BROOKFIELD POWER INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 13, 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 second quarter and first six months of 2007 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 the June 30, 2007 unaudited quarterly consolidated financial statements and the December 31, 2006 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. All figures are reported in United States dollars, unless otherwise noted. The following MD&A is the responsibility of management and is prepared in accordance with the requirements of NI 51-102 of the Ontario Securities Commission.

OVERVIEW OF THE BUSINESS

As at June 30, 2007, we operate, throughout North America, 127 hydroelectric power generating stations located on 40 river systems with an installed capacity of 2,571 megawatts ("MW") and capable of generating more than 10,800 gigawatt hours ("GWh") of electricity annually, 2 gas cogeneration plants totalling 215 MW, a 600 MW pumped storage facility and a 189 MW wind farm.

Our power generating operations are located in the regionally interconnected power markets of northeastern Canada and the U.S., as well as British Columbia and Louisiana. We also own a regulated transmission and distribution business in Ontario. The transmission and distribution business consists of 16 transmission stations and 11 distribution stations servicing approximately 11,500 customers. Some of our assets are owned through Great Lakes Hydro Income Fund ("the Fund"), a publicly traded reporting issuer on the Toronto Stock Exchange (symbol: GLH.UN). The Company also operates 15 hydroelectric power generating stations owned by Brookfield Asset Management Inc. ("Brookfield"). These stations are located on 12 river systems in Brazil, have an installed capacity of 249 MW and can generate, on an annual basis, in excess of 1,300 GWh of electricity.

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

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

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

OVERVIEW OF THE QUARTER

Our net operating income for the quarter was $161 million, $9 million higher than 2006, due mainly to higher realized prices and positive contributions from generating facilities acquired or developed in 2006 and 2007, which more than offset the impact of lower generation in Ontario, Quebec and New York.

During the quarter, we continued to seek out opportunities to expand our operations and to further diversify our geographic base. To that end, we agreed to purchase an 18 MW hydroelectric facility located in Minnesota and two hydroelectric facilities in British Columbia totalling 8 MW. These transactions are expected to close before the end of the year.

Subsequent to the end of the quarter, we also completed the acquisition of a run-of-the-river hydroelectric generating facility in Glens Falls, New York, further increasing our presence in New York. This facility has the capacity to generate approximately 60 GWh of energy per year, which will be sold under a long-term power purchase agreement.

In addition, we completed two senior secured non-revolving credit facilities for a total amount of $220 million secured by our pumped storage facility ($125 million) and our Rumford hydroelectric generating station ($95 million). The pumped storage credit facility matures in 2012 and the credit facility related to Rumford matures in 2010. Both credit facilities have variable quarterly interest payments of LIBOR plus a specified margin.

As reported in the first quarter, the transfer of the Company's transmission operations located in Northern Ontario to a newly formed publicly traded partnership is still under regulatory review. The new entity, created by Brookfield, will initially own certain of their infrastructure investments in timberland and electricity transmission. Brookfield will continue to manage the assets and retain an approximate 40% ownership interest. The transaction is expected to close in 2007, pending all necessary regulatory approvals.

Our reservoirs have been maintained at normal levels for this time of the year and, as a result, generation for the remainder of 2007 is expected to be at long-term average levels, assuming normal water conditions prevail for the remainder of the year.

NET OPERATING INCOME

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.

	Capacity		Invested Capital		Net Operating Income			
	As at		As at		Three months ended		Six months ended	
(MW and $ millions)	**June 30 2007**	Dec. 31 2006	**June 30 2007**	Dec. 31 2006	**June 30 2007**	June 30 2006	**June 30 2007**	June 30 2006
Hydroelectric generation								
Ontario	**897**	897	**$ 896**	$ 823	**$ 22**	$ 30	**$ 52**	$ 70
Quebec	**277**	277	**405**	371	**17**	19	**39**	58
British Columbia	**127**	127	**147**	133	**5**	5	**7**	9
New England	**240**	240	**398**	400	**12**	11	**29**	27
New York and other northeastern markets	**838**	832	**1,021**	1,016	**40**	38	**89**	89
Louisiana	**192**	192	**466**	478	**41**	34	**78**	63
Total hydroelectric generation	**2,571**	2,565	**3,333**	3,221	**137**	137	**294**	316
Wind generation	**189**	189	**353**	328	**6**	-	**13**	-
Other power generation	**815**	815	**224**	166	**10**	7	**20**	17
Development projects	**-**	-	**36**	25	**-**	-	**-**	-
Total power generation	**3,575**	3,569	**3,946**	3,740	**153**	144	**327**	333
Transmission and distribution	**-**	-	**163**	146	**8**	8	**16**	14
Other assets	**-**	-	**2,325**	1,986	**-**	-	**-**	-
Total	**3,575**	3,569	**$ 6,434**	$ 5,872	**$ 161**	$ 152	**$ 343**	$ 347

