MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2007

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 15, 2007

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 2007 and the comparable period of last year, while also providing 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 March 31, 2007 unaudited quarterly consolidated financial statements and the December 31, 2006 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. All figures are reported in United States dollars, unless otherwise noted. The following MD&A is the responsibility of management and is prepared in accordance with the requirements of NI 51-102 of the Ontario Securities Commission.

OVERVIEW OF THE BUSINESS

As at March 31, 2007, we operate, throughout North America, 127 hydroelectric power generating stations located on 40 river systems with an installed capacity of 2,571 megawatts ("MW") and capable of generating more than 10,800 gigawatt hours ("GWh") of electricity annually, 2 gas cogeneration plants totalling 215 MW, a 600 MW pumped storage facility and a 189 MW wind farm.

Our power generating operations are located in the regionally interconnected power markets of northeastern Canada and the U.S., 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 16 transmission stations and 11 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 14 hydroelectric power generating stations owned by Brookfield Asset Management Inc. ("Brookfield"). These stations are located on 11 river systems in Brazil, have an installed capacity of 236 MW and can generate, on an annual basis, in excess of 1,150 GWh of electricity.

We are focused on delivering long-term sustainable cash flows through the operation of low-cost hydroelectric power generating facilities located on multiple river systems. This geographic distribution of our facilities provides a diversification of water flows that minimizes the impact of fluctuating hydrology. We also have access to reservoirs with sufficient water storage to produce 20% of our annual generation. We strive to maximize the stability and predictability of power generating revenues through the use of long-term fixed price contracts and a managed hedging strategy that serve to minimize the impact of price fluctuations.

We are committed to expanding our power generation base by strategically acquiring and developing renewable energy projects such as hydroelectric facilities and wind farms. Our acquisitions in the past few years have allowed us to establish a geographic presence in several regions. We will continue to identify new opportunities to optimize the performance of our portfolio and to expand and continue our diversification strategy in 2007 and beyond.

We are a wholly owned subsidiary of Brookfield, an asset manager. Focused on property, power and infrastructure assets, Brookfield has approximately $70 billion of assets under management and is publicly listed on both the Toronto and New York Stock Exchanges under the symbol BAM.

OVERVIEW OF THE QUARTER

During the first quarter of 2007, we obtained approval from the New York State comptroller on the 15-year power purchase agreement ("PPA") with the Long Island Power Authority ("LIPA") and we completed the acquisition of two hydroelectric facilities located in New York.

The LIPA contract consists of the sale at a fixed price of 345 MW of capacity up to May 2010 and 100 MW thereafter, 280 MW of super peak energy (5 hours per day during peak days) and 65 MW of peak energy. The contracted capacity and energy will be supplied by our pumped storage facility located in New England.

The acquired facilities have a combined capacity of 6 MW and are capable of producing 35 GWh of electricity annually. All generation from these facilities is sold under a long-term PPA at a fixed rate until 2008 and at a floating price thereafter. The total cost of the acquisition was $16 million.

Subsequent to the end of the quarter, we secured $220 million of new property specific debt for our pumped storage facility as well as for the Rumford hydroelectric generating station acquired in June 2006.

Also, the Company is considering the transfer of its transmission operations located in Northern Ontario to a publicly traded entity created by Brookfield to own, initially, their infrastructure investments in timberland and electricity transmission. Brookfield will continue to manage the assets and retain an approximate 40% ownership interest. The transaction is expected to close in 2007, pending all necessary regulatory approvals.

Water reservoirs were slightly above long-term average levels at the end of the first quarter of 2007 but, because of lower than normal snow conditions and inflows towards the end of the period in Ontario, generation for the remainder of 2007 is expected to be in line with the long-term average.

OPERATING RESULTS

Net income for the first quarter of 2007 was $19 million, $38 million lower than the $57 million earned in the first quarter of 2006. The main factors contributing to this variance, which will be discussed in more detail later in this MD&A, are a lower net operating income from operations ($14 million), a higher net unrealized loss on derivatives ($19 million), higher interest and financing fees ($8 million) and higher depreciation and amortization ($7 million). A lower provision for income taxes ($13 million) partly offset these negative variances.

