MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2006

Attached is management's discussion and analysis of Brookfield Power Inc.
Brookfield Power Inc. is a subsidiary of Brookfield Asset Management Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAY 12, 2006

INTRODUCTION

The information provided in this management discussion and analysis (MD&A) is intended to provide readers with an assessment of our performance for the first quarter of 2006 and the comparable period of last year, while also serving to give a framework for understanding our competitive advantages, the long-term growth trends of our business and the ability of our assets to deliver strong and stable cash flows. The MD&A should be read in conjunction with the unaudited quarterly consolidated financial statements and the December 31, 2005 audited financial statements. Additional information can also be found on our website at www.brookfieldpower.com and on the SEDAR website at www.sedar.com filed under the name of "Brookfield Power Corporation". The financial information contained herein is prepared in accordance with Canadian generally accepted accounting principles ("GAAP") unless otherwise indicated. If required by the context or unless otherwise indicated, the terms "the Company", "we," "our" and "us" refer to Brookfield Power Inc. and all of its subsidiaries and joint ventures. The following MD&A is the responsibility of management and is prepared in accordance with the requirements of national instrument 51-102 of the Ontario Securities Commission. Unless expressly indicated otherwise, all amounts are in United States dollars.

OVERVIEW OF THE BUSINESS

As at March 31, 2006, we own and operate 123 hydroelectric power generating stations throughout North America, located on 39 river systems and 2 co-generation plants with an installed capacity of 3,239 MW, capable of generating more than 11,000 GWh of electricity annually.

Our power generating operations are located in the regionally interconnected markets of Ontario, Quebec, New England and New York, as well as British Columbia and Louisiana. We also own a regulated transmission and distribution business in Ontario. The transmission and distribution business consists of 17 transmission stations and 14 distribution stations servicing approximately 11,500 customers. Some of our assets are owned through Great Lakes Hydro Income Fund ("the Fund"), a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: "GLH.UN"). The Company also operates 12 hydroelectric power generating stations in Brazil owned indirectly by Brookfield Asset Management Inc. ("Brookfield"). The Company, which has a preferred share investment in the company which owns these facilities, manages the operations. These stations are located on 9 river systems in Brazil, have an installed capacity of 205 MW and can generate, on an annual basis, in excess of 900 GWh of electricity.

We are a wholly owned subsidiary of Brookfield, an asset manager. Focused on property, power and infrastructure assets, Brookfield has approximately US $50 billion of assets under management and is co-listed on the Toronto and New York Stock Exchanges under the symbol "BAM".

PERFORMANCE MEASUREMENT

We focus principally on net operating income for performance measurement since it is a tangible measurement and best reflects the value of our assets. We define net operating income as revenues from our power operations, net of operating and maintenance costs, fuel purchases for the co-generation plants, power purchases, selling, marketing and administration expenses and municipal and other generation taxes on our facilities. Interest and financing fees, interest on capital securities, depreciation and amortization, provision for income taxes and non-controlling interest are deducted from net operating income to obtain net income. Refer to the Net Income Analysis section for a reconciliation of net operating income to net income. Net operating income is a non-GAAP measure and may differ from definitions of net operating income used by other companies.

PERFORMANCE OVERVIEW

Net operating income totalled $197 million in the first quarter of 2006, representing an increase of $63 million over the same quarter of 2005.

Power Operations in the first quarter of 2006 were positively affected by lower than expected prices and higher than average hydrological conditions. Although comparable to last year, power prices were 40-45% lower than expected due to significantly milder winter temperatures.

Notwithstanding a mild winter and soft energy prices, the first quarter results were very strong with net operating income exceeding the same period of last year by 47%. This increase was mainly due to increased production from both existing and acquired hydro facilities, optimization of our contracts, effective hedging strategies, as well as improvements realized through additional arbitrage and higher ancillary revenues and other initiatives.

In late January we were successful in securing an agreement with the Long Island Power Authority (LIPA) to supply them with a variety of products including capacity, energy and environmental attributes. This 15 year contract will assure stable long-term revenue at favourable rates for part of our New England and New York portfolio. We are in the final stages of negotiating an agreement with LIPA.