Three months ended June 30 (GWh)	Long-term Average (LTA)	Actual Production **2007**	2006	Variance to LTA	2006
Existing capacity as at December 31, 2005					
Ontario	685	**327**	561	(358)	(234)
Quebec	471	**400**	508	(71)	(108)
British Columbia	177	**185**	197	8	(12)
New England	311	**325**	312	14	13
New York and other northeastern markets	887	**840**	925	(47)	(85)
Louisiana	319	**304**	234	(15)	70
Total existing capacity as at December 31, 2005	2,850	**2,381**	2,737	(469)	(356)
Acquisitions – during 2007 (1)	10	**8**	-	(2)	8
Acquisitions – during 2006	313	**298**	98	(15)	200
Total hydroelectric operations	3,173	**2,687**	2,835	(486)	(148)
Wind generation	130	**91**	-	(39)	91
Other power generation	318	**396**	296	78	100
Total generation	3,621	**3,174**	3,131	(447)	43

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

Generation in most regions from assets owned at December 2005 was lower year over year due to a return to more normal hydrology but is still in-line with long-term averages in most regions, except for Ontario. Hydroelectric assets acquired in 2006 have added 200 GWh over last year due primarily to the timing of the additions of the Rumford and Hawks Nest generating stations, which were acquired in June and October of 2006, respectively. Our wind farm, located in Northern Ontario, contributed 91 GWh during the quarter, below its long-term average. However, the wind farm is running very well and we are satisfied with its performance since its commissioning. Higher production from other power operations is due to the consolidation of the pumped storage facility beginning March 23, 2007.

HYDROELECTRIC GENERATION

	Six months ended June 30, 2007				Six months ended June 30, 2006			
(GWh and $ millions)	**Actual Production**	**Revenues**	**Operating Costs**	**Net operating income**	Actual Production	Revenues	Operating Costs	Net operating income
Ontario	**1,023**	**$ 73**	**$ 21**	**$ 52**	1,317	$ 94	$ 24	$ 70
Quebec	**862**	**50**	**11**	**39**	1,028	70	12	58
British Columbia	**311**	**11**	**4**	**7**	362	12	3	9
New England	**822**	**44**	**15**	**29**	691	39	12	27
New York and other northeastern markets	**2,157**	**128**	**39**	**89**	2,006	121	32	89
Louisiana	**583**	**91**	**13**	**78**	448	75	12	63
Total	**5,758**	**$ 397**	**$ 103**	**$ 294**	5,852	$ 411	$ 95	$ 316
Per MWh		**$ 69**	**$ 18**	**$ 51**		$ 70	$ 16	$ 54

	Three months ended June 30, 2007				Three months ended June 30, 2006			
(GWh and $ millions)	**Actual Production**	**Revenues**	**Operating Costs**	**Net operating income**	Actual Production	Revenues	Operating Costs	Net operating income
Ontario	**405**	**$ 32**	**$ 10**	**$ 22**	639	$ 43	$ 13	$ 30
Quebec	**400**	**22**	**5**	**17**	508	24	5	19
British Columbia	**185**	**7**	**2**	**5**	197	7	2	5
New England	**403**	**20**	**8**	**12**	332	17	6	11
New York and other northeastern markets	**990**	**60**	**20**	**40**	925	55	17	38
Louisiana	**304**	**48**	**7**	**41**	234	40	6	34
Total	**2,687**	**$ 189**	**$ 52**	**$ 137**	2,835	$ 186	$ 49	$ 137
Per MWh		**$ 70**	**$ 19**	**$ 51**		$ 66	$ 18	$ 48

Net operating income from our hydroelectric generation operations totalled $137 million for the quarter, the same as last year despite lower total generation. Realized prices from our hydroelectric facilities increased to $70 per megawatt hour (MWh) for the quarter and remain well above market price due to our strategy to sell much of our power under long-term power purchase agreements ("PPA") or financial contracts. Our ability to capture peak prices using the flexibility of our assets as well as our ability to generate ancillary revenues, such as capacity payments, also contributed to the higher realized priced for the quarter. Spot electricity prices in all of our markets were comparable with those of the same period in 2006 but realized prices for the second quarter were positively impacted by higher prices on financial contracts that settled in the second quarter of 2007.

