MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2006

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 11, 2006

INTRODUCTION

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

OVERVIEW OF THE BUSINESS

As at June 30, 2006, we own and operate 125 hydroelectric power generating stations throughout North America, located on 39 river systems and 2 co-generation plants with an installed capacity of 3,278 MW, capable of generating more than 11,300 GWh of electricity annually.

Our power generating operations are located in the regionally interconnected markets of Ontario, Quebec, New England and New York, as well as British Columbia and Louisiana. We also own a regulated transmission and distribution business in Ontario. The transmission and distribution business consists of 16 transmission stations and 15 distribution stations servicing approximately 11,500 customers. Some of our assets are owned through Great Lakes Hydro Income Fund ("the Fund"), a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: "GLH.UN"). The Company also operates 12 hydroelectric power generating stations in Brazil owned indirectly by Brookfield Asset Management Inc. ("Brookfield"). The Company, which has a preferred share investment in the company which owns these facilities, manages the operations. These stations are located on 9 river systems in Brazil, have an installed capacity of 205 MW and can generate, on an annual basis, in excess of 900 GWh of electricity.

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

PERFORMANCE MEASUREMENT

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

PERFORMANCE OVERVIEW

The 2006 financial results of the Company continue to outperform those of 2005. Net operating income totalled $153 million in the second quarter of 2006, representing an increase of $34 million or 29% over the same quarter of 2005. This increase was mainly due to increased production from both existing hydro facilities and facilities we acquired in 2005 and 2006, optimization of our contracts, effective hedging strategies, as well as improvements realized through additional arbitrage and higher ancillary revenues and other initiatives. For the year to date, net operating income has increased by $96 million from the $253 million earned for the six months ended June 30, 2005.

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

Overall generation from assets owned at June 30, 2006, before the contribution of 2005 and 2006 acquisitions, totalled 2,901 GWh for the quarter, 10% above the corresponding quarter of 2005, resulting from favorable inflows in the Ontario, Quebec, New England and New York power systems.

GENERATION	Three months ended June 30			Six months ended June 30		
Gigawatt hours	**2006**	2005	Long-term average(1)	**2006**	2005	Long-term average(1)
Assets owned at December 31, 2004						
Ontario	**561**	425	684	**1,222**	1,034	1,282
Quebec	**508**	469	475	**1,028**	859	881
British Columbia	**197**	178	177	**362**	343	325
New England	**279**	297	273	**601**	603	534
New York	**903**	752	849	**1,947**	1,568	1,627
Louisiana	**234**	274	319	**448**	620	605
Gas Co-generation	**219**	233	222	**436**	451	439
	2,901	2,628	2,999	**6,044**	5,478	5,693
Acquisitions – 2005	**132**	122	94	**260**	153	197
Acquisitions – 2006	**98**	-	93	**116**	-	126
	3,131	2,750	3,186	**6,420**	5,631	6,016

(1) Long-term average generation is a measurement of historical production for hydroelectric generating stations and planned generation for the cogeneration and pumped storage facility. These figures are adjusted for the date of acquisition of the facilities.

Financial results for the six months ended June 30, 2006 compared to 2005 are shown in the following tables:

Millions	**Six months ending June 30, 2006**			Six months ending June 30, 2005		
	GWh	**Revenue**	**Net operating income**	GWh	Revenue	Net operating income
Hydroelectric generation						
Ontario	**1,317**	**$ 90**	**$ 76**	1,034	$ 60	$ 48
Quebec	**1,028**	**69**	**62**	859	44	39
British Columbia	**362**	**12**	**10**	343	11	8
New England	**691**	**39**	**30**	656	33	25
New York	**2,006**	**120**	**93**	1,596	94	67
Louisiana	**448**	**75**	**63**	620	95	83
	5,852	**405**	**334**	5,108	337	270
Gas co-generation	**436**	**36**	**14**	451	28	8
Transmission and Distribution	**n/a**	**21**	**14**	n/a	18	12
Other	**132**	**21**	**(13)**	72	46	(37)
	6,420	**$ 483**	**$ 349**	5,631	$ 429	$ 253
Hydroelectric revenue / MWh (in $)		**$ 69**			$ 66	

