MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 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

NOVEMBER 14, 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 third quarter and the first nine 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 September 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 has a preferred share investment in the Brookfield subsidiary who owns these facilities. 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 the best tangible measurement to reflect 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 exceed those of 2005, despite soft power prices in Ontario, New York and New England, which were partly mitigated by our long-term contracts and hedging strategy. Net operating income totalled $120 million in the third quarter of 2006, representing an increase of $37 million or 45% 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, as well as improvements realized through higher ancillary and capacity revenues and other initiatives. For the year to date, net operating income has increased by $133 million from the $336 million earned in the nine months ended September 30, 2005.

Water reservoirs were slightly above long-term average levels at the end of the third quarter of 2006 and generation for the remainder of 2006 is expected to be in line with the long-term average and our outlook for the fourth quarter remains positive.

Hydroelectric generation, before the contribution of 2005 and 2006 acquisitions, totalled 2,056 GWh for the quarter, approximately 30% above the corresponding quarter of 2005, resulting from favorable inflows, largely in New York and Quebec.

GENERATION	Three months ended September 30			Nine months ended September 30		
Gigawatt hours	**2006**	2005	Long-term average(1)	**2006**	2005	Long-term average(1)
Hydro assets owned at December 31, 2004						
Ontario	**396**	352	569	**1,618**	1,386	1,851
Quebec	**477**	250	421	**1,505**	1,109	1,301
British Columbia	**164**	162	155	**527**	504	481
New England	**260**	258	243	**862**	861	778
New York	**688**	459	502	**2,635**	2,027	2,128
Louisiana	**71**	110	152	**518**	731	757
	2,056	1,591	2,042	**7,665**	6,618	7,296
Acquisitions – 2005	**49**	38	41	**177**	119	176
Acquisitions – 2006	**98**	-	127	**214**	-	237
Total hydroelectric generation	**2,203**	1,629	2,210	**8,056**	6,737	7,709
Gas Co-generation and pumped storage	**313**	313	291	**881**	836	791
Total generation	**2,516**	1,942	2,501	**8,937**	7,573	8,500

(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 three and nine months ended September 30, 2006 compared to 2005 are shown in the following tables:

Millions	**Three months ended September 30, 2006**			Three months ended September 30, 2005		
	GWh	**Revenue**	**Net operating income**	GWh	Revenue	Net operating income
Hydroelectric generation						
Ontario	**422**	**$ 33**	**$ 27**	352	$ 27	$ 22
Quebec	**477**	**25**	**21**	250	14	10
British Columbia	**164**	**6**	**4**	162	5	4
New England	**355**	**17**	**11**	275	13	9
New York	**714**	**42**	**30**	479	32	21
Louisiana	**71**	**14**	**11**	110	18	14
	2,204	**137**	**104**	1,629	109	80
Gas co-generation	**236**	**18**	**6**	247	17	4
Transmission and Distribution	**n/a**	**11**	**8**	n/a	9	6
Other	**77**	**12**	**2**	67	4	(7)
	2,516	**$ 178**	**$ 120**	1,942	$ 139	$ 83
Hydroelectric revenue / MWh (in $)		**$ 62**			$ 67	

Millions	**Nine months ended September 30, 2006**			Nine months ended September 30, 2005		
	GWh	**Revenue**	**Net operating income**	GWh	Revenue	Net operating income
Hydroelectric generation						
Ontario	**1,740**	**$ 123**	**$ 103**	1,386	$ 87	$ 70
Quebec	**1,505**	**94**	**82**	1,109	58	50
British Columbia	**527**	**18**	**14**	504	16	12
New England	**1,046**	**56**	**41**	932	46	33
New York	**2,720**	**162**	**122**	2,075	126	87
Louisiana	**518**	**89**	**74**	731	113	96
	8,056	**542**	**436**	6,737	446	348
Gas co-generation	**672**	**54**	**20**	698	45	12
Transmission and Distribution	**n/a**	**31**	**22**	n/a	26	18
Other	**209**	**34**	**(9)**	138	51	(42)
	8,937	**$ 661**	**$ 469**	7,573	$ 568	$ 336
Hydroelectric revenue / MWh (in $)		**$ 67**			$ 66	

ONTARIO

In Ontario, generation totalled 422 GWh for the quarter, an increase of 70 GWh or 20% over the same quarter of 2005. Despite lower prices, quarterly revenues were $6 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 $5 million in net operating income. The acquisition of four hydroelectric facilities in February 2006 contributed $1 million to net operating income during the quarter ($7 million since acquisition).

