Brookfield Power

2006 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MARCH 30, 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 past twelve months, the fourth quarter of 2006 and the comparable periods 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 our audited consolidated 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 NI 51-102 of the Ontario Securities Commission.

OVERVIEW OF THE BUSINESS

As at December 31, 2006, we own and operate, throughout North America, 125 hydroelectric power generating stations located on 40 river systems with an installed capacity of 2,565 megawatts ("MW") and capable of generating more than 10,000 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 Ontario, Quebec, New England and New York (in which we include the Pennsylvania, New Jersey and Maryland (PJM) market), 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 13 hydroelectric power generating stations owned by Brookfield Asset Management Inc. ("Brookfield"). These stations are located on 10 river systems in Brazil, have an installed capacity of 223 MW and can generate, on an annual basis, in excess of 1,150 GWh of electricity.

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.

OPERATING STRATEGY AND OUTLOOK

We are focused on delivering long-term sustainable cash flows through the operation of low-cost hydroelectric power generating facilities. 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. In addition, we manage production fluctuations through the diversification of our watersheds and the use of water reservoirs.

We are committed to expanding our power generation base by strategically acquiring and developing renewable energy projects such as hydroelectric facilities and wind farms. During the year, we increased generating capacity by 380 MW through the acquisition of seven hydroelectric facilities in Ontario, Maine and West Virginia and the development and commissioning of our first wind farm in Northern Ontario. 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 expand and continue our diversification strategy in 2007 and beyond.

We will continue to preserve and enhance the value and reliability of our operations through capital additions and major maintenance work. To that end, we expect to spend approximately $150 million in the coming year for capital expenditures.

Overall, we are optimistic with our 2007 outlook. As at December 31, 2006, the majority of our reservoirs are at or above their expected seasonal levels. As such, long-term average continues to be the best estimate for anticipated generation in 2007. Prices have declined from the peak we saw in 2005, but are expected to improve from their 2006 levels. Due to the fact that over 80% of our 2007 production is already sold under contract, we are somewhat insulated from price fluctuations.

We continue to manage the business in a way that will optimize cash flows and create value.

PERFORMANCE MEASUREMENT

OVERVIEW

Net income for 2006 increased $46 million to $106 million. The increase is primarily the result of an increase in net operating income from operations ($144 million) offset by lower investment and other income ($22 million), higher interest and financing fees ($16 million), higher interest on capital securities ($5 million), higher depreciation and amortization ($22 million), higher non-controlling interest expense ($8 million) and higher income taxes ($25 million).

$ millions	**2006**	2005
Net operating income	**$ 605**	$ 461
Investment income and other	**26**	48
Interest and financing fees	**(244)**	(228)
Interest on capital securities	**(125)**	(120)
Depreciation and amortization	**(124)**	(102)
Non-controlling interests	**(24)**	(16)
(Provision for) recovery of current income taxes	**(8)**	17
Net income	**$ 106**	$ 60

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

As at and for the years ended December 31	Capacity		Invested Capital		Net Operating Income	
(MW and $ millions)	**2006**	2005	**2006**	2005	**2006**	2005
Hydroelectric generation						
Ontario	**897**	847	**$ 762**	$ 662	**$ 110**	$ 80
Quebec	**277**	277	**371**	374	**95**	54
British Columbia	**127**	127	**133**	131	**15**	14
New England	**240**	201	**383**	238	**55**	38
New York	**832**	730	**975**	847	**160**	124
Louisiana	**192**	192	**339**	353	**103**	112
Total hydroelectric generation	**2,565**	2,374	**2,963**	2,605	**538**	422
Other power generation	**1,004**	815	**489**	178	**39**	15
Development projects	**-**	-	**25**	79	**-**	-
Total power generation	**3,569**	3,189	**3,477**	2,862	**577**	437
Transmission and distribution	**-**	-	**146**	130	**28**	24
Other assets	**-**	-	**2,249**	2,376	**-**	-
Total	**3,569**	3,189	**$ 5,872**	$ 5,368	**$ 605**	$ 461

The financial performance achieved in 2006 was unprecedented. Net operating income increased by 31% to $605 million in 2006, compared with $461 million in 2005. This increase is the result of expanded capacity, improved hydrology over the long-term average and the prior year, and higher realized prices despite a lower market price environment.

Overall generation from hydroelectric assets owned at December 31, 2004, increased by 12% from 2005 and was 5% above our long-term average at 10,022 GWh. Strong generation levels in New York, Quebec and New England, resulting from high levels of precipitation, more than offset lower than average generation in Ontario and Louisiana. This additional generation contributed $51 million to the increase in our net operating income compared to 2005.