Water reservoirs were slightly above long-term average levels at the end of the first quarter and generation for the remainder of 2006 is expected to be in line with long-term average. Lower than anticipated prices, resulting from lower gas prices, are expected to be offset by market initiatives, including our hedging program, the optimization of contracts and a stronger Canadian dollar.

Overall generation from assets owned at March 31, 2006, before the positive impact of 2005 and 2006 acquisitions, totalled 3,143 GWh for the quarter, 10% above the corresponding quarter of 2005, mostly resulting from favorable inflows in the fall and winter which led to high reservoir levels in the Ontario, Quebec, New England and New York power systems. Despite a shortfall in the Louisiana operations, generation on assets existing at December 31, 2004 exceeded long-term average by 17%, demonstrating the benefit of our diversification strategy.

GENERATION	Three months ended March 31		
Gigawatt hours	**2006**	2005	Long-term average[1]
Assets owned at December 31, 2004			
Ontario	**661**	609	598
Quebec	**520**	390	406
British Columbia	**165**	165	148
New England	**322**	306	261
New York	**1,045**	816	778
Louisiana	**213**	346	286
Gas co-generation	**217**	220	216
	3,143	2,852	2,693
Acquisitions – 2005	**128**	31	103
Acquisitions – 2006	**18**	-	33
	3,289	2,883	2,829

[1] Adjusted long-term average for date of acquisition of the facilities.

Financial results for the three months ended March 31, 2006 compared to 2005 are shown in the following table:

Millions	**2006**			2005		
	GWh	**Revenue**	**Net operating income**	GWh	Revenue	Net operating income
Hydroelectric generation						
Ontario	**679**	**$ 49**	**$ 42**	609	$ 34	$ 28
Quebec	**520**	**46**	**43**	390	22	19
British Columbia	**165**	**5**	**4**	165	5	4
New England	**359**	**22**	**18**	326	16	12
New York	**1,081**	**66**	**53**	827	49	32
Louisiana	**213**	**35**	**29**	346	52	46
	3,017	**223**	**189**	2,663	178	141
Gas co-generation	**217**	**19**	**9**	220	14	5
Transmission and Distribution	**n/a**	**10**	**6**	n/a	10	7
Other	**55**	**10**	**(7)**	-	27	(19)
	3,289	**$ 262**	**$ 197**	2,883	$ 229	$ 134
Hydroelectric revenue / MWh (in $)		**$ 74**			$ 67	

ONTARIO

In Ontario, generation totalled 679 GWh, an increase of 11% over the same quarter of 2005. Quarterly revenues were $15 million higher than last year, as a result of improved water inflows, the acquisition of Beaver Power Corporation ("Beaver Power"), effective hedging and dispatch strategies and the favourable impact of the Canadian dollar exchange rate. Our dispatching strategy consists of maximizing generation in periods when power is in higher demand. Costs have remained relatively stable, thus providing for an additional $14 million in net operating income.

QUEBEC

In Quebec, generation during the first quarter totalled 520 GWh compared to 390 GWh for the same period last year. Revenues benefited from higher prices through sales under short-term contracts and we used our interconnection to optimize pricing differences between markets to further increase our net operating income for the quarter. These activities, combined with improved hydrology conditions and a stronger Canadian dollar, contributed to an increase in revenue of $24 million, from $22 million in the first quarter of 2005. Costs in this region have remained relatively stable, thus providing for an additional $24 million in net operating income.

BRITISH COLUMBIA

In British Columbia, hydrology conditions for the first quarter of 2006 remained comparable to the corresponding quarter of the previous year. This resulted in stable generation, revenue and net operating income for the quarter.

NEW ENGLAND

In New England, power generation contributed $22 million to quarterly revenue compared to $16 million for the same period last year. Power generated during the first quarter increased by 10% from 326 GWh in 2005 to 359 GWh in 2006, mostly due to higher water inflows in our Maine operations. Forward sale agreements in place at the end of the year or entered into at the beginning of the quarter mitigated the impact of price decrease during the quarter. This effective strategy, combined with favourable hydrology conditions and a higher contribution from the Hydro Kennebec and Fife Brook facilities acquired in 2005, resulted in an increase of $6 million in revenue over the same period of 2005. Costs have remained relatively stable compared to the same period of last year. Overall, our New England operations generated $18 million of net operating income in the first quarter of 2006, an increase of 50% compared to the same period in the prior year.