Millions	**Three months ending June 30, 2006**			Three months ending June 30, 2005		
	GWh	**Revenue**	**Net operating income**	GWh	Revenue	Net operating income
Hydroelectric generation						
Ontario	**639**	**$ 41**	**$ 34**	425	$ 26	$ 20
Quebec	**508**	**23**	**20**	469	22	20
British Columbia	**197**	**7**	**6**	178	6	4
New England	**332**	**17**	**12**	330	17	13
New York	**925**	**54**	**40**	769	45	35
Louisiana	**234**	**40**	**34**	274	43	37
	2,835	**182**	**146**	2,445	159	129
Gas co-generation	**219**	**17**	**5**	233	14	3
Transmission and Distribution	**n/a**	**11**	**8**	n/a	8	5
Other	**77**	**11**	**(6)**	72	19	(18)
	3,131	**$ 221**	**$ 153**	2,750	$ 200	$ 119
Hydroelectric revenue / MWh (in $)		**$ 64**			$ 65	

ONTARIO

In Ontario, generation totalled 639 GWh for the quarter, an increase of 50% over the same quarter of 2005. Quarterly revenues were $15 million higher than last year, as a result of improved water inflows, effective hedging and dispatch strategies and the favourable impact of the Canadian dollar exchange rate. Our dispatching strategy consists of maximizing generation in periods when power is in higher demand. Costs have remained stable, thus providing for an additional $14 million in net operating income. The acquisition of four hydroelectric facilities in February 2006 contributed $4 million to net operating income during the quarter ($6 million since acquisition).

QUEBEC

In Quebec, generation during the second quarter totalled 508 GWh compared to 469 GWh for the same period last year. Revenues and net operating income, however, remained stable for the second quarter at $23 million and $20 million, respectively, in comparison with the second quarter of 2005 ($22 million and $20 million) due to soft prices in the Quebec market.

BRITISH COLUMBIA

In British Columbia, hydrology conditions for the second quarter of 2006 were improved compared to the corresponding quarter of the previous year, generating 197 GWh in 2006 in comparison to 178 GWh in 2005. As a result, revenues increased to $7 million from $6 million, and net operating income increased to $6 million from $4 million for the quarter.

NEW ENGLAND

In New England, results remain consistent with 2005. The acquisition of two hydroelectric facilities, which closed in June, contributed $1 million to net operating income.

NEW YORK

In New York, power generation increased by 156 GWh, from 769 GWh in the second quarter of 2005 to 925 GWh for the same period of 2006, a positive variation of 20%. This increase in generation is mostly responsible for the higher revenue of $54 million as compared to $45 million last year. New York continues to be our most significant region, with second quarter net operating income for the region increasing by 14% to $40 million.

LOUISIANA

Generation in Louisiana totalled 234 GWh during the second quarter of 2006, 15% below the 274 GWh generated during the same period of 2005. Even though generation in this region continued to improve, it remained below long-term average during the second quarter. Lower generation was a direct result of poor hydrology conditions, which contributed to the decrease in revenue from $43 million for the second quarter of 2005 to $40 million in 2006. Costs have remained relatively stable, resulting in the same $3 million decrease in net operating income as witnessed in revenues in comparison to last year.

CO-GENERATION

Co-generation facilities contributed 219 GWh in the second quarter of 2006 versus 233 GWh during the same period of 2005. The incremental profit from gas remarketing during the quarter and the favourable impact of the Canadian dollar exchange rate positively impacted our revenue. The combination of higher revenue and comparable operating costs resulted in a higher second quarter net operating income of $5 million in 2006 against $3 million in the second quarter of 2005.