WIND GENERATION

(GWh and $ millions)	Six months ended June 30, 2007				Six months ended June 30, 2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Wind power	**229**	**$ 17**	**$ 4**	**$ 13**	-	-	-	-

(GWh and $ millions)	Three months ended June 30, 2007				Three months ended June 30, 2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Wind power	**91**	**$ 8**	**$ 2**	**$ 6**	-	-	-	-

Wind generation contributed $6 million of net operating income during the quarter. The Company commenced commercial operation of its 189 MW wind farm during the third quarter of 2006. Generation of 91 GWh during the quarter is below the expected long-term average for the facilities but we continue to be satisfied with the performance of the wind park.

OTHER POWER GENERATION

(GWh and $ millions)	Six months ended June 30, 2007				Six months ended June 30, 2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Cogeneration [1]	**448**	**$ 36**	**$ 23**	**$ 13**	436	$ 36	$ 22	$ 14
Pumped storage	**257**	**28**	**21**	**7**	132	14	11	3
Total	**705**	**$ 64**	**$ 44**	**$ 20**	568	$ 50	$ 33	$ 17

(1) Includes gas resale power equivalent.

(GWh and $ millions)	Three months ended June 30, 2007				Three months ended June 30, 2006			
	Actual Production	**Revenues**	**Operating Costs**	**Net Operating Income**	Actual Production	Revenues	Operating Costs	Net Operating Income
Cogeneration [1]	**228**	**$ 17**	**$ 12**	**$ 5**	219	$ 17	$ 11	$ 6
Pumped storage	**168**	**19**	**14**	**5**	77	6	5	1
Total	**396**	**$ 36**	**$ 26**	**$ 10**	296	$ 23	$ 16	$ 7

(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. Net operating income totalled $5 million for the quarter, a decrease of $1 million as a result of higher fuel and transportation costs.

PUMPED STORAGE

The pumped storage generating station is located in New England and is capable of generating 600 MW of electricity using a reservoir that contains the equivalent of 3000 MWh. This facility provides the capacity and super peak power under a 15-year contract with Long Island Power Authority (LIPA). The facility needs to buy off peak power to pump the water into the upper reservoir. We own 50% of the pumped storage facility and, in the past, we proportionally consolidated our interest in the project. However, due to the contract with LIPA and its related benefits to the Company, we reassessed our interest in the project under the variable interest entity guidelines and determined that it is now appropriate to fully consolidate the project as of March 23, 2007, the effective date of the LIPA contract. As a result, generation was 91 GWh higher in the second quarter of 2007 than in the comparable period of 2006 and net operating income was $4 million higher.

TRANSMISSION AND DISTRIBUTION

Second quarter revenue and net operating income from our transmission and distribution operations of $11 million and $8 million were in-line with the same period last year.

NET INCOME

Net income for the second quarter of 2007 was $6 million, $29 million lower than the second quarter of 2006. Higher net operating income has been discussed in the previous section of this MD&A while the variances in the other elements of net income are explained below.

$ millions	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Net operating income	**$ 161**	$ 152	**$ 343**	$ 347
Investment income and other	**10**	5	**16**	14
Unrealized derivative (loss) gain	**(11)**	1	**(29)**	2
Interest and financing fees	**(102)**	(91)	**(199)**	(180)
Depreciation and amortization	**(38)**	(32)	**(74)**	(61)
Non-controlling interests	**5**	(12)	**(4)**	(20)
Provision for income taxes	**(19)**	12	**(28)**	(10)
Net income	**$ 6**	$ 35	**$ 25**	$ 92

INVESTMENT INCOME AND OTHER

Investment and other income includes dividend income from long-term investments and the Company's securities portfolio, interest on cash and cash equivalents and gains and losses on foreign exchange. Investment and other income for the quarter totalled $10 million, which was $5 million higher than the same period of the prior year. The increase is due to higher balances in our interest-earning deposits and higher foreign exchange gains.