NEW YORK

In New York, power generation increased from 827 GWh in the first quarter of 2005 to 1,081 GWh for the same period of 2006, a positive variation of 31%. This increase in generation is mostly responsible for the higher revenue of $17 million as compared to last year. Costs have decreased by $4 million primarily due to lower property taxes and maintenance costs compared to the same quarter of the previous year. As a result, the net operating income for the region increased by 66% to $53 million, making it our most significant region.

LOUISIANA

Generation in Louisiana totalled 213 GWh during the first quarter of 2006, 38% below the 346 GWh generated during the same period of 2005. Even though generation in this region improved when compared to its 2005 fourth quarter low, it remained below long-term average during the first quarter. Lower generation was a direct result of poor hydrology conditions, which contributed to the decrease in revenue from $52 million for the first quarter of 2005 to $35 million in 2006. Costs have remained relatively stable, resulting in a $17 million decrease in net operating income as compared to last year.

CO-GENERATION

Co-generation facilities contributed 217 GWh in the first quarter of 2006 versus 220 GWh during the same period of 2005. These figures include the equivalence in GWh of natural gas resales by our co-generators. The incremental profit from gas remarketing during the quarter and the favourable impact of the Canadian dollar exchange rate positively impacted our revenue. The combination of higher revenue and comparable operating costs resulted in a higher first quarter net operating income of $4 million in 2006.

TRANSMISSION AND DISTRIBUTION

Revenue from the transmission and distribution business remained stable compared to the same quarter of last year. Quarterly costs, which increased by $1 million, also remained relatively in line with the prior year, thus providing for $6 million in net operating income.

OTHER

Other includes the New England pump storage facility, arbitrage revenues and other administration costs. The pump storage facility acquired in the second quarter of 2005 contributed 55 GWh of generation, $7 million of revenue and $1 million of net operating income. The Company sold power to an affiliate, pursuant to a contract that expired in May 2005. Revenues earned from the sales of power to this affiliate amounted to $29 million in the first quarter of 2005, while corresponding costs amounted to $39 million.

CONSOLIDATED QUARTERLY RESULTS

Variations in quarterly results are correlated with the amount of electricity generated in any given quarter, which is in turn dependent on available water inflows. Other marketing and asset enhancement initiatives also impact the quarterly results. Results for the last eight consecutive quarters are summarized below:

Millions (except generation)	**2006**	2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Power generated (GWh)	**3,289**	2,614	1,942	2,822	2,883	2,267	1,758	2,137
Power revenues	**262**	206	139	200	229	181	148	164
Net operating income	**197**	127	83	119	134	87	79	94

NET INCOME ANALYSIS

The Company's net income for the first quarter totalled $57 million, an increase of $17 million compared to the same quarter in the prior year. The increase in net income is primarily the result of a higher net operating income, offset by lower investment income and an increase in the provision for income taxes.

Millions	Three months ended March 31	
	2006	2005
Net operating income	**$ 197**	$ 134
Investment income and other	**8**	29
	205	163
Interest and financing fees	**58**	52
Depreciation and amortization	**29**	26
Provision for income taxes	**22**	7
Non-controlling interests	**8**	10
Net income before interest on capital securities	**88**	68
Interest on capital securities	**31**	28
Net income	**$ 57**	$ 40

INVESTMENT INCOME AND OTHER

Investment income and other decreased by $21 million, mostly as a result of a higher foreign exchange gain in the first quarter of 2005 and lower average balances following the disposition of investments during 2005 to finance acquisitions of power facilities.

INTEREST AND FINANCING FEES

Millions	Three months ended March 31	
	2006	2005
Ontario	**$ 9**	$ 9
Quebec	**4**	3
British Columbia	**2**	2
New England	**2**	2
New York	**8**	6
Louisiana	**24**	22
Transmission and Distribution	**2**	1
Other businesses	**7**	7
Total	**$ 58**	$ 52

Interest and financing fees increased by $6 million compared to the same period in the prior year. The increase of $2 million in New York's interest expense is mostly attributable to the refinancing of the $500 million floating rate bridge financing obtained to acquire the New York assets in late September of 2004 with $550 million of fixed rate senior secured notes on December 16, 2005. These senior secured notes are providing greater protection against rising interest rates as well as increased leverage. The increase of $2 million in Louisiana is related to interest payable on a note due to Brookfield. The interest on that note was previously payable to a subsidiary, and therefore eliminated upon consolidation.