TRANSMISSION AND DISTRIBUTION

Revenue from the transmission and distribution business increased from $8 million in the second quarter of 2005 to $11 million for the same period in 2006 due to an increase in rates. The higher revenues, along with relatively stable costs, allowed net operating income to grow $3 million to $8 million for the three months ended June 30, 2006.

OTHER

Other includes the New England pumped storage facility, arbitrage revenues and other administration costs. The pumped storage facility acquired in the second quarter of 2005 contributed 77 GWh of generation in the second quarter of 2006 (second quarter 2005 – 72 GWh) and $6 million of revenue (second quarter 2005 – $1 million). Pursuant to a contract that expired in May 2005, the Company sold power to an affiliate. Revenues earned from the sales of power to this affiliate amounted to $20 million in the second quarter of 2005 (2006 - $nil), while corresponding costs amounted to $28 million (2006 - $nil).

CONSOLIDATED QUARTERLY RESULTS

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

Millions (except generation)	**2006**		2005				2004	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Power generated (GWh)	**3,131**	3,289	2,614	1,942	2,750	2,883	2,267	1,758
Power revenues	**221**	262	206	139	200	229	181	148
Net operating income	**153**	197	127	83	119	134	87	79

NET INCOME ANALYSIS

The Company's net income for the second quarter totalled $35 million, an increase of $9 million compared to the same quarter in the prior year. The increase in net income is primarily the result of a higher net operating income, offset by lower investment income.

Millions	Three months ended June 30		Six months ended June 30	
	2006	2005	**2006**	2005
Net operating income	**$ 153**	$ 119	**$ 349**	$ 253
Investment income and other	**5**	22	**14**	51
	158	141	**363**	304
Interest and financing fees	**60**	58	**118**	110
Depreciation and amortization	**32**	26	**61**	52
(Recovery of) provision for income taxes	**(12)**	(3)	**10**	4
Non-controlling interests	**12**	5	**20**	15
Net income before interest on capital securities	**66**	55	**154**	123
Interest on capital securities	**31**	29	**62**	57
Net income	**$ 35**	$ 26	**$ 92**	$ 66

INVESTMENT INCOME AND OTHER

Investment income and other decreased by $17 million in the second quarter of 2006 as compared to the same period in 2005, mostly as a result of a lower foreign exchange gain in the second quarter of 2006 and lower average balances following the disposition of investments during 2005 to finance acquisitions of power facilities.

INTEREST AND FINANCING FEES

Millions	Three months ended June 30		Six months ended June 30	
	2006	2005	**2006**	2005
Ontario	**$ 10**	$ 8	**$ 20**	$ 17
Quebec	**4**	10	**8**	13
British Columbia	**3**	2	**5**	4
New England	**2**	2	**4**	4
New York	**8**	7	**16**	14
Louisiana	**24**	22	**48**	43
Transmission and Distribution	**2**	1	**3**	2
Other (1)	**7**	6	**14**	13
Total	**$ 60**	$ 58	**$ 118**	$ 110

(1) "Other" consists of the Company's co-generating stations and holding companies.

Interest and financing fees increased by $2 million in the second quarter compared to the same period in the prior year and $8 million for the year to date compared to 2005 as a result of increased debt in Quebec and debt assumed when the Company acquired four hydroelectric generating facilities in Ontario in the first quarter of 2006. The strengthening of the Canadian currency also had a negative impact on interest expense.

Results for the second quarter of 2005 included a yield maintenance fee of $8 million paid as a result of the early redemption of the Great Lakes Power Trust first mortgage bonds.

An additional amount of $2 million is related to interest payable by Louisiana Hydro on a note due to Brookfield. The interest on that note was previously payable to a subsidiary, and therefore eliminated upon consolidation.