Years ended December 31 (GWh)	Long-term Average **(LTA)**	Actual Production **2006**	2005	Variance to **LTA**	2005
Existing capacity as at December 31, 2004					
Ontario	**2,412**	**1,898**	1,766	**(514)**	132
Quebec	**1,702**	**2,033**	1,475	**331**	558
British Columbia	**612**	**633**	659	**21**	(26)
New England	**1,024**	**1,144**	1,172	**120**	(28)
New York	**2,903**	**3,602**	3,025	**699**	577
Louisiana	**903**	**712**	813	**(191)**	(101)
Total existing capacity as at December 31, 2004	**9,556**	**10,022**	8,910	**466**	1,112
Acquisitions – during 2006 [1]	**456**	**472**	-	**16**	472
Acquisitions – during 2005	**227**	**238**	166	**11**	72
Total hydroelectric operations	**10,239**	**10,732**	9,076	**493**	1,656
Other power generation [1]	**1,198**	**1,267**	1,108	**69**	159
Total generation	**11,437**	**11,999**	10,184	**562**	1,815

[1] Long-term average is adjusted to reflect the date of acquisition of the facilities.

Expanded capacity from acquisitions and hydroelectric project developments in 2006 and 2005 generated 710 GWh in 2006 and added $31 million to our net operating income. In 2005 and 2006 we added 272 MW of new hydroelectric capacity to our portfolio in Ontario, New England, West Virginia, Pennsylvania and Maryland, as well as a 600 MW pumped storage facility in New England and a 189 MW wind farm in Northern Ontario. These additions furthered the diversification of our watershed and technology, thereby reducing our exposure to hydrology risk.

2006 was marked by a significant decrease in natural gas prices, which led to a 25% to 30% decrease in power prices from 2005, as most of the price setting capacity in our operating regions is set by gas fired facilities. Our strategy of selling our power under long-term and financial contracts mitigated part of the reduction in power prices. In addition, higher revenue from our capacity and our ability to capture peak pricing by using the flexibility of our assets also helped to offset the lower price environment seen in 2006.

HYDROELECTRIC GENERATION

	2006				2005			
Years ended December 31 (GWh and $ millions)	**Actual Production**	**Revenues**	**Operating Costs**	**Net operating income**	Actual Production	Revenues	Operating Costs	Net operating income
Ontario	**2,059**	**$ 151**	**$ 41**	**$ 110**	1,766	$ 117	$ 37	$ 80
Quebec	**2,033**	**119**	**24**	**95**	1,475	75	21	54
New England	**1,438**	**82**	**27**	**55**	1,274	63	25	38
New York	**3,857**	**229**	**69**	**160**	3,089	195	71	124
Other	**1,345**	**145**	**27**	**118**	1,472	153	27	126
Total	**10,732**	**$ 726**	**$ 188**	**$ 538**	9,076	$ 603	$ 181	$ 422
Per MWh		**$ 68**	**$ 18**	**$ 50**		$ 66	$ 20	$ 46

ONTARIO

Our revenues in Ontario were $34 million higher than the prior year and power generation increased 293 GWh from 2005, representing increases of 29% and 17% respectively. Our dispatching strategy of maximizing generation in periods when power is in higher demand, our strategy to sell forward a portion of our generation, the acquisition of four hydroelectric facilities in February 2006 that added 161 GWh of generation and $12 million in revenues, and the strengthening of the Canadian dollar offset the effect of market prices that were 30% lower than in 2005. Net operating income increased by $30 million, from $80 million in 2005 to $110 million in 2006.

QUEBEC

In Quebec, revenue from operations increased $44 million in 2006, totalling $119 million. The significant increase in generation from 1,475 GWh in 2005 to 2,033 GWh in 2006, an effective optimization of contracts and dispatch strategy and the strengthening of the Canadian dollar combined to help offset an overall decrease in market prices. The effect of the increase in revenue, partly offset by an increase in costs, resulted in an increase of net operating income of $41 million, from $54 million in 2005 to $95 million in 2006.

NEW ENGLAND

For 2006, our New England operations contributed $82 million to our revenue and $55 million of net operating income compared to $63 million of revenue and $38 million of net operating income in 2005. New England operations generated 13% more power in 2006, an increase of 164 GWh from 1,274 GWh in 2005 to 1,438 GWh in 2006. The increase in generation is primarily attributable to the Rumford Falls facilities acquired in 2006, which contributed an additional 170 GWh and $9 million in revenue. Existing facilities in New England generated 42 GWh more in 2006 than in 2005.

NEW YORK

Revenues increased by $34 million in 2006, from $195 million to $229 million, due in large part to strong hydrology in the region, which helped offset market prices that were 25% lower than in 2005. Power generated by our operations in New York increased to 3,857 GWh in 2006, from 3,089 GWh in 2005. The Hawks Nest facility acquired in October 2006 added 141 GWh to our total generation, as well as $4 million to both revenues and net operating income. The New York region contributed $160 million of net operating income, up from $124 million in 2005.

OTHER

Generation in other regions, which includes Louisiana and British Columbia, decreased by 127 GWh from 2005 due to poor hydrology, mostly in Louisiana. The lower generation led to a decrease of $8 million in both revenues (from $153 million in 2005 to $145 million) and net operating income (from $126 million to $118 million).