UNREALIZED DERIVATIVE LOSSES AND GAINS

Most of our financial contracts are derivatives that qualify for hedge accounting, with the changes in their fair value flowing through other comprehensive income. Our commodity derivatives also include financial contracts that do not qualify as cash flow hedges but that are in place to economically hedge physical power sales in future months, with the changes in fair value being recorded through net income.

During the second quarter of 2007, we recorded a net unrealized loss of $11 million in the income statement as a result of the valuation of our commodity derivatives, compared to a net unrealized gain on commodity derivatives of $1 million for the same period of 2006. A long-term PPA with an affiliate of Brookfield that expires in 2012 and the 15-year contract with LIPA have both been determined to be non-financial derivatives and, as a result, are recorded on the balance sheet at fair value, with the changes in their respective fair values being included in our unrealized derivative gains and losses in the income statement. For the quarter ended June 30, 2007, our $11 million unrealized derivative loss includes a $14 million loss related to the LIPA contract, a $2 million gain related to the long-term PPA with an affiliate of Brookfield and a gain of $1 million related to hedge ineffectiveness. On a year to date basis, the net unrealized loss on commodity derivatives is $29 million, which includes total unrealized losses on the non-financial derivatives of $26 million and the combined effect of the unrealized losses on our other commodity derivatives and hedge ineffectiveness totalling $3 million.

INTEREST AND FINANCING FEES

Interest and financing fees were $11 million higher than the same period in 2006. The higher costs are mainly the result of $5 million of interest on the construction facility for the wind farm, which was not drawn on until the third quarter of 2006, and $4 million of interest expenses on the additional corporate debt following the issuance of medium-term notes in November of 2006. In addition, the new debt obtained during the quarter added $2 million in interest expenses.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization is $6 million higher than the same period of 2006, going from $32 million to $38 million. The majority of this increase is the result of the facilities acquired or commissioned during 2006 and 2007.

NON-CONTROLLING INTERESTS

Non-controlling interests relate mostly to the Fund, our Louisiana operations and the pumped storage facility. The decrease of $17 million, from $12 million in the second quarter of 2006 to a recovery of $5 million in the same period of 2007, is due mainly to a significant reduction in the Fund's net income as a result of a one-time non-cash tax charge resulting from the new taxation rules governing income trusts.

PROVISION FOR INCOME TAXES

The provision for income taxes fluctuated significantly this quarter. New legislation making income trusts taxable in 2011 was passed into law and, as a result, a subsidiary of the Company has recognized a $29 million non-cash charge. A significant portion of this future income tax liability has already been recognized in our financial statements and the remaining portion has been offset in the non-controlling interest. The overall impact on the Company's net income is $nil.

CAPITAL RESOURCES AND LIQUIDITY

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

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. We continue to have a strong balance sheet and healthy financial ratios. We maintained current cash and cash equivalents of $77 million as at June 30, 2007, in addition to $240 million of un-drawn credit facilities (net of letters of credit), $169 million from our short-term investment portfolio and a net amount due from our shareholder of $741 million. Given our historical profitability and our ability to manage expenses, we believe that our current resources are adequate to meet our requirements for working capital and capital expenditures through the foreseeable future.

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

CASH FLOW FROM OPERATING ACTIVITIES

In the second quarter of 2007, excluding the changes in non-cash working capital, we generated $74 million from operating activities, $17 million higher than the $57 million generated in the same period of 2006. Cash from operating activities includes interest paid on capital securities totalling $31 million (2006 - $31 million). Non-cash working capital decreased in the second quarter of 2007 by $9 million for the period.

INVESTING ACTIVITIES

In the second quarter of 2007, we invested $24 million to strengthen, preserve and enhance the reliability of our operations. Most of this investment is the result of a multi-year capital program across all of our operations. This program, which is designed to upgrade our infrastructure, mechanical equipment and electrical systems, represents an investment for the next 20-40 years and will add a complete cycle to the life of our assets. In addition to these capital expenditures, we started construction of a 10 MW hydroelectric facility on the Mississippi River in Minnesota that is expected to be in service in the fourth quarter of 2008. Also during the quarter, we invested an additional $35 million in preferred shares of Brascan Brazil Limited to fund the acquisition of a 13 MW hydroelectric generating facility in Brazil.