DEPRECIATION AND AMORTIZATION

Millions	Three months ended June 30		Six months ended June 30	
	2006	2005	**2006**	2005
Ontario	**$ 8**	$ 4	**$ 12**	$ 7
Quebec	**3**	2	**5**	4
British Columbia	**1**	1	**2**	2
New England	**3**	3	**6**	6
New York	**6**	6	**12**	12
Louisiana	**6**	6	**12**	12
Transmission and Distribution	**1**	1	**4**	3
Other (1)	**4**	3	**8**	6
Total	**$ 32**	$ 26	**$ 61**	$ 52

(1) "Other" consists of the Company's co-generating stations, pumped storage facility, and holding companies.

Depreciation and amortization for the second quarter of 2006 totalled $32 million, an increase of $6 million from the second quarter of 2005, as a result of the acquisition made in Ontario, as well as the overall additions to existing facilities and the impact of the strengthening Canadian currency.

PROVISION FOR INCOME TAXES

The recovery of income taxes increased from $3 million in the second quarter of 2005 to $12 million for the same period in 2006. The increase is primarily related to a $16 million recovery due to Canadian federal tax rate reductions that took effect in the second quarter of 2006, and is offset by $4 million of taxes incurred. The increase in the year to date income tax expense, from $4 million in 2005 to $10 million in 2006, is the result of higher income earned in 2006.

NON-CONTROLLING INTERESTS

Non-controlling interests relate to income associated with the non-controlling interests in the Company's consolidated entities. The increase of $7 million in the second quarter of 2006 is related to higher quarterly net income in the Fund.

INTEREST ON CAPITAL SECURITIES

Interest on the capital securities totalled $31 million in the second quarter of 2006, compared to $29 million in the same quarter of 2005. This $2 million increase is the result of the refinancing on June 30, 2005 of the CDN $248 million capital securities with capital securities totalling $200 million, bearing interest at a higher rate.

BALANCE SHEET ANALYSIS

During the six-month period ended June 30, 2006, we have closed two acquisitions that have added four hydroelectric facilities in Ontario and two hydroelectric facilities in New England. In addition, we have committed to purchase two more facilities located in the northeast United States.

Also, construction of the Prince wind farm continues to advance and, on July 21, 2006, a syndicate of Canadian banks agreed to make available to us a new credit facility in the amount of CDN$300 million to fund the construction.

SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term and long-term investments decreased by $93 million to $314 million as at June 30, 2006 (December 31, 2005 - $407 million) mainly as a result of the use of demand deposits to fund the two acquisitions made by the Company during the first six months of 2006.

POWER GENERATING ASSETS

As of June 30, 2006, power generating assets totalled $3,357 million compared to $2,992 million as of December 31, 2005, an increase of $365 million.

Millions	
Power Generating Assets – December 31, 2005	**$ 2,992**
Acquisition of business	**213**
Additions to power generating assets	**150**
Depreciation	**(52)**
Impact of foreign exchange rate	**54**
Power Generating Assets – June 30, 2006	**$ 3,357**

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

OTHER ASSETS

As of June 30, 2006, other assets totalled $1,013 million compared to $898 million as of December 31, 2005, an increase of $115 million.

Millions	
Other Assets – December 31, 2005	**$ 898**
Net additions	**122**
Depreciation	**(10)**
Impact of foreign exchange rate	**3**
Other Assets – June 30, 2006	**$ 1,013**

The four hydroelectric facilities we acquired in Ontario added $68 million to power purchase agreements and $33 million to goodwill, while the acquisition of the two facilities in New England added $43 million to intangible assets. These increases are offset by a decrease of $21 million in commodity derivatives resulting from a change in fair value. The variation in commodity derivatives is explained in more detail in the Derivative Financial Instruments section of the MD&A. Other assets denominated in Canadian dollars were impacted by the stronger Canadian currency.

DUE FROM / TO RELATED PARTIES

The net receivable from related parties as of June 30, 2006, which includes the note payable by Louisiana Hydro to Brookfield, totalled $604 million compared to $512 million as of December 31, 2005, an increase of $92 million. The following table illustrates the change in the net receivable from related parties.