OTHER POWER GENERATION

Years ended December 31 (GWh and $ millions)	**2006** Actual Production	**2006** Revenues	**2006** Operating Costs	**2006** Net Operating Income	2005 Actual Production	2005 Revenues	2005 Operating Costs	2005 Net Operating Income
Cogeneration [1]	**901**	**$ 75**	**$ 44**	**$ 31**	921	$ 66	$ 45	$ 21
Pumped storage	**267**	**25**	**22**	**3**	187	21	18	3
Wind power	**99**	**7**	**2**	**5**	-	-	-	-
Power Sales to an affiliate	**-**	**-**	**-**	**-**	-	49	58	(9)
Total	**1,267**	**$ 107**	**$ 68**	**$ 39**	1,108	$ 136	$ 121	$ 15

(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. As the Company has long-term contracts in place to supply natural gas at favourable prices for its Ontario facility, we were able to take advantage of high natural gas prices at the beginning of 2006 and remarket a portion of our gas, generating an increase of $9 million in our revenues, from $66 million to $75 million. The favourable impact of the Canadian dollar exchange rate also contributed to the increase in revenues.

PUMPED STORAGE

The pumped storage facility, in its first full year of operations since acquisition, contributed 267 GWh of generation, compared to 187 GWh in 2005, and $25 million of revenue and $3 million in net operating income compared to the 2005 totals of $21 million and $3 million, respectively. During 2006, we secured a 15 year power sale agreement for this facility.

WIND POWER

During 2006, the Company commenced commercial operation of Canada's largest wind farm, located in Northern Ontario. Consisting of two phases, commissioned in September and November respectively, the Prince wind farm has a combined installed capacity of 189 MW. For 2006, the Wind operations contributed 99 GWh of generation, which added $7 million of revenues and $5 million to net operating income.

POWER SALES TO AN AFFILIATE

A contract to sell power to an affiliate expired in the second quarter of 2005. No amounts were recorded in 2006, compared to a net operating loss of $9 million in 2005.

TRANSMISSION AND DISTRIBUTION

As a result of the completion of the CAD$80 million transmission reinforcement project to strengthen our Northern Ontario transmission systems, revenue from transmission and distribution increased by $6 million from last year to $41 million. These higher revenues resulted in a 17% increase in net operating income over 2005.

Investment Income and Other

Investment and other income in 2006 amounted to $26 million, a decrease of $22 million from the prior year. Investment and other income consists of 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. In 2006, consistent with our long-term strategy of focusing on our core power operations, we used cash on hand and our demand deposits to help fund acquisitions, thereby lowering our interest-earning balances. Investment income and other in 2005 included a $6 million gain on foreign exchange. For 2006, the Company entered into foreign exchange contracts in order to mitigate the impact of fluctuations in the Canadian and U.S. dollars, thus minimizing foreign exchange gains and losses.

Interest and Financing Fees

Interest and financing fees increased from $228 million to $244 million in 2006, representing an increase of $16 million. Results for 2005 included a yield maintenance fee of $8 million as a result of the early redemption of the Great Lakes Power Trust first mortgage bonds. The main sources of the increase in interest and financing fees were the Lievre Power secured bonds obtained late in 2005, the project specific debt assumed when we acquired the Beaver Power facilities and the CAD$350 million in medium-term notes issued late in the year.

Interest on capital securities

Beginning in 2005, and following the retroactive adoption of CICA Handbook Section 3860, a large portion of the interest on the subordinated convertible debentures, which we refer to as capital securities, is recorded through the consolidated statement of income. Interest on the capital securities totalled $125 million in 2006, compared to $120 million in 2005. This increase is the result of the refinancing on June 30, 2005 of the CDN$248 million capital securities with new capital securities totalling $200 million, bearing interest at a higher rate.

Depreciation and Amortization

Depreciation and amortization increased by $22 million in 2006, from $102 million to $124 million, primarily due to depreciation on the Beaver Power, Rumford Falls, Prince wind farm and Hawks Nest assets acquired or commissioned during the year, as well as a full year of depreciation on power generating facilities acquired in 2005.

Non-controlling Interests

Non-controlling interests relate to income associated with the non-controlling interests in our consolidated entities. The increase of $8 million in 2006 compared to the prior year is primarily due to higher net income earned by the Fund. The portion of the Fund's net income attributed to the non-controlling interest is $21 million in 2006, compared to $11 million in 2005. The strong performance of the Fund was partly offset by low water inflows in Louisiana, which resulted in a decrease in the non-controlling interest in Louisiana's net income from $3 million in 2005 to $1 million in 2006.

Provision for Income Taxes

Provision for income taxes resulted in an expense of $8 million in 2006 compared to a $17 million recovery for 2005. This primarily resulted from the $71 million increase in net income before tax from 2005 to 2006. This increase is partly offset by a $15 million reduction in our future tax liability due to a decrease in future statutory income tax rates. A full reconciliation between the statutory tax rate and the effective tax rate is presented in the notes to the annual consolidated financial statements.

Investing Activities, 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. As at December 31, 2006, we maintained current cash and cash equivalents of $81 million in addition to the un-drawn credit facilities, liquidity from our short-term investment portfolio and amounts due from a related party. 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 2006 we generated $250 million from operating activities, an increase of $76 million from $174 million in 2005. Cash from operating activities includes interest paid on capital securities totalling $125 million (2005 - $120 million).

Non-cash working capital decreased by $20 million in 2006, compared to a decrease of $9 million in 2005, primarily as a result of an increase in the value of commodity derivatives and a decrease in collateral deposits.

