

Letter to Shareholders

Dear shareholders,

Overview

Financial results for the third quarter were excellent, with FFO reaching \$1.2 billion and consolidated net income \$1.5 billion or \$1.85 and \$1.23 per common share, respectively. Our operations recorded strong results, and a number of one-time realization items closed during this period. In particular, our power results were ahead of target as we integrated newly acquired hydroelectric and wind facilities and our infrastructure operations continue to benefit from investments made over the past few years. Retail sales in the U.S. were strong, and while the macroeconomic picture is unsettled, we have not seen any signs of this affecting our business at the grass-roots level.

During the last number of months, we have had a number of realizations which have resulted in $\pm$ \$1.5 billion of gains. Some of these closed in the third quarter and the balance during the fourth. But while for reporting purposes these are recorded as one-time items, they in fact are far from one-time as the values have been built up over many years and are the result of both the timing of acquisitions and a lot of hard work over the ensuing period. The realization is merely the culmination of these activities and often occurs when capital markets are robust, as we generally only find exits at values acceptable to us during these periods of time.

We closed our latest Infrastructure Fund with \$7 billion of capital commitments and a \$1 billion Timberland Fund. This brings recent fundraising of private capital to approximately \$16 billion, and we continue to raise capital for our investing strategies. Flows of capital into alternatives, but more specifically real estate and infrastructure, are very positive both in our private funds and listed entities. This bodes well for the continued high growth of our fee income.

Global Real Asset Allocations

During the quarter, we held our annual Investor Day. Thank you to all who could attend. For those who could not attend, the webcast and materials are posted on our website for your review.

The theme of our presentation was real assets; the new essential for institutional clients. We believe for many reasons that allocations by institutional clients to real assets will continue to increase. This is borne out by the success we have had of late in marketing our global funds. More importantly, we believe that this shift in allocations is still only in its early stages. Our goal has been to establish one of the global managers with the trust, relationships and scale to invest capital for global institutions into real assets across the world. We continue with this goal.

Furthermore, with instability everywhere in the world (Abenomics impacting the Japanese story; tapering and debt ceilings affecting the U.S.; banking and overall debt levels influencing the Eurozone; growth worries affecting China; and the Syrian situation muddling the Middle East), global institutions are placing greater amounts of capital into real assets as there is nowhere else to hide. Even the gold market has been volatile, and in any event is just too small to be meaningful, given the size of sovereign and institutional fund capital. All of these trends continue to fuel greater allocations to real assets. More importantly, we believe real assets provide a high quality and attractive real return that will continue to be ideal for institutional investors for many years to come.

During our Investor Day, we also provided an update on each of our business groups and our detailed five year growth plans. Business plans are never easy to achieve, but should we be able to accomplish our plans we believe all of our constituents will be pleased.

The Merger of Brookfield Property Partners (BPY) and Brookfield Office Properties (BPO)

During the quarter, we launched a merger of Brookfield Property Partners (BPY) and Brookfield Office Properties (BPO). The proposal is a one-for-one share offer, or cash equivalent, for any or all BPO shares not owned by BPY; with an aggregate value of approximately \$5 billion. BPY has made available \$1.7 billion of cash and \$3.3 billion of shares (valued at announcement date) to provide flexibility to BPO shareholders.

We believe that this merger and a number of other exciting initiatives that we are working on in our property group will position BPY as the leading global real estate business. BPO shareholders were offered a 15% premium to the trading price per share before the transaction and an immediate 18% increase to the tangible IFRS value per share. Post transaction, BPO shareholders receive a 79% increase in the dividend per share, based on BPY's current payout. BPO institutional shareholders, with 11% of the public float, committed to the transaction prior to announcement, and we have met with many BPO shareholders since launching the deal and received favourable feedback on the merger.

Post transaction, BPY will own one of the premier office and retail businesses in the world; and a growing multifamily and industrial business. In addition, through Brookfield's institutional client relationships, the combined business will have almost unparalleled access to capital.

We expect to realize significant cost and other synergies which will also make this transaction positive to FFO in the short term. We intend to rationalize the BPY portfolio over the next 24 months, and utilize proceeds of asset sales to both pay off debt assumed in this transaction and invest in new assets.

The General Growth Properties (GGP) Consortium Reorganization

Earlier this month, we completed a transaction to provide liquidity to our consortium partners for their interests in GGP. This transaction allowed our institutional clients to realize on the value created in this investment.

We initially invested \$2.3 billion and during the last three years, we realized \$6.0 billion of value for BPY and our institutional clients. The total gain was just shy of \$4 billion, resulting in a gross multiple of capital of 2.6 times, and a gross IRR of 38%. Our own investment in the consortium also compounded at a 38% return, and in addition our carried interest was over \$550 million, which we received in the fourth quarter of this year.