Millions	
Net asset receivable – December 31, 2005	**$ 512**
Repayment of junior note payable to Brookfield	**83**
Interest accrual on the junior note payable	**(5)**
Impact of foreign exchange rate	**14**
Net asset receivable – June 30, 2006	**$ 604**

CAPITAL STRUCTURE AND FINANCING

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

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

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

Overall, the composition of our capital structure as at June 30, 2006 is consistent with that as of December 31, 2005. At June 30, 2006, our weighted average interest rate and term to maturity for property specific borrowings were 6.4% and 15.9 years respectively (December 31, 2005 – 6.3% and 16.2 years).

The following table illustrates the change in the debt that has occurred in 2006.

Millions	
Total debt – December 31, 2005	**$ 3,017**
Acquisition of hydroelectric facilities in Ontario	**77**
Repayment of debt	**(15)**
Impact of foreign exchange rate and other	**54**
Total debt – June 30, 2006	**$ 3,133**

We provided covenants to certain of our lenders as do most borrowers. As at June 30, 2006, the Company is in compliance with all covenants.

CAPITAL SECURITIES

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

For the quarter ended June 30, 2006, $31 million was recorded as interest on capital securities (second quarter of 2005 - $29 million) on the consolidated statement of income.

SHAREHOLDERS' EQUITY

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

Millions (except share amounts)	**June 30, 2006**	December 31, 2005
101,512,218 (2005 – 101,512,218)		
Common shares	**$ 422**	$ 422
Deficit	**(150)**	(215)
Contributed surplus	**198**	197
Cumulative translation adjustment	**(53)**	(53)
	417	351
Capital securities	**5**	5
	$ 422	$ 356

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

Dividends paid to holders of common shares and capital securities totalled $14 million in the second quarter of 2006 (second quarter of 2005 – $13 million). Our policy is to distribute surplus operating cash flows not required for investment in power generating facilities to our shareholders.

CONTRACTUAL OBLIGATIONS

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

In June 2006, Brookfield Power entered into an agreement to acquire two hydroelectric generating facilities in the northeast United States. This transaction is subject to various closing conditions (including regulatory approval) and is expected to close in the second half of 2006

SOURCES OF LIQUIDITY

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. In addition to the risk of variable hydrology conditions, our risk with respect to liquidity arises from the financing required for acquisitions and significant capital projects. We continue to have a strong balance sheet and healthy financial ratios. As at June 30, 2006, we maintained a current cash and cash equivalents balance of $113 million. Furthermore, we have signed agreements during the year to increase our revolving unsecured credit facility from $200 million to $350 million and to extend the due date from April 2008 to April 2009. These factors make liquidity for us a negligible risk factor. Given our historical profitability and our ability to manage expenses, we believe that our current resources are adequate to meet our requirements for working capital and capital expenditures through the foreseeable future.

The following table explains the change in our liquidity for the period ended June 30, 2006:

Millions	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Cash and cash equivalents, beginning of period	**$ 117**	$ 186	**$ 100**	$ 142
Provided by (used in)				
Operating activities	**127**	(46)	**264**	93
Financing activities	**143**	(13)	**132**	(150)
Investing activities	**(263)**	103	**(358)**	158
Distributions	**(14)**	(13)	**(27)**	(26)
Effect of foreign exchange rate on cash	**3**	(1)	**2**	(1)
Cash and cash equivalents, end of period	**$ 113**	$ 216	**$ 113**	$ 216

OPERATING ACTIVITIES

Cash flows provided by operating activities for the six months ended June 30, 2006 exceeded the same period of 2005 by $171 million, due mainly to the change in non-cash working capital ($113 million) and stronger hydrological conditions leading to higher revenues.