INVESTING ACTIVITIES

	As at December 31	
$ millions	**2006**	2005
Power generating assets	**$ 3,623**	$ 2,992
Other assets	**948**	899
Total	**$ 4,571**	$ 3,891

In 2006, we completed the acquisitions of seven hydroelectric facilities in Ontario, Maine and West Virginia with a total capacity of 195 MW for cash consideration of $344 million and the assumption of $137 million of liabilities. These investments added $374 million to our power generating assets and $107 million to our other assets. In addition, we invested $276 million during the year (2005 - $76 million) on the construction of a 189 MW wind farm in Northern Ontario. Consistent with the Company's 20 year sustaining capital investment plan, we also invested $106 million in several capital projects during 2006 (2005 - $ 148 million) to preserve and enhance the reliability of our operations, including approximately $30 million in our New York operations, over $20 million on our Transmission and Distribution assets and close to $20 million on our Ontario assets.

Other assets increased by $49 million in 2006, from $899 million in 2005 to $948 million, due mainly to the $107 million of power purchase agreements, goodwill, FERC licenses and other long-term assets included in the acquisition of the seven hydroelectric facilities added during the year. This increase was partly offset by a reduction in cash held in escrow of $28 million, which was replaced with letters of credit where possible and a decrease in the value of commodity derivatives of $27 million. We also increased our investment in preferred shares of Brascan Brazil Limited by $24 million.

The investing activities described above were funded by operating cash flows and by financing activities and the use of $115 million of demand deposits.

FINANCING ACTIVITIES

	As at December 31	
$ millions	**2006**	2005
Credit facilities	**$ 249**	$ -
Property specific borrowings	**1,755**	1,680
Finance debt obligation	**808**	813
Corporate and other borrowings	**734**	524
Total	**$ 3,546**	$ 3,017

In 2006, financing activities included new borrowings of $249 million due under credit facilities related primarily to the construction of the Prince wind farm project in Ontario. The CDN$300 million facility can be drawn in Canadian funds, bears interest at either Canadian prime rate or CDOR rate plus applicable margin, or in U.S. funds, bearing interest at either the U.S. base rate or LIBOR plus applicable margin, is secured by Prince's assets, and will mature no later than August 1, 2007. We are currently in negotiations to extend the maturity of the facility.

We also have access to a revolving unsecured credit facility of $350 million (2005 - $200 million), which matures in April 2009. No amounts have been drawn on this facility, although $117 million of letters of credit have been issued against it.

The property specific borrowings are generally secured by the assets of the related property and, as such, limit our exposure in the unlikely case of default. The $75 million increase in property specific borrowings in 2006 is due primarily to assumed debt related to three hydroelectric facilities acquired during the year and to the financing of the Carmichael facility in Ontario, which was also acquired in 2006, partly offset by repayments on existing borrowings. We provided covenants to certain of our lenders as do most borrowers. As at December 31, 2006, the Company was in compliance with all covenants.

On November 1, 2006, we issued two series of medium-term notes totalling CDN $350 million. The Series 3 notes, in the amount of CDN$200 million, bear interest at 5.25% and mature in 2018. The Series 4 notes, in the amount of CDN$150 million, bear interest at 5.84% and mature in 2036. Interest on both notes is payable semi-annually. Proceeds from this issuance were used in part to repay the CDN$100 million Series 2 term debentures that matured on December 18, 2006.

Total borrowings for the year, including drawdowns on our credit facilities, the issuance of the medium-term notes, and the Carmichael financing, amounted to $598 million (2005 - $916 million). Principal repayments of $112 million were made during the year (2005 - $954 million) on our corporate and property specific borrowings, as well as on the finance debt obligation. A further $73 million (2005 - $15 million) was repaid on a related party junior note.

Dividends paid to holders of common shares and interest on the equity portion of capital securities totalled $53 million in 2006, consistent with 2005.

Distributions to non-controlling interests totalled $30 million in 2006 compared to $34 million in 2005 as a result of lower distributions related to our Louisiana hydroelectric facility. Distributions to unitholders of the Fund increased slightly in 2006.

CONTRACTUAL OBLIGATIONS

The following table summarizes our significant contractual obligations as of December 31, 2006:

$ millions	2007	2008	2009	2010	2011	Thereafter	Total
Long-term debt							
Property specific borrowings	$ 26	$ 25	$ 81	$ 11	$ 22	$ 1,590	$ 1,755
Finance debt obligation	11	19	29	38	42	669	808
Corporate and other debt	-	-	385	-	-	349	734
Capital securities	-	-	-	-	-	1,104	1,104
Capital projects (1)	26	-	-	-	-	-	26
Interest Expense (2)							
Property specific borrowings	110	109	106	102	102	1,111	1,640
Finance debt obligation	83	82	80	77	73	683	1,078
Corporate and other debt	39	39	38	21	21	276	434
Capital Securities	125	125	125	125	125	5,389	6,014
Total	$ 420	$ 399	$ 844	$ 374	$ 385	$ 11,171	$ 13,593

(1) In the normal course of operations, the Company has committed as at December 31, 2006 to spend approximately $26 million on capital projects in future years.

(2) Represents aggregate interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates.