FINANCING ACTIVITIES

Property specific debt related to two facilities, our pumped storage facility and the Rumford facility, was issued during the second quarter of 2007. Both debts are senior secured non-revolving credit facilities secured by the pumped storage facility ($125 million) and the Rumford assets ($95 million). The pumped storage credit facility matures in 2012 and the credit facility related to Rumford matures in 2010. Both credit facilities have variable quarterly interest payments of LIBOR plus a specified margin.

Dividends paid to holders of common shares and interest on the equity portion of capital securities totalled $13 million during the quarter, $1 million less than 2006.

Distributions to non-controlling interests totalled $75 million for the period, which is $66 million higher than last year. The increase in the amount distributed is due mostly to a distribution made to the Company's partner in the pumped storage facility using proceeds from the financing previously discussed.

SUMMARY OF HISTORICAL QUARTERLY RESULTS

Variations in quarterly results are correlated with the amount of electricity generated in any given quarter, which is in turn dependent on available water inflows. Other marketing and asset enhancement initiatives also impact the quarterly results.

$ millions (except generation)	2007		2006				2005	
	Q2	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3
Power generated (GWh)	**3,174**	**3,518**	3,063	2,516	3,131	3,289	2,609	1,942
Revenues	**243**	**257**	208	175	220	261	206	139
Net operating income	**161**	**182**	131	117	152	195	125	83

DERIVATIVE FINANCIAL INSTRUMENTS

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

CREDIT RISK

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

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

COMMODITY PRICE

The Company enters into energy derivative contracts primarily to manage the price risk associated with the sale of generated power at spot prices. The Company also enters into gas derivative contracts for the sale of gas purchased under long-term contracts that is not required in its operations. At the hedge's inception and on an ongoing basis, the Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

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

At June 30, 2007, the current and long-term portions of the fair value of the commodity swap assets, included in derivative assets, was $38 million and $127 million, respectively (2006 - $19 million and $3 million, respectively) and the current and long-term portions of the fair value of the commodity swap liabilities, included in derivative liabilities, was $59 million and $177 million, respectively (2006 - $19 million and $4 million, respectively). The significant increase in these balances from 2006 is due to the fact that, at December 31, 2006, only the non-hedging portion of the Company's commodity derivatives was recorded on the balance sheet while, due to a change in accounting standards effective January 1, 2007, all derivatives are now recorded on the balance sheet.

The gain included in other comprehensive income for the quarter ended June 30, 2007 related to the Company's commodity derivatives, net of the reclass to income of gains or losses on derivatives that settled during the quarter, was $20 million, net of tax. For the six months ended June 30, 2007, the loss included in other comprehensive income related to the Company's commodity derivatives, net of the reclass to income of gains or losses on derivatives that settled during the period, was $5 million, net of tax.

INTEREST RATE

On March 22, 2006, the Company entered into forward-starting interest rate swaps with a notional amount totalling $300 million to hedge the interest rate risk associated with the anticipated issuance of fixed rate debt. At June 30, 2007, the amount included in short-term derivative asset is $9 million (2006 – $nil). For the three month and six month periods ended June 30, 2007, the gain included in other comprehensive income related to the interest rate swaps was $8 million and $9 million respectively, net of tax (Q2 2006 - $nil, year to date Q2 2006 - $nil).

FOREIGN EXCHANGE

Derivatives that are not designated in an eligible hedge relationship are carried at fair value with changes in fair value recorded in earnings in the period in which they occur. Changes in fair value represent the difference between the market value at the measurement date and the notional amount of the contract. As at June 30, 2007, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $4 million (2006 - $4 million) and a nominal amount was included in net income for the period (Q2 2006 - $nil).

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

OFF-BALANCE SHEET ARRANGEMENTS

GUARANTEES

In the normal course of operations, we execute agreements that provide for indemnification and guarantees to third parties in transactions such as energy trading and marketing, business dispositions, business acquisitions, capital project purchases, and sales and purchases of assets and services. We have also agreed to indemnify our directors and certain of our officers and employees. The nature of substantially all of the indemnification undertakings prevents us from making a reasonable estimate of the maximum potential amount that we could be required to pay third parties, as many of the agreements do not always specify a maximum amount and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, we have made no significant payments under such indemnification agreements. We provide guarantees as described in note 27 of the 2006 annual consolidated financial statements. With the exception of the LIPA agreement previously discussed in this MD&A, there have been no material changes for the three and six month periods ended June 30, 2007 to the disclosures related to the guarantees. As at June 30, 2007, we have issued CDN$291 million in trading guarantees (December 31, 2006 – CDN$269 million).