	Three months ended March 31	
$ millions	**2007**	2006
Net operating income	**$ 182**	$ 196
Investment income and other	**6**	8
Unrealized derivative (loss) gain	**(18)**	1
Interest and financing fees	**(97)**	(89)
Depreciation and amortization	**(36)**	(29)
Non-controlling interests	**(9)**	(8)
Provision for income taxes	**(9)**	(22)
Net income	**$ 19**	$ 57

Net operating income is our principal focus for performance measurement since it is a tangible measurement and best reflects the value of our power assets. We define net operating income as revenues from our power operations, net of operating and maintenance costs, fuel purchases for the cogeneration plants, power purchases, selling, marketing and administration expenses and property and other generation taxes on our facilities. Net operating income is a non-GAAP measure and may differ from definitions of net operating income used by other companies.

NET OPERATING INCOME

	Capacity		Invested Capital		Net Operating Income	
(MW and $ millions)	**March 31 2007**	Dec. 31 2006	**March 31 2007**	Dec. 31 2006	**March 31 2007**	March 31 2006
Hydroelectric generation						
Ontario	**897**	897	**$ 770**	$ 762	**$ 30**	$ 40
Quebec	**277**	277	**376**	371	**22**	40
British Columbia	**127**	127	**135**	133	**2**	4
New England	**240**	240	**382**	383	**17**	16
New York and other northeastern markets	**838**	832	**986**	975	**49**	51
Louisiana	**192**	192	**335**	339	**37**	29
Total hydroelectric generation	**2,571**	2,565	**2,984**	2,963	**157**	180
Wind generation	**189**	189	**328**	324	**7**	-
Other power generation	**815**	815	**215**	165	**10**	10
Development projects	**-**	-	**27**	25	**-**	-
Total power generation	**3,575**	3,569	**3,554**	3,477	**174**	190
Transmission and distribution	**-**	-	**148**	146	**8**	6
Other assets	**-**	-	**2,403**	2,249	**-**	-
Total	**3,575**	3,569	**$ 6,105**	$ 5,872	**$ 182**	$ 196

Net operating income of $182 million is $14 million lower than the first quarter of 2006. The contributions to our net operating income from hydroelectric and wind facilities acquired or commissioned in 2006 and 2007 helped to offset the effect of lower generation caused by lower inflows and lower realized prices from hydroelectric facilities owned throughout 2006 and 2007.

Quarters ended March 31 (GWh)	Long-term Average (LTA)	Actual Production **2007**	 2006	Variance to LTA	 2006
Existing capacity as at December 31, 2005					
Ontario	599	**583**	661	(16)	(78)
Quebec	401	**461**	520	60	(59)
British Columbia	148	**126**	165	(22)	(39)
New England	293	**339**	359	46	(20)
New York and other northeastern markets	811	**983**	1,080	172	(97)
Louisiana	286	**279**	214	(7)	65
Total existing capacity as at December 31, 2005	2,538	**2,771**	2,999	233	(228)
Acquisitions – during 2007 [(1)]	5	**4**	-	(1)	4
Acquisitions – during 2006	273	**295**	18	22	277
Total hydroelectric operations	2,816	**3,070**	3,017	254	53
Wind generation	139	**138**	-	(1)	138
Other power generation	269	**308**	272	39	36
Total generation	3,224	**3,516**	3,289	292	227

(1) Long-term average is adjusted to reflect the date of acquisition or commissioning of the facilities.

Generation in most regions from assets owned throughout 2006 and 2007 was lower year over year due to a return to more normal hydrology but remain significantly above our long-term average. Total generation during the period was almost 10% higher than our long-term average (Q1 2006 – 16%). During the first quarter, hydroelectric assets acquired or commissioned in 2006 and 2007 added 281 GWh over last year. Our recently commissioned wind farm in Northern Ontario contributed an additional 138 GWh during the quarter, which was in line with our expectations.

