI will mainly include deferred gains and losses on the interest rate swaps.

Financial Instruments – Recognition and Measurement

Under the new standard, all financial instruments will be classified as one of the following: Held-to-maturity, Loans and Receivables, Held-for-trading or Available-for-sale. Financial assets and liabilities held-for-trading will be 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, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

The impact of the implementation of this new standard on our financial statements will result in long-term debt being presented at amortized cost rather than carrying value. The difference will be adjusted to the deficit in shareholder's equity as at January 1, 2007. The impact on the financial statements as of January 1, 2007 is expected to be as follows:

	December 31, 2006	January 1, 2007	Net Financial Impact
Long-term debt	$ 800.0	$ 795.1	$ (4.9)
Deferred financing fees	5.3	0.5	(4.8)
Premium on term debentures	0.2	-	(0.2)
Discounts on medium-term notes	0.1	-	(0.1)
Shareholder's deficit	2.5	2.4	(0.1)

Hedges

This new 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 income. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income 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 income. There are no anticipated impacts on the consolidated financial statements as at January 1, 2007.

BUSINESS RISKS

All of the revenue of the Company consists of interest received on the promissory notes issued by BPI, its sole shareholder. The financial statements and management discussion and analysis of BPI are available on the SEDAR website at www.sedar.com under Brookfield Power Corporation.

Following the completion of the expected reorganization, the risk factors identified in the Annual Information Form relating to BPI will apply to the Company. Those risks include, amongst others, hydrology, equipment failure, foreign exchange and energy price fluctuations.

The Company is exposed to credit risk in the event of non-performance by BPI related to the promissory notes. This risk is significantly reduced by the quality and stability of BPI's operations, as reflected by its investment grade issuer ratings.

ANNUAL INFORMATION FORM

The Company prepares an Annual Information Form which can be accessed on SEDAR at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

Interest revenues for the fourth quarter of 2006 of $9.5 million were offset by interest expense of $9.7 million and amortization of deferred financing fees and other expenses of $0.5 million. After an income tax recovery of $0.2 million, the net loss for the quarter was $0.5 million.

CERTIFICATION OF ANNUAL FILINGS

Form 52-109F1 - Certification of Annual Filings is attached to this document on SEDAR.

The Chief Executive Officer and the Chief Financial Officer of the Company (together the "Officers"), after evaluating the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006, have concluded that the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would have been known to them. The Officers, after also evaluating the Company's controls over financial reporting, have concluded on the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

FORWARD-LOOKING STATEMENTS

This Company's financial analysis and review contains forward-looking statements concerning the Company's business and operations. Forward looking statements can be identified by the use of words, such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements involve assumptions and, known and unknown risks, uncertainties and other factors which may cause the actual results or performance to be materially different from any future results or performance expressed or implied by the forward statements. More details relating to risk factors can be found in the Business Risks section of this document.

Examples of such statements include, but are not limited to factors relating to production and the business, financial position, operations and prospects for the Company. They include (1) the level of generation; (2) energy prices; (3) the cost of production; (4) interest rates as they bear on indebtedness; (5) planned capital expenditures; (6) the impact of changes in the exchange rate on costs and results of operations; (7) the negotiation of collective agreements with unionized employees; (8) business and economic conditions; (9) the legislation governing air emissions, discharges into water, waste, hazardous materials and workers' health and safety as well as the impact of future legislation and regulations on taxation, expenses, capital expenditures and restrictions on operations; and (10) regulatory investigations, claims, lawsuits and other proceedings. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied in the forward-looking statements contained herein, and as such, you are cautioned not to place undo reliance on these forward looking statements.

These forward-looking statements represent our views as of the date of this MD&A. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to March 30, 2007, the date of this MD&A.

/s/ Donald Tremblay

Donald Tremblay
Executive Vice President and Chief Financial Officer
March 30, 2007