QUEBEC

In Quebec, generation during the third quarter totalled 477 GWh compared to only 250 GWh for the same period last year. For the third quarter of 2006, both revenues and net operating income increased by $11 million, to $25 million and $21 million, respectively, in comparison with the third quarter of 2005 ($14 million and $10 million, respectively) due to better than average hydrological conditions.

BRITISH COLUMBIA

In British Columbia, hydrology conditions for the third quarter of 2006 were consistent with the corresponding quarter of the previous year, generating 164 GWh in 2006 in comparison to 162 GWh in 2005. The increase in revenues, from $6 million from $5 million, is due to the impact of foreign exchange. For the third quarter of 2006, net operating income was $4 million, the same result as the third quarter of 2005.

NEW ENGLAND

In New England, results improved from 2005, with revenues increasing from $13 million to $17 million and net operating income increasing from $9 million to $11 million. These increases are due to the acquisition of two hydroelectric facilities, which closed in the second quarter of 2006 and had revenues and net operating income for the period of $4 million and $2 million, respectively. For the third quarter, generation was 355 GWh, or 80 GWh (29%) higher than the same period in 2005.

NEW YORK

In New York, record rainfalls allowed power generation to increase by 235 GWh, from 479 GWh in the third quarter of 2005 to 714 GWh for the same period of 2006, a positive variation of 49%. This increase in generation was mainly responsible for the increase in revenue from $32 million to $42 million and was partially offset by lower prices than the third quarter of 2005. New York continues to be our most significant region, with third quarter net operating income for the region increasing by 43% to $30 million.

LOUISIANA

Generation in Louisiana totalled 71 GWh during the third quarter of 2006, 35% below the 110 GWh generated during the same period of 2005. Lower generation was a direct result of poor hydrological conditions, which contributed to the decrease in revenue from $18 million for the third quarter of 2005 to $14 million in 2006. Net operating income has decreased from $14 million to $11 million.

CO-GENERATION

Co-generation facilities contributed 236 GWh in the third quarter of 2006 versus 247 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 by $1 million. The combination of higher revenue and comparable operating costs resulted in a higher third quarter net operating income of $6 million in 2006 against $4 million in the third quarter of 2005.

TRANSMISSION AND DISTRIBUTION

Revenue from the transmission and distribution business increased from $9 million in the third quarter of 2005 to $11 million for the same period in 2006 due to an increase in our asset base. The higher revenues, along with relatively stable costs, allowed net operating income to grow $2 million to $8 million for the three months ended September 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 third quarter of 2006 (third quarter 2005 – 67 GWh) and $7 million of revenue (third quarter 2005 – $3 million.)

CONSOLIDATED QUARTERLY RESULTS

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

Millions (except generation)	**2006**			2005				2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Power generated (GWh)	**2,516**	3,131	3,289	2,614	1,942	2,750	2,883	2,267
Revenues	**178**	221	262	206	139	200	229	181
Net operating income	**120**	153	197	127	83	119	134	87

NET INCOME ANALYSIS

The Company's net income before interest on capital securities for the third quarter totalled $31 million, an increase of $26 million compared to the same quarter in the prior year.