HYDROELECTRIC GENERATION

Quarters ended March 31 (GWh and $ millions)	**2007** **Actual Production**	 **Revenues**	 **Operating Costs**	 **Net operating income**	2006 Actual Production	 Revenues	 Operating Costs	 Net operating income
Ontario	**618**	**$ 41**	**$ 11**	**$ 30**	679	$ 50	$ 10	$ 40
Quebec	**461**	**28**	**6**	**22**	520	46	6	40
British Columbia	**126**	**4**	**2**	**2**	165	5	1	4
New England	**419**	**24**	**7**	**17**	359	22	6	16
New York and other northeastern markets	**1,167**	**68**	**19**	**49**	1,080	67	16	51
Louisiana	**279**	**43**	**6**	**37**	214	35	6	29
Total	**3,070**	**$ 208**	**$ 51**	**$ 157**	3,017	$ 225	$ 45	$ 180
Per MWh		**$ 68**	**$ 17**	**$ 51**		$ 75	$ 15	$ 60

Realized prices from our hydroelectric facilities decreased to $68 per megawatt hour (MWh) but remain well above market price due to our strategy to sell much of our power under long-term PPAs or financial contracts. Spot electricity prices in all of our markets were comparable with those of the same period in 2006 but realized prices for the first quarter were impacted by prices on financial contracts that settled in the first quarter of 2007 at a lower price than the contracts that settled in the same period in 2006.

ONTARIO

Net operating income in Ontario was $10 million lower in the first quarter of 2007 than the same period in 2006, due to lower generation, ancillary revenue, and prices from financial contracts.

QUEBEC

In Quebec, net operating income was lower by $18 million in 2007, mainly the result of lower prices on contracts that settled in the first quarter of 2007 compared with those that settled in the same period in 2006. Lower generation was partly offset by higher revenue from capacity.

BRITISH COLUMBIA

Net operating income in British Columbia was impacted by the unavailability of one unit at the Lois generating station for the entire quarter due to planned maintenance. The unit was put back in service in April at 50% of its capacity.

NEW ENGLAND

Revenue in New England for the first quarter of 2007 was $2 million higher than in 2006, due to an increase of 60 GWh in generation and higher revenue from our capacity. The lower value of financial contracts also impacted us in New England.

NEW YORK AND OTHER NORTHEASTERN MARKETS

Revenue in New York and other northeastern markets was $1 million higher for the first quarter of 2007 versus 2006, due to higher capacity revenue and higher generation. Financial contracts that settled in the first quarter of 2007 were at a much lower price than those that settled during the first quarter of last year.

LOUISIANA

In Louisiana, net operating income was higher than last year as a result of strong hydrology and a stable cost base.

WIND POWER

Quarters ended March 31 (GWh and $ millions)	2007				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Wind power	**138**	**$ 9**	**$ 2**	**$ 7**	-	-	-	-

The Company commenced commercial operation of its wind farm during the third quarter of 2006. The 138 GWh of generation during the quarter is in line with the expected long-term average for the facilities (139 GWh). Overall, the wind farm contributed $7 million to the net operating income.

OTHER POWER GENERATION

Quarters ended March 31 (GWh and $ millions)	2007				2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Cogeneration (1)	**220**	**$ 19**	**$ 11**	**$ 8**	217	$ 19	$ 10	$ 9
Pumped storage	**88**	**10**	**8**	**2**	55	7	6	1
Total	**308**	**$ 29**	**$ 19**	**$ 10**	272	$ 26	$ 16	$ 10

(1) Includes gas resale power equivalent.

COGENERATION

Our cogeneration facilities include a 110 MW facility located in Ontario and a 105 MW facility located in New York. Generation at these facilities in the first quarter of 2007 was comparable to the same period in 2006, resulting in stable revenue of $19 million. Due in part to higher generation at the New York facility, fuel costs increased, resulting in a $1 million decrease in net operating income.

PUMPED STORAGE

The pumped storage generating station is located in New England and is capable of generating 600 MW of electricity using a reservoir that contains the equivalent of 3000 MWh. This facility will provide the capacity and super peak power under the 15-year contract with LIPA. The facility needs to buy off peak power to pump the water into the upper reservoir. Generation was 26 GWh higher in the first quarter of 2007 than in the comparable period of 2006 as a result of better price differentials between on peak and off peak prices, resulting in revenue and net operating income that were $3 million and $1 million higher than last year, respectively.