RELATED PARTY TRANSACTIONS

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

$ millions	Three months ended June 30		Six months ended June 30	
	2007	2006	**2007**	2006
Revenues				
Sale of power and tolling agreement	**$ 8**	$ 2	**$ 15**	$ 17
Investment income and other				
Interest earned on demand deposits, promissory notes, and securities with affiliated companies	**$ 5**	$ 3	**$ 9**	$ 9
Expenses				
Interest expense on note payable	**$ 3**	$ 2	**$ 5**	$ 5
Insurance services from Riskcorp Inc.	**$ 4**	$ 3	**$ 7**	$ 7

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. In the judgment of management, none of the estimates outlined in note 2 (Significant Accounting Policies) of the 2006 annual consolidated financial statements are considered critical accounting estimates as defined in regulation 51-102. Key estimates include determination of accruals, levelized accounting, valuation of commodity derivatives, purchase price allocations, useful lives, asset impairment testing, future income tax liabilities and those relevant to the defined benefit pension and non-pension benefit plans. Estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The notes to the 2006 annual consolidated financial statements include a summary of the significant accounting policies used in the preparation of the consolidated financial statements. Since January 1, 2007, the Company has implemented the new sections of the Canadian Institute of Chartered Accountants ("CICA") handbook related to financial instruments.

HANDBOOK SECTION 1530, COMPREHENSIVE INCOME

This section establishes standards for reporting and presenting comprehensive income (loss), which is defined as the change in shareholder's equity from transactions and other events from non-owner sources. This standard requires certain gains and losses to be presented in other comprehensive income (loss) until it is considered appropriate to recognize into net income. Major components for this category include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

Accordingly, the Company now presents a consolidated statement of comprehensive income and includes accumulated other comprehensive loss (AOCL) as a component of shareholder's equity. The comparative statements have been restated to reflect the application of this section for the presentation of the changes in the balances for foreign currency translation of self-sustaining foreign operations, formerly presented as cumulative translation adjustment.

HANDBOOK SECTION 3251, EQUITY

The Company adopted Section 3251, Equity replacing Section 3250, Surplus. This section describes the presentation of equity and changes in equity for the reporting period as a result of application of Section 1530, Comprehensive income.

HANDBOOK SECTION 3855, FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

Under this standard, all financial instruments are classified as one of the following categories: held-to-maturity investments, loans and receivables, held-for-trading, available-for-sale financial assets or other financial liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, are measured at amortized cost using the effective interest method. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss). The standard also permits designation of any financial instrument as held-for-trading upon initial recognition or adoption of this standard. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

The Company has implemented the following classifications:

Cash and cash equivalents are designated as financial assets held for trading and are measured at fair value through net income at each period end.

Short-term investments and long-term investments are classified as available-for-sale and will thus be recorded at fair value with changes in fair value recorded through comprehensive income (loss) at each period end when the active quoted market information is readily determinable. Where market information is not readily determinable, the investments will be presented at cost.

Accounts receivable and other and due from related party are classified as loans and receivables and accounts payable and other and due to related party are classified as other financial liabilities and each are measured at fair value at inception and are subsequently measured at amortized cost. Due to their short-term nature, amortized cost approximates fair value.

Credit facilities, property specific borrowings, other long-term debt, other long-term liabilities and debt portion of capital securities are classified as other financial liabilities. After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

All derivatives are recorded on the balance sheet at fair value. Fair value adjustments on these instruments will be included in net income, unless the instruments are designated as part of a cash flow hedge relationship, in which case they will be reported in comprehensive income (loss). Gains and losses related to hedge ineffectiveness will be included in net income.

The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract, with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. If certain conditions are met, an embedded derivative is separated from the host contract and accounted for as a derivative at its fair value with subsequent changes in fair value recorded in net income. There was no impact on the consolidated interim financial statements with respect to this item.