FINANCING ACTIVITIES

The $132 million of cash used in financing activities for the year to date, excluding distributions to shareholders, is mainly comprised of $163 million of new borrowings, consisting of demand notes owed to Brookfield, used to acquire the two hydroelectric facilities in New England. These new borrowings are partly offset by the repayments of property specific borrowings for an amount of $15 million (2005 – $129 million net of new borrowings), and of a $16 million distribution to the Company's minority shareholders (2005 - $21 million). In the first quarter of 2005, the $200 million Series 3 corporate debentures were repaid upon maturity. This repayment was partly offset by the issuance of term debentures and long-term debt secured by our Pingston facility in British Columbia. In the second quarter of 2005, the Company repaid CDN$248 million in subordinated convertible debentures and the issued $200 million of new subordinated convertible debentures to Brookfield. The Company also repaid CDN$100 million First Mortgage Bonds and its early-repayment premium, as well as the $11 million Great Lakes Hydro America bridge loan facility in New England. These repayments were mostly offset by various new debt instruments, including new First Mortgage Bonds (CDN$35 million) and term debentures (CDN$50 million).

INVESTING ACTIVITIES

In the first six months of 2006, we used $358 million in investing activities compared to an inflow of $158 million in the corresponding period of 2005. Acquisitions for 2006 include $220 million for the acquisition of six power plants in Ontario and New England, which have had the effect of increasing our hydroelectric asset portfolio and contributing further to the diversification of our watersheds (2005 - $77 million net of proceeds on sale of power generating assets). Furthermore, the Company invested $150 million in capital expenditures during the period (2005 - $68 million), which has enhanced operations and further increased our asset base. These cash outflows were offset by a decrease in demand deposits held with affiliates of $100 million (2005 - $276 million) to fund the acquisitions and the timing of cash flow requirements.

DISTRIBUTIONS

For the six months ended June 30, 2006, we distributed $27 million to our common shareholders, which is consistent with the dividend paid in the corresponding period of the previous year ($26 million).

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of operations, we execute agreements that provide for indemnification and guarantees to third parties in transactions such as energy trading and marketing, business dispositions, business acquisitions, capital project purchases, and sales and purchases of assets and services. We have also agreed to indemnify our directors and certain of our officers and employees. The nature of substantially all of the indemnification undertakings prevents us from making a reasonable estimate of the maximum potential amount that we could be required to pay third parties, as many of the agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, we have made no significant payments under such indemnification agreements. We provide guarantees as described in note 27 of the 2005 annual consolidated financial statements. There have been no material changes for the period ended June 30, 2006.

DERIVATIVE FINANCIAL INSTRUMENTS

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

COMMODITY PRICE

The Company enters into energy derivative contracts primarily to manage the price risk associated with the sale of generated power at spot prices. The Company also enters into gas derivative contracts for the sale of gas purchased under long-term contracts that is not required in its operations. Non-hedging commodity swap settlements and unrealized gains and losses are recorded in power generation revenue. A net gain of $1 million for the quarter and $2 million for the year to date has been recorded in the 2006 second quarter consolidated statement of income (Q2 2005 year to date - $7 million loss). The current portion of the recorded fair value of the non-hedging commodity swap asset is $14 million (2005 - $25 million) and the current portion of the recorded fair value of the non-hedging commodity swap liability is $27 million (2005 - $34 million).

Millions	June 30, 2006		December 31, 2005	
Gain / (loss)	**Recorded fair value of non-hedging swaps**	**Fair value of all swaps**	Recorded fair value of non-hedging swaps	Fair value of all swaps
Energy and gas derivatives				
Forward contracts and swaps				
Commodity derivative asset	**22**	**9**	52	15
Commodity derivative liability	**(43)**	**(97)**	(68)	(204)
	(21)	**(88)**	(16)	(189)

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 in September 2007. Where the contracts are designated as an eligible hedge relationship they are accounted for on an accrual basis. As of June 30, 2006, the unrecorded gain on the interest rate swaps was $10 million (2005 - $nil).

FOREIGN EXCHANGE

On February 7, 2006, the Company entered into forward foreign exchange contracts to hedge the cash flow variability associated with anticipated foreign currency denominated capital expenditure purchases. The contracts are designated as an eligible hedging relationship and, as such, any associated gains or losses are recorded as an adjustment to the hedged capital expenditures when they are recorded. The total notional amount of the forwards designated as hedges as at June 30, 2006 was $118 million (2005 - $nil).