Millions	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
Net operating income	**$ 120**	$ 83	**$ 469**	$ 336
Investment income and other	**1**	(7)	**14**	44
	121	76	**483**	380
Interest and financing fees	**60**	56	**178**	166
Depreciation and amortization	**30**	25	**90**	77
(Recovery of) provision for income taxes	**-**	(10)	**10**	(6)
Non-controlling interests	**-**	-	**20**	15
Net income before interest on capital securities	**31**	5	**185**	128
Interest on capital securities	**31**	31	**93**	88
Net (loss) income	**$ -**	$ (26)	**$ 92**	$ 40

INVESTMENT INCOME AND OTHER

Investment income and other increased by $8 million in the third quarter of 2006 as compared to the same period in 2005, mostly as a result of a foreign exchange loss realized in the third quarter of 2005 that was not repeated in 2006.

INTEREST AND FINANCING FEES

Millions	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
Ontario	**$ 11**	$ 9	**$ 30**	$ 26
Quebec	**4**	3	**12**	16
British Columbia	**2**	2	**7**	6
New England	**2**	2	**6**	6
New York	**8**	7	**25**	21
Louisiana	**24**	26	**72**	69
Transmission and Distribution	**2**	1	**5**	3
Other (1)	**7**	6	**21**	19
Total	**$ 60**	$ 56	**$ 178**	$ 166

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

Interest and financing fees increased by $4 million in the third quarter compared to the same period in the prior year and $12 million for the year to date compared to 2005 as a result of higher debt level in Quebec and Ontario and the strengthening of the Canadian currency.

DEPRECIATION AND AMORTIZATION

Millions	Three months ended September 30		Nine months ended September 30	
	2006	2005	**2006**	2005
Ontario	**$ 5**	$ 3	**$ 17**	$ 10
Quebec	**2**	2	**7**	6
British Columbia	**1**	1	**2**	2
New England	**4**	3	**10**	9
New York	**7**	6	**19**	18
Louisiana	**4**	4	**16**	16
Transmission and Distribution	**3**	2	**7**	5
Other (1)	**4**	4	**12**	11
Total	**$ 30**	$ 25	**$ 90**	$ 77

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

Depreciation and amortization for the third quarter of 2006 totalled $30 million, an increase of $5 million from the third quarter of 2005, as a result of the acquisitions made in Ontario and New England, 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 decreased from $10 million in the third quarter of 2005 to $nil for the same period in 2006. The recovery in the third quarter of 2005 was mainly due to a $7 million tax recovery regarding fairness relief in the prior year.

NON-CONTROLLING INTERESTS

Non-controlling interests relate to income associated with the non-controlling interests in the Company's consolidated entities. For the quarter ended September 30, 2006, there was no difference in the non-controlling interest from the same period in 2005.

INTEREST ON CAPITAL SECURITIES

Interest on the capital securities totalled $31 million in the third quarter of 2006, consistent with the third quarter of 2005. Interest on the $1,104 million of capital securities, which are owned by Brookfield, is payable in cash or, at the option of the Company, in a variable number of common shares.

BALANCE SHEET ANALYSIS

During the nine-month period ended September 30, 2006, we completed the acquisition of four hydroelectric facilities in Ontario for total consideration of $212 million in cash and assumed liabilities and two hydroelectric facilities in New England for $147 million. In addition, subsequent to the quarter ended September 30, 2006, we completed the acquisition of a generating facility located in West Virginia.

Also, construction of the Prince wind farm in Ontario continues to advance and, on September 21, 2006, the first phase entered into commercial operation with 66 turbines and annual generating capacity of 276 GWh. The second phase is expected to enter into operation in the fourth quarter. Capital spending during the quarter on the project totaled $157 million for a total of $267 million for the year to date.

Effective July 1, 2006, the Company sold the Carmichael generating facility ("Carmichael") to Great Lakes Hydro Income Fund (the "Fund") for total proceeds of CDN$56 million. Carmichael is a 20 megawatt hydroelectric facility located in Northern Ontario that had been purchased by the Company in February of this year. The Company owns 50.1% of the Fund's units and consolidates the Fund's accounts within its financial statements.

SHORT-TERM AND LONG-TERM INVESTMENTS

Short-term and long-term investments decreased by $83 million to $324 million as at September 30, 2006 (December 31, 2005 - $407 million) in order to fund the two acquisitions made by the Company during the first nine months of 2006.