The adoption of this Section was done prospectively in the consolidated financial statements, with the exception of the presentation of the changes in the balances for foreign currency translation of self-sustaining foreign operations, formerly presented as cumulative translation adjustment. As at January 1, 2007, the effect on the consolidated financial statements of measuring the financial assets and liabilities using the effective interest method, reclassifying the deferred financing fees directly attributable to the issuance of the property specific borrowings and other long-term debt, and the valuing of all derivative contracts, assets available for sale, and certain power purchase agreements is summarized in the table below:

$millions	December 31 2006	January 1 2007	Net Financial Impact
Derivative assets - current	$ 19	$ 41	$ 22
Short-term investments	154	156	2
Derivative and other assets – deferred financing fees	48	18	(30)
Derivative and other assets	900	907	7
Long-term investments	159	161	2
Derivative liabilities - current	(19)	(44)	(25)
Property specific debt	(1,755)	(1,727)	28
Other long-term debt	(1,542)	(1,538)	4
Derivative and other long-term liabilities	(103)	(148)	(45)
Future income tax liability	(167)	(160)	7
Accumulated other comprehensive loss	-	56	56
Deficit	162	189	27
Cumulative translation adjustment	55	-	(55)

HANDBOOK SECTION 3865, HEDGES
This standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income (loss). The ineffective portion will be recognized in net income. The amounts recognized in AOCL will be reclassified to net income in the periods in which the net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income (loss).

FUTURE ACCOUNTING POLICY CHANGES

On December 1, 2006, the Accounting Standards Board ("AcSB") issued three new accounting standards: Handbook Section 1535, *Capital Disclosures*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. These new standards will be effective for us on January 1, 2008.

Section 1535 establishes standards for disclosing information about the Company's capital and how it is managed. It requires disclosures of the Company's objectives, policies and processes for managing capital, the quantitative data about what the company regards as capital, whether the company has complied with any capital requirements and if it has not complied, the consequences of such non-compliance. The Company is currently evaluating the impact of the adoption of this section on the consolidated financial statements.

The new sections 3862 and 3863 will replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* by revising and enhancing disclosure requirements but carrying forward presentation requirements unchanged. They place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the Company manages those risks. The Company is currently evaluating the impact of the adoption of this section on the consolidated financial statements.

On March 29, 2007, the Accounting Standards Board (AcSB) issued an exposure draft to amend Section 3461, Employee Future Benefits. The exposure draft addresses, in a limited manner, recognition, measurement, presentation and disclosure requirements of accounting for employee future benefits. The AcSB published a Background Information and Basis for Conclusions document to accompany the exposure draft in May 2007. In July 2007, the AcSB announced that, after considering the comments received, they have decided not to proceed with the proposed amendments. Instead, changes to the accounting for employee future benefits will be postponed until the transition from Canadian Generally Accepted Accounting Principles to International Financial Reporting Standards, which is expected to take place in 2011. The recognition and related disclosures provisions were supposed to be effective for the fiscal year ending on December 31, 2007 and the measurement date provisions were supposed to be effective for the fiscal years ending December 31, 2008.

BUSINESS ENVIRONMENT AND RISKS

Management believes that there have been no significant changes in business environment and risks that could affect the Company's activities or results since the end of 2006. For additional information, please refer to the management's discussion and analysis filed with the last audited financial statements, as well as the annual information form filed by Brookfield Power Corporation.

ANNUAL INFORMATION FORM

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This MD&A may contain forward-looking statements concerning the Company's business and operations. Forward looking statements can be identified by the use of words, such as "plans", "expects", or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates", or "does not anticipate", or "believes" or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward looking statements involve assumptions and known and unknown risks, uncertainties and other factors which may cause the actual results or performance to be materially different from any future results or performance expressed or implied by the forward statements.

Examples of such statements include, but are not limited to, factors relating to production and the business, financial position, operations and prospects for the Company. They include (1) the level of generation; (2) energy prices; (3) the cost of production; (4) interest rates as they bear on indebtedness; (5) planned capital expenditures; (6) the impact of changes in the exchange rate on costs and results of operations; (7) the negotiation of collective agreements with unionized employees; (8) business and economic conditions; (9) the legislation governing air emissions, discharges into water, waste, hazardous materials and workers' health and safety as well as the impact of future legislation and regulations on taxation, expenses, capital expenditures and restrictions on operations; and (10) regulatory investigations, claims, lawsuits and other proceedings. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied in the forward-looking statements contained herein and as such, you are cautioned not to place undue reliance on these forward-looking statements. For more information on these and other risk factors, please review the Company's most recent annual report and Brookfield Power Corporation's annual information form, both of which are filed on SEDAR at www.sedar.com.

These forward-looking statements represent our views as of the date of this MD&A. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to August 13, 2007, the date of this MD&A.

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