The transaction also enabled BPY to invest a further \$1.4 billion into GGP, and as a result, it now owns 32% of GGP on a fully diluted basis. Along with select institutional clients who retained their GGP investment with us, we own 40% of this high quality U.S. shopping mall portfolio, which we believe has significant unrealized potential. To finance the investment, we completed a \$1.4 billion private placement in BPY, which included \$1 billion from Brookfield (BAM) and \$435 million from Investment Corporation of Dubai and another one of our sovereign wealth fund clients.

Following the BPO/BPY merger, and this transaction, BAM will own 68% of BPY and other shareholders will own 32% of BPY. The market capitalization of BPY will be ±\$15 billion, based on IFRS values, with a ±\$5 billion market float.

Our View on Emerging Markets

We invest along specific themes that complement our overall strategy of acquiring high quality assets at attractive valuations. Over the next year or two, we anticipate that one of our major investing themes will be putting capital to work in emerging markets. This is not the popular strategy today as there has been a great deal of negative news from regions such as Brazil, India and China. But this value based approach has served us well in the past, and at this time we thought it would be useful to outline our thoughts on emerging markets. There are three central factors shaping our thinking on this theme.

First, we have found that when capital becomes scarce in a sector or a region, there are opportunities to purchase great assets at prices which would not otherwise be available. This was the backdrop when we

invested in U.S. shopping malls and Australian infrastructure during the financial crisis. For the better part of a decade, the BRIC nations were awash in foreign capital. That is no longer the case. In the past year, as economic growth slowed and local currencies dropped against the U.S. dollar and Euro, a number of institutions exited the emerging markets, or announced plans to unwind their portfolios. As these institutions retrench, and seek to dispose of assets or portfolios, we are often able to invest at values not usually available.

Secondly, we are investing in regions and sectors where we have considerable experience. Our roots in South America go back a hundred years, and we have built teams in China, the Middle East and India over the past ten years. We think and behave like locals, and our global outlook means we can be selective and deliberate in how we allocate capital. Furthermore, our local relationships also often translate into opportunities to acquire assets in the U.S. and Europe from large companies based in emerging markets that need access to capital.

Third, we believe in the long-term potential of emerging markets. Our century of exposure to Brazil has shown that countries with resources, improving rule of law and a well-educated and growing middle class can create extraordinary wealth. Economic growth can be uneven, and political shifts are occasionally dramatic. But by acquiring assets at less than their replacement cost, at a time when local currencies are at a discount to their historic averages, we believe we will be able to generate excellent returns on our capital over the longer term.

In Brazil, we have continued to allocate capital to virtually all of our businesses. During the quarter, we acquired a further 20% interest in Arteris, our toll road company which owns over 3,200 kilometres of toll roads and are continuing to build out our real estate, agriculture and power generation businesses organically and through acquisition.

In India, after five years of operating in the market with modest amounts of capital in a number of our service businesses, we are enthused about opportunities given the recent lack of capital. We raised one of the largest rupee denominated real estate funds in India (the equivalent of US\$200 million) and intend to use it to provide senior loans on property developments. We also purchased approximately 17% of a UK listed entity which owns a first class group of technology focused office buildings in India that are largely leased to Western clients. Lastly, we believe our lower cost of capital can be of great advantage to some of the local companies as they look to fund growth.

In China, we recently committed to a strategic partnership with Shui On Land with respect to its commercial property business in Shanghai, one of the world's most dynamic cities. We committed to provide up to \$750 million to Shui On's subsidiary China Xintiandi (CXTD), of which \$500 million will be invested upon closing and \$250 million at our option over the next three years. In addition, we plan to invest up to \$500 million to fund additional future commercial property opportunities with CXTD. This investment will be made through Brookfield Property Partners and with our institutional clients, and the initial investment represents approximately 22% of CXTD. Upon closing, CXTD will own virtually all of the office and retail assets currently owned by Shui On in Shanghai's iconic Xintiandi area, and their commercial assets around the new Shanghai inter-city train station in Hongqiao. We were also granted warrants in Shui On for 5% of the company and are very enthused about this new partnership with Shui On and its founder Vincent Lo.

Share Repurchases

During the quarter, we repurchased 2.4 million shares of Brookfield, bringing the number of shares repurchased this year to approximately 9 million. Over the last 15 years we have repurchased over 50 million common shares and only once issued common shares (45 million) for strategic reasons. We intend to continue with this strategy.

During the past three years, as we digested the substantial acquisitions made during the financial crisis to grow our business, we did not repurchase a large number of shares. With values of many assets now increasing and capital more freely available, we have completed a number of realizations. This has resulted in a substantial amount of liquidity at Brookfield and our major subsidiaries.

In addition, since we are close to completing the realignment of our listed flagship entities, and have significantly expanded our private funds, there is less of a burden on our corporate balance sheet to fund investments.