On February 14, 2007, the Company purchased the assets of two run-of-the-river hydroelectric generating facilities located on the Raquette River in Potsdam, New York for an undisclosed purchase price. The two hydroelectric facilities have a combined capacity of 6 MW and are capable of generating approximately 35 GWh of hydroelectricity per year. All generation will be sold under a long-term power purchase agreement.

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. There have been no material changes for the year ended December 31, 2006 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 commodity and foreign exchange forward 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. Commodity swap settlements and unrealized gains and losses are recorded in power generation revenue. A net mark-to-market gain of $10 million (2005 - $ 11 million loss) has been recorded in 2006. The current and long-term portions of the recorded fair value of the non-hedging commodity swap asset are $11 million and $nil, respectively (2005 - $25 million and $27 million, respectively) and the current and long-term portions of the recorded fair value of the non-hedging commodity swap liability are $19 million and $3 million, respectively (2005 - $34 million and $34 million, respectively).

$ millions	**2006**		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	**$ 11**	**$ 47**	$ 52	$ 15
Commodity derivative liability	**(22)**	**(51)**	(68)	(204)
	$ (11)	**$ (4)**	$ (16)	$ (189)

The Company formally assesses, both at the hedge's inception and on an ongoing basis, 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. For the years ended December 31, 2006 and December 31, 2005, there was no ineffectiveness recorded in income for hedging contracts.

INTEREST RATE

On March 22, 2006, the Company entered into forward-starting interest rate swaps with a notional amount totalling CDN $300 million to hedge the interest rate risk associated with the anticipated issuance of fixed rate debt during 2007. Where the contracts are designated as an eligible hedge relationship they are accounted for on an accrual basis. As of December 31, 2006, the unrecorded loss on the interest rate swaps was $4 million (2005 - $nil).

FOREIGN EXCHANGE

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. As at December 31, 2006, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $4 million (2005 - $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. See note 5 of the consolidated financial statements for more detail on our related party transactions.

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 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 of 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 consolidated financial statements include a summary of the significant accounting policies used in the preparation of the consolidated financial statements. There have been no changes to these policies for the year ended December 31, 2006.

Recently Issued Canadian Accounting Standards

The Company will adopt the following accounting standards for Canadian generally accepted accounting principles on January 1, 2007.

Financial Instruments

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

Comprehensive Income
As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income (AOCI), will be added to shareholder's equity on the consolidated balance sheet. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. As at January 1, 2007, the Company's AOCI will mainly include unrealized foreign currency translation amounts and unrealized net gains on the mark-to-market of commodity derivatives.

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

Hedges
This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income. The ineffective portion will be recognized in net income. The amounts recognized in 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 income.

The anticipated net impact of these standards on the Company's consolidated financial statements as at January 1, 2007 is not yet determinable.

BUSINESS ENVIRONMENT

The unique nature of our hydroelectric operations provides many advantages over other forms of electricity generation. The advantages of hydroelectric power include a high level of reliability, low operating costs, operational flexibility to meet ongoing base load electricity needs and peak demands, minimal environmental impact, and reliance on water, a renewable resource.

RELIABILITY

The equipment involved in producing hydroelectric power has relatively few moving parts. Since the process does not include combusting fossil fuels at high temperatures or creating steam, there is minimal wear and tear on the machinery, which contributes to long-life, high reliability and low maintenance requirements. Unplanned outage rates for hydroelectric units are among the lowest in the electricity industry.

LOW OPERATING COSTS

Other than water royalties paid to some governmental authorities, hydroelectric facilities do not have any other significant variable costs, such as fuel costs, which can be quite material and highly volatile for fossil-fuel plants. As well, most hydroelectric plants can be operated remotely by a single person from a centralized control centre. Combined with the low maintenance and outstanding reliability of the equipment, operating expenses are comparatively low.

HIGH OPERATIONAL FLEXIBILITY

Hydroelectric plants can adjust quickly to changes in demand and, depending on the flow of the river and the storage capacity of the reservoirs, hydroelectric plants can service both the base power requirements of its customers as well as their peak power requirements.

LOW ENVIRONMENTAL IMPACT

Hydroelectric generation produces virtually no greenhouse gas emissions or acid rain, both of which have major impacts on the environment. Hydroelectric generation minimizes thermal, chemical, radioactive, water and air pollution as compared to fossil-fuel and nuclear facilities. Instead of producing substantial amounts of residual wastes during the power generation process, hydroelectric generation simply returns the water to the river.

RISKS

The following represents a summary of the most relevant risk factors relating to our business. This summary contains only certain risk factors and is not all-inclusive. For a more comprehensive description of these and other possible risks such as: force majeure, rate setting risks, operating and capital expenditure costs, insurance limits, health, safety, environmental, dam safety and litigation, please see the Brookfield Power Corporation Annual Information Form filed with SEDAR at www.sedar.com.

HYDROLOGY

The revenues generated by the power systems are directly correlated to the amount of electricity generated. The amount of electricity generated by the power systems is dependent upon available water flows. Accordingly, revenues and cash flows may be affected by low and high water flows in the watersheds. There can be no assurance that the long-term historical water availability will remain unchanged or that a material hydrologic event will not impact the hydrological conditions that exist within the watershed. We strive to mitigate the risk of variable hydrology conditions by acquiring and operating a portfolio of geographically diverse facilities across six regions in North America. The diversified locations of our power generating assets assist in balancing the impact of generation fluctuations in any one geographic region. We also have access to hydrology insurance. Overall, revenues and cash flows may not necessarily be affected by fluctuations in power generation resulting from variable water conditions.