POWER GENERATING ASSETS

As of September 30, 2006, power generating assets totalled $3,557 million compared to $2,992 million as of December 31, 2005, an increase of $565 million.

Millions	
Power Generating Assets – December 31, 2005	**$ 2,992**
Acquisition of business	**253**
Additions to power generating assets, net of disposals	**329**
Depreciation	**(76)**
Impact of foreign exchange rate	**59**
Power Generating Assets – September 30, 2006	**$ 3,557**

This increase is mostly attributable to the acquisition of six hydroelectric facilities in New England and Ontario and the ongoing construction of our first wind farm in Northern 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. A total of $66 million has been spent in 2006 on sustaining capital expenditures.

OTHER ASSETS

As of September 30, 2006, other assets totalled $956 million compared to $898 million as of December 31, 2005, an increase of $58 million.

Millions	
Other Assets – December 31, 2005	**$ 898**
Net additions	**78**
Amortization	**(15)**
Impact of foreign exchange rate	**(5)**
Other Assets – September 30, 2006	**$ 956**

The four hydroelectric facilities we acquired in Ontario added $65 million to power purchase agreements and $28 million to goodwill. Also, there has been a $9 million increase in tax credits in the New York region. These increases are offset by a decrease of $29 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.

DUE FROM / TO RELATED PARTIES

The net receivable from related parties as of September 30, 2006, which includes the note payable by Louisiana Hydro to Brookfield, totalled $602 million compared to $512 million as of December 31, 2005, an increase of $90 million. The following table illustrates the change in the net receivable from related parties.

Millions	
Net asset receivable – December 31, 2005	**$ 512**
Increase in net receivable	**84**
Interest accrual on the junior note payable	**(8)**
Impact of foreign exchange rate	**14**
Net asset receivable – September 30, 2006	**$ 602**

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:

	September 30, 2006	December 31, 2005
Credit facilities, property specific borrowings, term debentures and other	**64%**	62%
Other long-term liabilities	**2%**	3%
Non-controlling interests	**5%**	5%
Shareholders' equity and debt portion of capital securities	**29%**	30%
Total	**100%**	100%

Overall, the composition of our capital structure as at September 30, 2006 is similar to the capital structure as at December 31, 2005. At September 30, 2006, our weighted average interest rate and term to maturity for property specific borrowings were 6.4% and 15.7 years respectively (December 31, 2005 – 6.3% and 16.2 years).

The following table illustrates the change in long-term debt that has occurred in 2006:

Millions	
Total long-term debt – December 31, 2005	**$ 3,017**
Acquisition of hydroelectric facilities in Ontario	**78**
Repayment of debt	**(22)**
Impact of foreign exchange rate and other	**56**
Total long-term debt – September 30, 2006	**$ 3,129**

During the quarter, the Company obtained a CDN$300 million credit facility to finance the construction of the Prince wind farm project in Ontario. Also, subsequent to the end of the quarter, we issued CDN$350 million in new corporate notes and obtained a new term loan facility in the amount of CDN$32 million, which is secured by the Carmichael facility.

We provided covenants to certain of our lenders as do most borrowers. As at September 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 September 30, 2006, $31 million was recorded as interest on capital securities (third quarter of 2005 - $31 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)	**September 30, 2006**	December 31, 2005
101,512,218 (2005 – 101,512,218)		
Common shares	**$ 422**	$ 422
Deficit	**(163)**	(215)
Contributed surplus	**199**	197
Cumulative translation adjustment	**(54)**	(53)
	404	351
Capital securities	**6**	5
	$ 410	$ 356

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

Dividends paid to holders of common shares and capital securities totalled $13 million in the third quarter of 2006 (third quarter of 2005 – $14 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 third quarter of 2006.