Our annual free cash flows, as well as our capital generated from realizations of investments are therefore increasingly being directed towards share repurchases when values are cheap, and to broadening the base of our asset management business globally. In addition, and once again depending on price, we intend to monetize assets on our balance sheet over time and use portions of this capital to repurchase shares.

Operations

Overall assets under management are approximately \$184 billion with fee bearing capital increasing to \$80 billion. The distribution is as follows:

<i>US\$ billions</i>	Assets Under Management	Fee Bearing Capital
Property	\$ 105	\$ 31
Renewable Power	20	12
Infrastructure	26	21
Private equity and other	33	16
	<u>\$ 184</u>	<u>\$ 80</u>

Brookfield Property Group

Results were on track with the highlight that retail FFO increased by over 20%. We continue to see corporations concentrate their operations into urban centres in order to better attract and retain talent, and this trend favours our high-quality office properties. In addition, our shopping centre portfolio continues to benefit from the U.S. economic rebound and growing consumer confidence. We announced the merger of BPY and BPO and increased BPY's interest in GGP to 32% on a diluted basis, with our overall stake at 40%. GGP sold its interest in Aliansce Retail in Brazil for proceeds of ±\$700 million, we purchased a \$1 billion portfolio of industrial properties in the U.S., and are selling assets across our opportunity funds as the cash bid for assets is robust.

We also closed the merger of our Los Angeles properties into Maguire Properties and took the company private with institutional clients. We acquired two urban retail properties, an office property in San Francisco, and committed to acquire the 22% stake in China Xintiandi. Brookfield Place New York in lower Manhattan is now reconnected to the city's public transit system and we are significantly enhancing the retail and dining experience in this landmark property.

Brookfield Renewable Power Group

We expanded our hydroelectric power business in New England and California by acquiring 85 megawatts of generation capacity that complements our existing facilities. We have integrated the Maine and Tennessee acquisitions completed earlier this year, and results on both these portfolios have far exceeded plan to date. Hydrology in North America matched historical averages, which meant results were much better than what we experienced last year. We are working on a number of opportunities to acquire high quality assets at attractive valuations in North and South America and Europe.

We continue to grow our renewable business at a time when the overall outlook for renewable energy is excellent. Globally, renewable generation is expected to increase substantially with \$200 billion of annual new construction. This growth reflects both the positive environmental attributes of hydroelectric and wind power, and the increasing cost competitiveness of these facilities.

Brookfield Infrastructure Group

Results in our infrastructure group were approximately 20% higher than last year even though we sold some of the timber operations earlier this year, and have not redeployed the capital. This increase is largely the result of an increase in FFO from our transport and utility businesses, where we completed significant growth initiatives earlier this year.

We invested further capital in two of our operations, closing on a further \$650 million purchase of equity in Arteris, our toll road business in Brazil, and acquiring two U.S. district energy systems, one in Houston and one in New Orleans. We were granted exclusivity to acquire a 25% interest in a rail logistics business in Brazil, and our Texas electrical transmission system, which carries power from wind farms to major cities, is expected to be fully commissioned by the end of the year.

Brookfield Private Equity Group

We realized capital invested in housing-related businesses, recycling it through our most recent Fund in attractive opportunities, including businesses focused on natural gas. We closed on the sale of Longview Fibre, which proved to be one of our best investments, sold another \$150 million of Western Forest Products shares, and agreed to merge Ainsworth into Louisiana Pacific (LPX) in a 50/50 cash/stock deal. We are enthused to become a 9% shareholder of LPX upon closing, and will also receive \$250 million in cash.

We expanded our coal bed methane (CBM) business in Alberta by acquiring assets for \$210 million from a global energy company that was exiting the sector. In less than two years, we have built a North American CBM producer that is profitable at current natural gas prices. As prices are near historic lows, the business should generate excellent returns when gas prices increase.

Corporate

We settled a litigation during the quarter with a counterparty that had a long dated interest rate contract with us. We had accrued a liability in the amount of \$1.4 billion based on the original terms and settled the contract for \$905 million, resulting in a pre-tax gain of \$525 million recorded in the third quarter. While we were confident in our case, the outcome of a jury trial is always uncertain, and so we negotiated a reasonable settlement. As a result, future interest costs that were accruing at over \$100 million annually have been replaced with carry costs at half the previous rate, enhancing our net income by more than \$50 million annually.

Summary

We remain committed to being a world-class alternative asset manager, and investing capital for you and our investment partners in high-quality, simple-to-understand assets which earn a solid cash return on equity, while emphasizing downside protection for the capital employed.

The primary objective of the company continues to be generating increased cash flows on a per share basis, and as a result, higher intrinsic value per share over the longer term.

And, while I personally sign this letter, I respectfully do on behalf of all of the members of the Brookfield team, who collectively generate the results for you. Please do not hesitate to contact any of us, should you have suggestions, questions, comments, or ideas you wish to share with us.

J. Bruce Flatt
Chief Executive Officer

November 8, 2013