

Q2 – 2007 Management's Discussion and Analysis

BROOKFIELD POWER CORPORATION

June 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

The management's discussion and analysis ("MD&A") for the second quarter of 2007 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.

Brookfield Power Corporation 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. Management has stated its intentions for the Company 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 Brookfield Power can also be found on its website at www.brookfieldpower.com and on the SEDAR website. Unless expressly indicated otherwise, all amounts are reflected in Canadian dollars.

OPERATING RESULTS

The net loss of the Company for the quarter ended June 30, 2007 totalled \$0.2 million (Q2-2006 - \$0.3 million). Interest revenue of \$10.2 million (Q2-2006 - \$6.4 million) corresponds to the interest income earned from BPI on the promissory notes of \$795.6 million (June 30, 2006 - \$547.1 million). Second quarter interest expense of \$10.5 million relates to the Series 1 debentures and the Series 3 and 4 medium-term notes issued by the Company. In the second quarter of 2006, interest expense of \$6.5 million related to the Series 1 and Series 2 debentures. The 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 \$0.2 million (Q2-2006 - \$0.1 million) of stand-by charges related to the Company's available credit facility and \$0.2 million (Q2-2006 - \$nil) of deferred financing fee amortization.

For the six month period ended June 30, 2007, the Company had a net loss of \$0.6 million (2006 - \$0.6 million). Interest revenue and expense were \$20.1 million and \$20.8 million, respectively (2006 - \$12.7 million and \$12.7 million, respectively), with \$0.3 million of stand-by charges (2006 - \$0.1 million) and \$0.4 million of deferred financing fee amortization (2006 - \$nil) included in interest expense.

PROVISION FOR INCOME TAXES

For the three and six month periods ended June 30, 2007, the Company recognized a future income tax recovery of \$0.1 million and \$0.2 million, respectively (2006 - \$0.1 million and \$0.2 million, respectively). Taxes are accounted for under the asset and liability method.

TOTAL ASSETS

The total assets of \$811.2 million at June 30, 2007 (December 31, 2006 - \$811.2 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 June 30, 2007 and the date of this MD&A, there was 1 common share of the Company issued and outstanding. The Company has not paid dividends.

SUMMARY OF HISTORICAL QUARTERLY RESULTS

Variations in quarterly results are directly related to the amount of long-term debt and promissory notes receivable outstanding.

\$ millions	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	10.2	9.9	9.5	6.6	6.4	6.3	6.2	6.2
Net loss	(0.2)	(0.4)	(0.5)	(0.5)	(0.3)	(0.3)	(0.2)	(0.2)

CONTRACTUAL OBLIGATIONS

As at June 30, 2007, the Company's significant contractual obligations are due in the following periods:

\$ millions	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt							
Term debentures	\$ -	\$ -	\$ 450	\$ -	\$ -	\$ -	\$ 450
Medium-term notes	-	-	-	-	-	350	350
Interest Expense							
Term debentures	10	21	20	-	-	-	51
Medium-term notes	10	19	19	19	19	289	375
Total	\$ 20	\$ 40	\$ 489	\$ 19	\$ 19	\$ 639	\$ 1,226

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 AGREEMENT

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 totaling \$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 June 30, 2007, the fair value of the swaps with third parties of \$9.7 million was recognized as a derivative asset (December 31, 2006 – \$4.9 million) with the corresponding gain reflected in net loss. At the same time, the fair value of the swaps with related parties of (\$9.7) million was recognized as a derivative liability (December 31, 2006 – \$4.9 million) with the corresponding loss reflected in net loss. The net impact of the revaluation of all swaps on the Company's net loss for the period ended June 30, 2007 was \$nil (Q2-2006 - \$nil).

RELATED PARTY TRANSACTIONS

As at June 30, 2007, the Company has amounts payable to BPI and some of its affiliates in the amount of \$4.8 million (December 31, 2006 - \$4.3 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

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, and 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.

Future Accounting Policy Changes

In addition, 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 Company is currently evaluating the impact of the adoption of this section on the financial statements.

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 is currently evaluating the impact of the adoption of this section on the financial statements.

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 dated March 23, 2007 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.

CERTIFICATION OF INTERIM FILINGS

Form 52-109F2 – Certification of Interim Filings is attached to this document on SEDAR.

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 undue 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 August 2, 2007, the date of this MD&A.

REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

/s/ Donald Tremblay
Donald Tremblay
Executive Vice President and Chief Financial Officer
August 2, 2007