TRANSMISSION AND DISTRIBUTION

First quarter revenue from our transmission and distribution operations was $1 million higher than the same period last year, which is primarily the result of an increase in our asset base. This higher revenue, coupled with non-recurring operating costs incurred in 2006 of $1 million, allowed net operating income to increase by $2 million.

INVESTMENT INCOME AND OTHER

Investment and other income includes dividend income from long-term investments and the Company's securities portfolio, interest on cash and cash equivalents and gains and losses on foreign exchange. Investment and other income for the quarter totalled $6 million, which was $2 million lower than the same period of the prior year. The decrease is due to lower balance in our interest-earning deposits, less income earned from preferred share dividends and lower foreign exchange gains.

UNREALIZED DERIVATIVE LOSSES AND GAINS

During the first quarter of 2007, we recorded a net unrealized loss of $18 million as the result of the valuation of our derivatives, compared to a net unrealized gain on commodity derivatives of $1 million for the same period of 2006. Our derivatives are composed of financial contracts that are in place to economically hedge physical generation in future months and also includes the 15-year contract with LIPA and a long-term PPA with an affiliate of Brookfield that were both determined to be non-financial derivatives.

As the PPAs 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)

INTEREST AND FINANCING FEES

Interest and financing fees were $8 million higher than the same period in 2006. The higher costs are mainly the result of $5 million of interest on the bank facility for the wind farm, which was not drawn on until the third quarter of 2006, and interest expenses on the additional corporate debt following the issuance of medium-term notes in November of 2006. Interest on the capital securities totalled $31 million during the first quarter of 2007, in line with amounts recorded during the first quarter of 2006.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization is $7 million higher than the same period of 2006, going from $29 million to $36 million. The majority of this increase ($6 million) is the result of the facilities acquired or commissioned during 2006.

NON-CONTROLLING INTERESTS

Non-controlling interests relate mostly to the Fund and our Louisiana operations. The increase of $1 million from $8 million in the first quarter of 2006 is due mainly to strong first quarter results in Louisiana, which were partly offset by lower net income in the Fund.

PROVISION FOR INCOME TAXES

The provision for income taxes was $13 million lower than the first quarter of 2006, largely as the result of lower net income before taxes.

CAPITAL RESOURCES AND LIQUIDITY

Our strong and flexible capital structure enables us to provide financial stability and a low cost of capital to our operations and to react quickly to acquisition opportunities.

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. We continue to have a strong balance sheet and healthy financial ratios. We maintained current cash and cash equivalents of $95 million as at March 31, 2007, in addition to $242 million of un-drawn credit facilities (net of letters of credit), $158 million from our short-term investment portfolio and a net amount due from our shareholder of $573 million. 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.

We continue to maintain investment grade unsecured issuer ratings from DBRS (BBB (High)), Standard and Poor's (BBB) and Fitch (BBB-), which are 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, minimizing risks associated with liquidity and refinancing.

CASH FLOW FROM OPERATING ACTIVITIES

In the first quarter of 2007, excluding the changes in non-cash working capital, we generated $96 million from operating activities, $17 million lower than the $113 million generated in the same period of 2006. Cash from operating activities includes interest paid on capital securities totalling $31 million (2006 - $31 million). Non-cash working capital decreased in the first quarter of 2007 by $16 million for the period, compared to an increase of $23 million in the first quarter of 2006, primarily as a result of the change in the carrying value of commodity derivatives.

INVESTING ACTIVITIES

In the first quarter of 2007, we completed the acquisition of two hydroelectric facilities in New York for $16 million. In addition, we invested $20 million during the quarter to strengthen, preserve and enhance the reliability of our operations.

Other assets, which are included in derivatives and other assets on the balance sheet, decreased by $16 million, mostly due to the reclassification of $30 million of deferred financing fees to reflect the new accounting standards adopted as of January 1, 2007. This change was partly offset by an increase in cash held in escrow as per the requirements of the partnership agreement related to our Louisiana operations. This cash is expected to be released in the second quarter of 2007.

FINANCING ACTIVITIES

No new debt was issued during the first quarter of 2007. The credit facility related to the wind operations was fully drawn during the quarter. Also, the facility's maturity date was extended, from the original date of August 1, 2007 to December 1, 2007. This facility is expected to be replaced by long-term debt secured by the wind farm, with a projected closing date in the third quarter of 2007. Repayments of property specific debt made during the quarter totalled $6 million.