SOURCES OF LIQUIDITY

Given the nature of our operations, the industry in which we operate and our contractual arrangements, our cash margin is stable and provides a strong credit profile. In addition to the risk of variable hydrological 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 September 30, 2006, we maintained a current cash and cash equivalents balance of $44 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 September 30, 2006:

Millions	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Cash and cash equivalents, beginning of period	**$ 113**	$ 216	**$ 100**	$ 142
Provided by (used in)				
Operating activities	**44**	3	**308**	96
Financing activities	**93**	(13)	**224**	(163)
Investing activities	**(192)**	(95)	**(550)**	63
Distributions	**(13)**	(14)	**(40)**	(40)
Effect of foreign exchange rate on cash	**(1)**	2	**2**	1
Cash and cash equivalents, end of period	**$ 44**	$ 99	**$ 44**	$ 99

OPERATING ACTIVITIES

Cash flows provided by operating activities for the nine months ended September 30, 2006 exceeded the same period of 2005 by $212 million, due mainly to the additional $103 million in net operating income generated by our operations in comparison to last year and a positive change in non-cash working capital for the nine months ended September 30, 2006 of $105 million compared to a negative change of $24 million for the same period in 2005. Lower investment income and higher interest expense partly offset the increases in operating cash flow.

FINANCING ACTIVITIES

The $224 million of cash provided by financing activities for the year to date, excluding distributions to shareholders, consisted of a $186 million drawing on the CDN$300 million credit facility to fund the construction of the Prince wind farm and of demand notes totalling $80 million 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 $19 million (2005 – $135 million net of new borrowings), and of a $23 million distribution to the Company's minority shareholders (2005 - $28 million).

INVESTING ACTIVITIES

In the first nine months of 2006, we invested $550 million. 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. Furthermore, the Company invested $334 million in capital expenditures during the period (2005 - $142 million), a significant portion of which is related to the on-going construction of the Prince wind project. These cash outflows were offset by a decrease in demand deposits held with affiliates of $100 million (2005 - $346 million) to fund acquisitions. Other items affecting investing cash flows include an additional investment of $24 million (2005 - $75 million) in preferred shares in Brookfield's power operations in Brazil and change in due from related parties of $75 million (2005 - $17 million).

DISTRIBUTIONS

For the nine months ended September 30, 2006, we distributed $40 million to our common shareholders, which is consistent with the dividend paid in the corresponding period of the previous year ($40 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 September 30, 2006.

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.

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 $3 million for the quarter (2005 - $2 million loss) and $5 million for the year to date (2005 - $ 9 million loss) has been recorded in 2006. The current and long-term portion of the recorded fair value of the non-hedging commodity swap asset is $11 million and $3 million, respectively (2005 - $25 million and $27 million, respectively) and the current and long-term portion of the recorded fair value of the non-hedging commodity swap liability is $23 million and $7 million, respectively (2005 - $34 million and $34 million, respectively).

Millions	**September 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	**14**	**64**	52	15
Commodity derivative liability	**(30)**	**(81)**	(68)	(204)
	(16)	**(17)**	(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 September 30, 2006, the unrecorded loss on the interest rate swaps was $4 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 September 30, 2006 was $5 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 September 30, 2006, the total notional amount of foreign exchange derivatives not designated for hedging purposes was $47 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 to the 2005 annual consolidated financial statements. The following table summarizes all significant year-to-date related party transactions:

Millions	Nine months ended September 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	**-**	3
Sale of power to Katahdin Paper Company	**6**	19
Sale of power and tolling agreement with Fraser New Hampshire	**1**	7
	$ 7	$ 79
Investment income and other		
Interest earned on demand deposits and promissory notes with Brookfield	**$ 5**	$ 11
Income from securities with affiliated companies	**7**	11
Income from investments with affiliated companies	**-**	8
	$ 12	$ 30
Expenses		
Interest expense on note payable	**$ 8**	$ 4
Profit sharing with Noranda Aluminum Inc. (1)	**-**	(4)
	$ 8	$ -

(1) Included in power purchases.

As at September 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 $80 million (December 31, 2005 - $nil) as at September 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 to date.

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) to 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 of 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