EQUIPMENT FAILURE

There is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could adversely affect revenues and net operating income. Although the power systems have operated in accordance with expectations, there can be no assurance that they will continue to do so. Nevertheless, this risk is substantially mitigated by the proven nature of hydroelectric technology, the design of the plants, the power systems' capital programs, adherence to prudent maintenance programs, comprehensive insurance and significant operational flexibility as a result of having generating units which can operate independently.

FOREIGN EXCHANGE

The price paid for energy produced by our Canadian operations is denominated in Canadian dollars and, therefore, results may be affected by the fluctuations of the Canadian / U.S. dollar exchange rate over time. A material decrease in the value of the Canadian dollar may negatively impact our net operating income. The Canadian operations' operating expenses and financing costs incurred are also denominated in Canadian dollars, thus providing a natural hedge. In addition, we may manage the risk associated with foreign exchange rate fluctuations by entering, from time to time, into forward foreign exchange contracts and engaging in other hedging strategies. To the extent that we engage in risk management activities related to foreign exchange rates, it will then be subject to credit risks associated with the counterparties with which it contracts.

ENERGY PRICE FLUCTUATIONS

A significant portion of our revenue is tied, either directly or indirectly, to the spot market price for electricity in the compatible electricity market we operate in. Electricity price volatility could have a material adverse effect on our business, operating results, financial condition or prospects. We endeavour to maximize the stability and predictability of our power generating revenues by contracting future power sales to minimize the impact of price fluctuations, by diversifying watersheds, and by utilizing water storage reservoirs to minimize fluctuations in annual generation levels.

We actively manage our energy production and sales, partly through physical and financial contracts, mitigating the impact of price volatility. As at December 31, 2006, our PPAs have an average term of 13 years and counterparties are almost exclusively customers with long-standing credit history or investment grade ratings. Our policy is to use financial contracts, which typically have a term of up to 30 months, to lock in the future price of uncommitted power we are reasonably certain to generate. Of the energy expected to be generated in 2007, 82% is under contract and this approach provides an appropriate level of revenue stability, without exposure to undue risk of contractual shortfalls, and provides the flexibility to enhance profitability through the production of power during peak price periods. These activities are closely monitored through risk management policies.

The following table sets forth our contract profile over the next five years, assuming long-term average generation:

Years ended December 31	2007	2008	2009	2010	2011
Generation (GWh)					
Contracted:					
Power sales agreement	7,233	7,165	5,906	5,887	5,426
Financial contracts	3,635	2,903	292	287	-
Uncontracted	2,401	3,031	6,472	6,496	7,250
	13,269	13,099	12,670	12,670	12,676
Contracted revenues ($ millions)	$ 710	$ 666	$ 448	$ 447	$ 417
Price ($/MWh)	$ 65	$ 66	$ 72	$ 72	$ 77

REGULATORY REGIME AND GOVERNMENT PERMITS

The operation of the Company's generation assets is subject to regulation. Water rights are generally owned by governments which reserve the right to control water levels. Any new law or regulation could require additional expenditure to achieve or maintain compliance. Operations that are not currently regulated may become subject to regulation. Because legal requirements are frequently changing and are subject to interpretation, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations. Some of our operations are regulated by government agencies that exercise discretionary power conferred by statutes. Because the scope of such authority is uncertain and may be inconsistently applied, we are unable to predict the ultimate cost of compliance with these requirements or their effect on operations. The failure of the Company to obtain or maintain all necessary licenses, leases or permits, including renewals thereof or modifications thereto, may adversely affect our ability to generate income.

CREDIT

We are exposed to credit-related losses in the event of non-performance by counterparties to the financial and physical electricity and gas contracts. Credit risks arise from the potential for a counterparty to default on its contractual obligations and are limited to those contracts where we would incur a loss in replacing the defaulted transaction. The Company minimizes credit risk with counterparties to financial instruments and physical electricity and gas transactions through the selection, monitoring and diversification of counterparties, use of standard trading contracts, collateral and other credit risk mitigation techniques. As well, our power purchase agreements are almost exclusively with customers having long standing credit history or investment grade ratings.

LABOUR RELATIONS

While our labour relations have been stable to date and there have not been any disruptions in operations as a result of labour disputes with employees, the maintenance of a productive and efficient labour environment cannot be assured. In the event of a labour disruption such as a strike or lock out, the ability of the assets to generate income may be impaired. Our current collective agreements expire periodically and there are no assurances that we will be able to renew collective agreements without a labour disruption.

QUARTERLY ANALYSIS OF OPERATING RESULTS

OVERVIEW

Fourth quarter net income totalled $14 million, a decrease of $6 million from the net income of $20 million for the same quarter in the prior year. The decrease is primarily the result of higher interest and depreciation expenses, as well as a decrease in income tax recoveries.