DEPRECIATION AND AMORTIZATION

Millions	Three months ended March 31	
	2006	2005
Ontario	**$ 5**	$ 3
Quebec	**2**	2
British Columbia	**1**	1
New England	**3**	3
New York	**6**	6
Louisiana	**6**	6
Transmission and Distribution	**2**	2
Other businesses	**4**	3
Total	**$ 29**	$ 26

Depreciation and amortization for the first quarter of 2006 totalled $29 million, which is comparable to the depreciation and amortization for the same period in 2005. The $2 million increase in our Ontario operations is the result of additions to existing facilities and the acquisition of Beaver Power during the quarter.

PROVISION FOR INCOME TAXES

The provision for income taxes increased from $7 million in the first quarter of 2005 to $22 million in the first quarter of 2006. This increase of $15 million is primarily related to increased profits earned during the quarter. Higher taxable income increased the future income tax expense by reducing available non-capital losses and by requiring more cost of capital allowance to be used.

NON-CONTROLLING INTERESTS

Non-controlling interests relate to income associated with the non-controlling interests in the Company's consolidated entities. The decrease of $2 million in the first quarter of 2006 is related to lower quarterly net income resulting mostly from below average hydrology conditions in Louisiana.

INTEREST ON CAPITAL SECURITIES

Interest on the capital securities totalled $31 million in the first quarter of 2006, compared to $28 million in the same quarter of 2005. This $3 million increase is the result of the refinancing on June 30, 2005 of the CDN $248 million capital securities with capital securities totaling $200 million, bearing interest at a higher rate.

BALANCE SHEET ANALYSIS

SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term and long-term investments decreased by $94 million to $313 million as at March 31, 2006 (December 31, 2005 - $407 million). This is primarily due to demand deposits held with affiliates which decreased by $108 million, including the impact of the foreign exchange rate variation, to $4 million as at March 31, 2006. This decrease, which is a result of the Beaver Power acquisition and the timing of cash flow requirements, is partially offset by the Company's additional investment in preferred shares of Brascan Brazil Limited of $14 million during the quarter.

POWER GENERATING ASSETS

As of March 31, 2006, power generating assets totalled $3,104 million compared to $2,992 million as of December 31, 2005, an increase of $112 million.

Millions	
Power Generating Assets – December 31, 2005	**$ 2,992**
Acquisition of business	**106**
Additions to existing power generating assets	**43**
Depreciation	**(24)**
Other	**(13)**
Power Generating Assets – March 31, 2006	**$ 3,104**

This increase is mostly attributable to the acquisition of the Beaver Power facilities, the ongoing construction of our first wind farm in Northern Ontario and the transmission reinforcement project in Ontario. In line with the Company's 20 year sustainable capital investment plan, we also continued to invest in several capital projects during the quarter to preserve and enhance the reliability of our operations.

OTHER ASSETS

As of March 31, 2006, other assets totalled $976 million compared to $899 million as of December 31, 2005, an increase of $77 million.

Millions	Net book value as at	
	March 31, 2006	December 31, 2005
Power purchase agreements	**$ 163**	$ 166
FERC licences	**37**	38
Deferred financing fees	**46**	47
Accrued levelized revenues	**544**	543
Commodity derivatives	**16**	27
Deferred loss on commodity derivatives	**4**	6
Cash held in escrow	**58**	56
Other	**108**	16
	$ 976	$ 899

This increase, which is mainly explained by the acquisition of Beaver Power which added $92 million in intangible assets, is offset by a decrease of $11 million in commodity derivatives. The variation in commodity derivatives is explained in more detail in the Derivative Financial Instruments section of the MD&A.

Cash held in escrow is composed of a $21 million debt service reserve account related to the senior secured note issued in December 2005 (December 31, 2005 - $21 million) and a $37 million reserve account related to Catalyst Old River Hydroelectric Limited Partnership (December 31, 2005 - $35 million).

DUE FROM / TO RELATED PARTIES

The net receivable from related parties as of March 31, 2006 totalled $581 million compared to $512 million as of December 31, 2005, an increase of $69 million. The following table illustrates the change in the net receivable from related parties.