We have access to a revolving unsecured credit facility of $350 million, which matures in April 2009. No amounts have been drawn on this facility, although $108 million in letters of credit have been issued against it.

Dividends paid to holders of common shares and interest on the equity portion of capital securities totalled $13 million during the quarter, consistent with 2006.

Distributions to non-controlling interests totalled $7 million for the period, the same amount as the comparable period of 2006.

SUMMARY OF HISTORICAL 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.

$ millions (except generation)	**2007**	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Power generated (GWh)	**3,516**	3,063	2,516	3,131	3,289	2,609	1,942	2,750
Revenues	**257**	208	175	220	261	206	139	200
Net operating income	**182**	130	117	152	196	125	83	119

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 2006 annual consolidated financial statements. With the exception of the LIPA agreement previously discussed in this MD&A, there have been no material changes for the quarter ended March 31, 2007 to the disclosures related to the guarantees.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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, 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.

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.

As a result of the adoption of new accounting standards effective January 1, 2007, we now show the fair value of all of our derivatives on our balance sheet, including the derivatives that are hedging price risk associated with future generation. The change in the fair value of derivatives designated as cash flow hedges are reported in comprehensive loss while changes in all other derivatives are included in net income.

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).

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).

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.

RELATED PARTY TRANSACTIONS

In the normal course of operations, the Company enters into agreements and transactions with Brookfield and some of its affiliates. The Company also holds short and long-term investments in Brookfield and its subsidiaries that generate revenue.

$ millions	Three months ended March 31	
	2007	2006
Revenues		
Sale of power and tolling agreement	**$ 7**	$ 15
Investment income and other		
Interest earned on demand deposits, promissory notes, and securities with affiliated companies	**$ 4**	$ 6
Expenses		
Interest expense on note payable	**$ 3**	$ 3
Insurance services from Riskcorp Inc.	**$ 4**	$ 3

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 (Significant Accounting Policies) of the 2006 annual consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates include determination of accruals, levelized accounting, valuation of commodity derivatives, purchase price allocations, useful lives, asset impairment testing, future income tax liabilities 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.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The notes to the 2006 annual consolidated financial statements include a summary of the significant accounting policies used in the preparation of the consolidated financial statements. During the period ended March 31, 2007, the Company has implemented the new sections of the Canadian Institute of Chartered Accountants ("CICA") handbook related to financial instruments.

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 Financial 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
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.

FUTURE ACCOUNTING POLICY CHANGES

On December 1, 2006, the Accounting Standards Board ("AcSB") 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 us on January 1, 2008.

Section 1535 establishes standards for disclosing information about the Company's capital and how it is managed. It required 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 consolidated 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 consolidated financial statements.

On March 29, 2007, the AcSB issued an Exposure Draft to amend Section 3461, Employee Future Benefits. The Exposure Draft addresses, in a limited manner, the recognition, measurement, presentation and disclosure requirements of accounting for employee future benefits. The AcSB expects to publish a Background Information and Basis for Conclusions document to accompany the Exposure Draft in May 2007. The recognition and related disclosures provisions will be effective for the fiscal year ending on December 31, 2007 and the measurement date provisions will be effective for the fiscal years ending December 31, 2008. The amendments improve the completeness and understandability of balance sheet information by recognizing the funded status of a defined plan in the balance sheet. The Company is currently evaluating the impact of the Exposure Draft on the consolidated financial statements.

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 2006. For additional information, please refer to the management's discussion and analysis filed with the last audited financial statements, as well as the annual information form filed by Brookfield Power Corporation.

ANNUAL INFORMATION FORM

The Company's subsidiary, Brookfield Power Corporation, prepares an AIF that includes information on the Company's business and can be accessed on SEDAR at www.sedar.com, filed under the name of "Brookfield Power Corporation."

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 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. For more information on these and other risk factors, please review the Company's most recent annual report and Brookfield Power Corporation's annual information form, both of which are filed on SEDAR at www.sedar.com.

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 15, 2007, the date of this MD&A.

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