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 June 30, 2006, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $42 million (2005 - $nil). These derivatives are used to provide a natural hedge to offset a mark-to-market exposure on accounts payable related to capital expenditures.

These risks are reviewed on a regular basis and the Company believes the exposures are manageable and not material in relation to its overall business operations.

CREDIT RISK

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

The Company minimizes credit risk with counterparties to derivative financial transactions through the selection, monitoring and diversification of counterparties, use of the International Swaps and Derivatives Association documentation, collateral and other credit risk mitigation techniques. These risks are reviewed on a regular basis and the Company believes the exposures are manageable and not material in relation to its overall business operations.

RELATED PARTY TRANSACTIONS

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

Millions	Six months ended June 30	
	2006	2005
Revenues		
Sale of power to Noranda Aluminum Inc.	**$ -**	$ 49
Physical gas sales to Falconbridge Limited	**-**	1
Sale of power and financial transactions with Brookfield and affiliates	**-**	2
Sale of power to Katahdin Paper Company	**14**	13
Sale of power and tolling agreement with Fraser New Hampshire	**3**	5
	$ 17	$ 70
Investment income and other		
Interest earned on demand deposits and promissory notes with Brookfield	**$ 4**	$ 9
Income from securities with affiliated companies	**5**	9
Income from investments with affiliated companies	**-**	7
	$ 9	$ 25
Expenses		
Interest expense on note payable	**$ 5**	$ -
Profit sharing with Noranda Aluminum Inc. (1)	**-**	(4)
	$ 5	$ (4)

(1) Included in power purchases.

As at June 30, 2006, we have promissory notes totalling $27 million (December 31, 2005 - $26 million) and no demand deposits (December 31, 2005 - $112 million) being held with Brookfield. In addition, we have demand notes payable to Brookfield in the amount of $163 million (December 31, 2005 - $nil) as at June 30, 2006.

CHANGES IN CRITICAL ACCOUNTING POLICIES

The notes to the financial statements included in the 2005 annual report contain a summary of the critical accounting policies used in preparation of the consolidated financial statements.

Due to acquisitions made during 2006, the Company has goodwill included in other assets. The Company accounts for business combinations using the purchase method of accounting which establishes specific criteria for the recognition of intangible assets separately from goodwill. The excess of acquisition costs over the underlying net book value of assets acquired is allocated to the underlying tangible and intangible assets with the balance being allocated to goodwill. The company periodically evaluates the carrying value of these amounts for impairment. Any impairment is charged against income at that time. No amounts have been charged to income for the current period or for the year.

RECENTLY ISSUED CANADIAN ACCOUNTING STANDARDS

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

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in note 2 (Summary of Accounting Policies) of the 2005 annual consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates include determination of accruals, levelized accounting, mark-to-market and derivatives, purchase price allocations, useful lives, asset impairment testing and those relevant to the defined benefit pension and non-pension benefit plans. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

BUSINESS ENVIRONMENT AND RISKS

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

Annual Information Form

Our Annual Information Form can be accessed on SEDAR at www.sedar.com and is 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) hydrological conditions and the Company's level of generation; (2) the Company's cost of production; (3) exchange and interest rates; (4) planned capital expenditures; (5) the impact of changes in the Canadian dollar on the Company's costs and results of operations; (6) the negotiation of collective agreements with its unionized employees; (7) business and economic conditions, including energy prices; (8) the legislation governing air emissions, discharges into water, waste, hazardous materials and workers' health and safety as well as the impact of future legislation and regulations on expenses, capital expenditures and restrictions on operations; and (9) regulatory investigations, claims, lawsuits and other proceedings. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied in the forward-looking statements contained herein and as such, you are cautioned not to place undue reliance on these forward-looking statements. 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 the date of this MD&A.

Donald Tremblay
Executive Vice President and Chief Financial Officer