Millions	
Net asset receivable – December 31, 2005	**$ 512**
Repayment of junior note payable to Brookfield	**75**
Interest accrual on the junior note payable	**(3)**
Impact of foreign exchange rate	**(3)**
Net asset receivable – March 31, 2006	**$ 581**

CAPITAL STRUCTURE AND FINANCING

We are committed to maintaining a strong and flexible capital structure that is comprised largely of long-term financial obligations and permanent equity. This enables us to provide financial stability and a low cost of capital to the operations.

We continue to maintain investment grade unsecured issuer ratings from DBRS (BBB High) and Standard and Poor's (BBB), which is influenced by a prudent level of low-cost asset financing and modest levels of corporate debt. The long-life nature of our assets allows us to finance with non-recourse debt and minimal near-term maturities.

The composition of the Company's capital structure is as follows:

	March 31, 2006	December 31, 2005
Credit facilities, property specific borrowings, term debentures and other	**62%**	62%
Other long-term liabilities	**2%**	3%
Non-controlling interests	**5%**	5%
Shareholders' equity and debt portion of capital securities	**31%**	30%
Total	**100%**	100%

Overall, the composition of our capital structure as at March 31, 2006 is fairly consistent with that as of December 31, 2005. At March 31, 2006, our weighted average interest rate and term to maturity for property specific borrowings were 6.4% and 16.1 years respectively (December 31, 2005 – 6.3% and 16.2 years).

The following table illustrates the change in the debt that occurred during the first quarter of 2006.

Millions	
Total debt – December 31, 2005	**$ 3,017**
Acquisition of Beaver Power	**72**
Repayment of Pontiac Power, Lake Superior Power and Hydro Kennebec debt	**(4)**
Impact of foreign exchange rate and other	**(15)**
Total debt – March 31, 2006	**$ 3,070**

We provided covenants to certain of our lenders as do most borrowers. As at March 31, 2006, the Company is in compliance with all covenants.

CAPITAL SECURITIES

Capital securities represent long-term subordinated convertible debentures, which are held by Brookfield. The principal portion of the capital securities can be settled, at the Company's option, by issuing a fixed number of our common shares. The Company also has the option to pay the interest in the form of a variable number of our common shares. In accordance with current accounting guidelines, these debentures are primarily recorded as debt in our financial statements. There have been no material changes during the quarter.

For the quarter ended March 31, 2006, $31 million was recorded as interest on capital securities (first quarter of 2005 - $28 million) on the consolidated statement of income.

SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of common shares, of which the following were issued and outstanding:

Millions (except share amounts)	**March 31, 2006**	December 31, 2005
101,512,218 (2005 – 101,512,218)		
Common shares	**$ 422**	$ 422
Deficit	**(171)**	(215)
Contributed surplus	**199**	197
Cumulative translation adjustment	**(54)**	(53)
	396	351
Capital securities	**5**	5
	$ 401	$ 356

As of the date of this MD&A, the Company has 101,512,218 common shares issued and outstanding.

An amount of $2 million (Q1 2005 - $nil) was recorded in contributed surplus for Brookfield options and deferred share units issued under the Company's stock based compensation plan.

Dividends paid to holders of common shares and capital securities totalled $13 million in the first quarter of 2006 (first quarter of 2005 – $13 million). Our policy is to distribute surplus operating cash flows not required for investment in power generating facilities to our shareholders.

CONTRACTUAL OBLIGATIONS

Our contractual obligations are mainly comprised of the Company's long-term debt repayments and capital project commitments. No material changes occurred in contractual obligations during the first quarter of 2006.

On January 11, 2006, the Company entered into an agreement to acquire two hydroelectric generating facilities in Maine from Rumford Falls Power Company, owned by NewPage Corporation, for cash consideration of $144 million. These two run-of-the-river merchant facilities are located on the Androscoggin River and have the capacity to generate approximately 270 GWh of energy per year. This transaction, which is subject to various closing conditions (including regulatory approval), is expected to close in the second quarter of 2006.