$ millions	**2006**	2005
Net operating income	**$ 135**	$ 125
Investment income and other	**12**	4
Interest and financing fees	**(66)**	(61)
Interest on capital securities	**(31)**	(32)
Depreciation and amortization	**(34)**	(25)
Non-controlling interests	**(5)**	(1)
Future income taxes	**3**	10
Net income	**$ 14**	$ 20

NET OPERATING INCOME

As at and for the quarters ended December 31	Capacity		Invested Capital		Net Operating Income	
(MW and $ millions)	**2006**	2005	**2006**	2005	**2006**	2005
Hydroelectric generation						
Ontario	**897**	847	**$ 762**	$ 662	**$ 12**	$ 18
Quebec	**277**	277	**371**	374	**16**	12
British Columbia	**127**	127	**133**	131	**2**	3
New England	**240**	201	**383**	238	**12**	12
New York	**832**	730	**975**	847	**42**	48
Louisiana	**192**	192	**339**	353	**29**	16
Total hydroelectric generation	**2,565**	2,374	**2,963**	2,605	**113**	109
Other power generation	**1,004**	815	**489**	178	**16**	11
Development projects	**-**	-	**25**	79	**-**	-
Total power generation	**3,569**	3,189	**3,477**	2,862	**129**	120
Transmission and distribution	**-**	-	**146**	130	**6**	5
Other assets	**-**	-	**2,249**	2,376	**-**	-
Total	**3,569**	3,189	**$ 5,872**	$ 5,368	**$ 135**	$ 125

For the fourth quarter of 2006, net operating income totalled $135 million, representing an increase of $10 million when compared to the same quarter of 2005.

Overall generation from assets owned at December 31, 2004, totalled 2,357 GWh for the quarter, 4% above our long-term average and 3% above the corresponding quarter of 2005. Total generation for the period was 3,063 GWh, 4% above long-term average and 17% above the fourth quarter of 2005.

Quarters ended December 31	Long-term	Actual Production		Variance to	
(GWh)	Average **(LTA)**	**2006**	2005	**LTA**	2005
Existing capacity as at December 31, 2004					
Ontario	**562**	**280**	380	**(282)**	(100)
Quebec	**401**	**527**	366	**126**	161
British Columbia	**132**	**107**	154	**(25)**	(47)
New England	**246**	**282**	311	**36**	(29)
New York	**774**	**967**	998	**193**	(31)
Louisiana	**145**	**194**	82	**49**	112
Total existing capacity as at December 31, 2004	**2,260**	**2,357**	2,291	**97**	66
Acquisitions – during 2006 (1)	**227**	**265**	-	**38**	265
Acquisitions – during 2005	**50**	**61**	48	**11**	13
Total hydroelectric operations	**2,537**	**2,683**	2,339	**146**	344
Other power generation (1)	**399**	**380**	270	**(19)**	110
Total generation	**2,936**	**3,063**	2,609	**127**	454

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

HYDROELECTRIC GENERATION

Quarters ended December 31 (GWh and $ Millions)	2006 Actual Production	2006 Revenues	2006 Operating Costs	2006 Net Operating Income	2005 Actual Production	2005 Revenues	2005 Operating Costs	2005 Net Operating Income
Ontario	**325**	**$ 26**	**$ 14**	**$ 12**	380	$ 28	$ 10	$ 18
Quebec	**527**	**23**	**7**	**16**	366	18	6	12
New England	**393**	**20**	**8**	**12**	343	18	6	12
New York	**1,137**	**63**	**21**	**42**	1,014	70	22	48
Other	**301**	**38**	**7**	**31**	236	25	6	19
Total	**2,683**	**$ 170**	**$ 57**	**$ 113**	2,339	$ 159	$ 50	$ 109
Per MWh		**$ 63**	**$ 21**	**$ 42**		$ 68	$ 21	$ 47

ONTARIO

Generation in Ontario totalled 325 GWh in the fourth quarter of 2006, a decrease of 14% from the same quarter in 2005. Additional generation from the facilities acquired in 2006 mitigated part of the shortfall resulting from lower than average water inflows. Market prices were also 40% lower than 2005, but were partially offset by the Company's hedging and marketing strategies. As a result of lower revenues and higher operating costs related to units acquired and planned major maintenance, net operating income was $6 million lower than the fourth quarter of 2005.

QUEBEC

In Quebec, record-breaking rainfalls resulted in higher generation during the fourth quarter, totalling 527 GWh compared to 366 GWh for the same period last year. This 44% increase in generation provided additional revenues of $5 million, from $18 million in the fourth quarter of 2005 to $23 million for the same quarter of 2006. Costs in this region have remained relatively stable, thus providing for an additional $4 million in net operating income.

NEW ENGLAND

The New England region contributed $20 million of revenue in the fourth quarter of 2006 compared to $18 million for the same period in 2005. Power generated during the quarter increased by 15%, from 343 GWh in 2005 to 393 GWh in 2006. The increases in generation and revenues are primarily attributable to the Rumford Falls acquisition, which added 78 GWh and $4 million in revenues. Generation from other facilities decreased by 28 GWh. Total costs for the region increased by $2 million, largely the result of Rumford Falls and planned maintenance projects. Overall, our New England operations generated $12 million of net operating income in 2006, consistent with 2005.