SOURCES OF LIQUIDITY

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. In addition to the risk of variable hydrology conditions, our risk with respect to liquidity arises from the financing required for acquisitions and significant capital projects. We continue to have a strong balance sheet and healthy financial ratios. As at March 31, 2006, we maintained a current cash and cash equivalents balance of $117 million. Furthermore, we signed an agreement during the quarter to increase our revolving unsecured credit facility from $200 million to $300 million and to extend the due date from April 2008 to April 2009. These factors make liquidity for us a negligible risk factor. Given our historical profitability and our ability to manage expenses, we believe that our current resources are adequate to meet our requirements for working capital and capital expenditures through the foreseeable future.

The following table explains the change in our liquidity for the quarter ended March 31, 2006:

Millions	**March 31, 2006**	March 31, 2005
Cash and cash equivalents, beginning of quarter	**$ 100**	$ 142
Provided by (used in)		
Operating activities	**136**	139
Financing activities	**(11)**	(137)
Investing activities	**(95)**	55
Distributions	**(13)**	(13)
Cash and cash equivalents, end of quarter	**$ 117**	$ 186

OPERATING ACTIVITIES

Cash flows provided by operating activities during the first quarter of 2006 remained relatively stable with the same quarter of 2005, decreasing by $3 million. Additional cash flow from operations during the first quarter was offset by the change in non-cash working capital.

FINANCING ACTIVITIES

The $11 million of cash used in financing activities in the first quarter of 2006, excluding distributions to shareholders, is mainly comprised of the repayments of property specific borrowings for an amount of $4 million (2005 – $4 million), and of a $7 million distribution to the Company's minority shareholders (2005 - $6 million). In March 2005, the $200 million Series 3 corporate debentures were repaid upon maturity. This repayment was partly offset by the issuance of term debentures and long-term debt secured by our Pingston facility.

INVESTING ACTIVITIES

In the first quarter of 2006, we used $95 million in investing activities compared to an inflow of $55 million in the corresponding quarter of 2005. We invested $74 million in the acquisition of Beaver Power, which increased our hydroelectric asset portfolio and contributed further to the diversification of our watersheds (2005 - $21 million). Furthermore, the Company invested $43 million in capital expenditures during the quarter (2005 - $37 million), which enhanced operations and further increased our asset base. During the quarter, we invested an additional $14 million in preferred shares of Brascan Brazil Limited (2005 - $6 million) and also repaid $75 million of the junior note payable to Brookfield (2005 – $nil). These cash outflows were offset by a decrease in demand deposits held with affiliates of $111 million (2005 - $144 million) to fund the Beaver Power acquisition and the timing of cash flow requirements. The investing activities of the first quarter of 2005 also included a $25 million increase in other assets explained by more cash held in escrow.

DISTRIBUTIONS

In the first quarter of 2006, we distributed $13 million to our common shareholders, which is consistent with the dividend paid in the corresponding quarter of the previous year.

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of operations, we execute agreements that provide for indemnification and guarantees to third parties in transactions such as energy trading and marketing, business dispositions, business acquisitions, capital project purchases, and sales and purchases of assets and services. We have also agreed to indemnify our directors and certain of our officers and employees. The nature of substantially all of the indemnification undertakings prevents us from making a reasonable estimate of the maximum potential amount that we could be required to pay third parties, as many of the agreements do not always 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. Historically, we have made no significant payments under such indemnification agreements. We provide guarantees as described in note 27 of the 2005 annual consolidated financial statements. There have been no material changes for the period ended March 31, 2006.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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. Non-hedging commodity swap settlements and unrealized gains and losses are recorded in power generation revenue. A net gain of $1 million has been recorded in the 2006 first quarter consolidated statement of income (first quarter of 2005 - $3 million loss). The current portion of the recorded fair value of the non-hedging commodity swap asset is $16 million (2005 - $25 million) and the current portion of the recorded fair value of the non-hedging commodity swap liability is $21 million (2005 - $34 million).

Millions	**March 31, 2006**		December 31, 2005	
Gain / (loss)	**Recorded fair value of non-hedging swaps**	**Fair value of all swaps**	Recorded fair value of non-hedging swaps	Fair value of all swaps
Energy and gas derivatives				
Forward contracts and swaps				
Commodity derivative asset	**32**	**38**	52	15
Commodity derivative liability	**(43)**	**(151)**	(68)	(204)
	(11)	**(113)**	(16)	(189)

INTEREST RATE

On March 22, 2006, the Company entered into forward-starting interest rate swaps with a notional amount totaling $300 million to hedge the interest rate risk associated with the anticipated issuance of fixed rate debt. Where the contracts are designated as an eligible hedge relationship, they are accounted for on an accrual basis.

FOREIGN EXCHANGE

On February 7, 2006, the Company entered into forward foreign exchange contracts to hedge the cash flow variability associated with anticipated foreign currency denominated capital expenditure purchases. The contracts are designated as an eligible hedging relationship and, as such, any associated gains or losses are recorded as an adjustment to the hedged capital expenditures when they are recorded. The total notional amount of the forwards as at March 31, 2006 was $160 million.

Derivatives that are not designated as an eligible hedge relationship are carried at fair value with changes in fair value recorded in earnings in the period in which they occur.

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.

CREDIT RISK

Credit risk arises from the potential for a counterparty to default on its contractual obligations and is limited to those contracts where the Company would incur a loss in replacing the defaulted transaction. The Company's financial instruments that are potentially exposed to credit risks are cash equivalents, accounts receivable, investments, demand deposits, accrued levelized revenues and commodity contracts. The Company actively manages its exposure to credit risk by assessing the ability of counterparties to fulfill their obligations under the related contracts prior to entering into such contracts, and regularly monitors these exposures. The Company's contracted power sales are with customers with long-standing credit history or investment grade ratings.

The Company minimizes credit risk with counterparties to derivative financial transactions through the selection, monitoring and diversification of counterparties, use of the International Swaps and Derivatives Association documentation, collateral and other credit risk mitigation techniques. 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.

RELATED PARTY TRANSACTIONS

All related party transactions are consistent with the type of transactions disclosed in the notes of the 2005 annual consolidated financial statements. The following table summarizes all significant year-to-date related party transactions:

Millions	Three months ended March 31	
	2006	2005
Revenues		
Sale of power to Noranda	**$ -**	$ 29
Physical gas sales to Falconbridge Limited	**-**	1
Sale of power and financial transactions with Brookfield and affiliates	**-**	1
Sale of power to Katahdin Paper Company	**7**	6
Sale of power and tolling agreement with Fraser New Hampshire	**8**	3
	$ 15	$ 40
Investment income and other		
Interest earned on demand deposits and promissory notes with Brookfield	**$ 3**	$ 5
Income from securities with affiliated companies	**3**	5
Income from investments with affiliated companies	**-**	3
	$ 6	$ 13
Expenses		
Interest expense on note payable	**$ 3**	$ -
Profit sharing with Noranda (1)	**-**	(2)
	$ 3	$ (2)

(1) Included in power purchases

As at March 31, 2006, we have demand deposits and promissory notes held with Brookfield totalling $4 million and $26 million respectively (December 31, 2005 - $112 million and $26 million).

CHANGES IN CRITICAL ACCOUNTING POLICIES

The notes to the financial statements included in the 2005 annual report contain a summary of the critical accounting policies used in preparation of the consolidated financial statements. There have been no changes to these policies in the three month period ended March 31, 2006.

RECENTLY ISSUED CANADIAN ACCOUNTING STANDARDS

Refer to the Company's 2005 annual consolidated financial statements for a description of the recently issued accounting standards and abstract that the Company will be required to adopt in the future.

CRITICAL ACCOUNTING ESTIMATES

The consolidated 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 Accounting Policies) of the 2005 annual consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates include determination of accruals, levelized accounting, mark-to-market and derivatives, purchase price allocations, useful lives, asset impairment testing and those relevant to the defined benefit pension and non-pension benefit plans. 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 those estimates.

BUSINESS ENVIRONMENT AND RISKS

Management believes that there have been no significant changes in business environment and risks that could affect the Company's activities or results since the end of 2005. For additional information, please refer to the management's discussion and analysis in the Company's most recent annual report.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain 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.

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 Company’s level of generation; (2) the Company’s cost of production; (3) interest rates as they bear on the Company’s indebtedness; (4) planned capital expenditures; (5) the impact of changes in the Canadian dollar on the Company’s costs and results of operations; (6) the negotiation of collective agreements with its unionized employees; (7) business and economic conditions; (8) 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 expenses, capital expenditures and restrictions on operations; and (9) 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 May 12, 2006, the date of this MD&A.

Donald Tremblay
Executive Vice President and Chief Financial Officer