NEW YORK

In New York, power generation increased from 1,014 GWh in the fourth quarter of 2005 to 1,137 GWh for the same period of 2006, an increase of 12%. The increase in power generation was offset by lower prices in the region, resulting in a revenue decrease of $7 million from last year. Costs were relatively stable for the fourth quarter, resulting in net operating income for the region of $42 million, a decrease of $6 million from 2005.

OTHER

Generation in Other regions increased by 65 GWH or 28%, mainly as a result of above average hydrological conditions in Louisiana. The increased generation allowed revenues and net operating income to increase $13 million and $12 million, respectively.

OTHER POWER GENERATION

Quarters ended December 31 (GWh and $ Millions)	2006 Actual Production	2006 Revenues	2006 Operating Costs	2006 Net operating income	2005 Actual Production	2005 Revenues	2005 Operating Costs	2005 Net operating income
Cogeneration [1]	**229**	**$ 22**	**$ 11**	**$ 11**	222	$ 21	$ 11	$ 10
Pumped storage	**58**	**5**	**5**	**-**	48	17	16	1
Wind power	**93**	**6**	**1**	**5**	-	-	-	-
Total	**380**	**$ 33**	**$ 17**	**$ 16**	270	$ 38	$ 27	$ 11

(1) Includes gas resale power equivalent.

COGENERATION

Our cogeneration facilities provided 229 GWh of power generation in the fourth quarter of 2006 versus 222 GWh during the same period of 2005. Revenue of $22 million was $1 million higher, due in part to the favourable impact of the Canadian dollar exchange rate. Operating costs were stable at $11 million, resulting in $1 million more in net operating income in the fourth quarter of 2006.

PUMPED STORAGE

The pumped storage facility contributed 58 GWh of generation, an increase of 21% from the 48 GWh generated in the fourth quarter of 2005. Net operating income decreased by $1 million as a result of a mark-to-market adjustment.

WIND POWER

The fourth quarter of 2006 saw the commissioning of the second phase of the Prince wind farm in Northern Ontario. With both phases operational from mid-November onward, the wind operations contributed 93 GWh of generation and provided $6 million of revenues and $5 million of net operating income.

TRANSMISSION AND DISTRIBUTION

Transmission and distribution had revenues of $10 million in the fourth quarter of 2006, an increase of $1 million from the fourth quarter of 2005. This is mainly the result of a stronger Canadian dollar and of additional investments approved by the Ontario Energy Board in 2006. Costs were stable, resulting in net operating income for the period of $6 million, compared to $5 million for the same period in 2005.

INVESTMENT AND OTHER INCOME

Investment and other income increased by $8 million largely due to gains realized on the sale of long-term investments.

INTEREST AND FINANCING FEES

During the fourth quarter of 2006, interest and financing fees increased by $5 million compared to the same period in 2005. The addition and assumption of debt during the year added $7 million while the stronger Canadian dollar increased interest expense by $2 million. These increases were partly offset by lower interest rates on debt that was re-financed in late 2005 ($4 million).

DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the fourth quarter of 2005 totalled $34 million, which is $9 million higher than the same period in 2005. The increase in depreciation and amortization is due to the acquisitions made during the year, the commissioning of the wind farm in Northern Ontario, and additions made to the existing capital base.

NON-CONTROLLING INTERESTS

Non-controlling interests relate to income associated with the non-controlling interests in the Company's consolidated entities. The increase of $4 million in the fourth quarter of 2006 is related mostly to higher quarterly net income in Louisiana, which had incurred a loss in the fourth quarter of 2005.

PROVISION FOR INCOME TAXES

The Company had a tax recovery of $3 million in the fourth quarter of 2006 compared to $10 million in 2005. This reduction of $7 million is primarily related to provisions for income taxes on higher taxable income.

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)	**2006**				2005			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Power generated (GWh)	**3,063**	**2,516**	**3,131**	**3,289**	2,609	1,942	2,750	2,883
Revenues	**213**	**178**	**221**	**262**	206	139	200	229
Net operating income	**135**	**120**	**153**	**197**	125	83	119	134

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."

CERTIFICATION OF ANNUAL FILINGS

Form 52-109F1 - Certification of Annual Filings is filed concurrently with this document on SEDAR.

The Chief Executive Officer and the Chief Financial Officer of the Company (together the "Officers") are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting (as defined in the Canadian Securities Administrators' Multilateral Instrument 52-109). These responsibilities include designing the Company's disclosure controls and procedures and internal control over financial reporting, or causing them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period during which the annual filings are being prepared and to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP, respectively.

With respect to disclosure controls and procedures, the Company's management, including the Officers, has evaluated the effectiveness of the Company's disclosure controls and procedures as of December 31, 2006. Based on that evaluation, the Officers concluded that such disclosure controls and procedures were effective as of December 31, 2006 in providing reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

With respect to internal control over financial reporting, during the Company's most recent interim period, there were no changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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. More details relating to risk factors can be found in the sections entitled "Business Environment" and "Risks," starting on page 12.

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 March 30, 2007, the date of this MD&A.

/s/ Donald Tremblay

Donald Tremblay
Executive Vice President and Chief Financial Officer