

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Management's Discussion and Analysis of Financial Results contains forward-looking information within the meaning of Canadian provincial securities laws and applicable regulations and "forward-looking statements" within the meaning of the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. The words, "potential," "intend," "approach," "future," "grow," "plan," "seek," "expect," "believe," "estimate," "anticipate," "objective," "continue," "enable," "expand," "likely," "focus," "think," "commit," "strive," "pursue," "endeavour," "future," "generate," "maintain," "see," "position," "target," "tend," and derivations thereof and other expressions, including conditional verbs such as "will," "can," "may," "might," "could," "would," and "should" are predictions of or indicate future events, trends or prospects or identify forward-looking statements. Forward-looking statements in this Management's Discussion and Analysis of Financial Results include statements with respect to the following: our business and operating strategies; the potential for value appreciation of real assets; our expectation of increasing the cash we generate and the value of our assets through organic expansion and new initiatives; our targeted rates of return for our various investments; our ability to continue to compound our long-term returns at attractive levels; the ability of our development properties to generate cash in the future; the completion and acquisition of renewable energy projects in North America and Brazil; the expansion of our rail lines in Western Australia and resulting increased cash flow; the expansion of our Australian coal terminal and our UK port operations; the construction of our electricity transmission project in Texas; our belief that our business strategies should enable our shares to compound at a rate of between 12% and 15%; our distribution policy; our focus on real assets; the potential launch of a flagship public entity for our property group; our objective of earning in excess of a 12% annualized total return on the intrinsic value of our common equity; the future performance of the residential homebuilding, lumber and natural gas sectors; our commercial office development activities in North America, Australia and UK; the improvement in the U.S. private equity market; the refinancing of our debt; our ability to achieve long-term generation targets based on water conditions; our expectations that the price for renewable hydroelectric generation will increase; our ability to sell our power at increasing rates and secure long-term contracts on favourable terms; the stability and resiliency of our cash flows from our utilities, transport and energy businesses; the impact of supply constraints and ongoing demand from Asian markets on our timber operations and our expectation that market conditions will remain comparable and that market supply may increase in 2012, which could lead to lower prices; leasing discussions with potential tenants; the scheduled completion of the City Square office development in Australia; our ability to maintain or increase our net rental income in the coming years; our expectation for office development in Manhattan; the completion of department stores by GGP; opportunities to purchase infrastructure assets from European and other investors seeking to deleverage their balance sheets; our ability to achieve attractive returns within our Brazilian agricultural operations; our investments in Brazilian agricultural property; our level of liquidity; our intention to pursue growth opportunities in international markets; harvest plans for our timberlands operations; the seasonality of our operations; our goal of increasing capital under management and the associated fees substantially in the coming years; our assumption that capital under management in our unlisted funds and managed listed issuers will grow at a rate of 10% over the next 10 years; our fund raising activity; our assumption that our annualized gross margin migrates to 150 basis points in our asset management operations, and our belief that we can add meaningfully to managed capital without a commensurate increase in expenses; future determination of our legal proceedings with AIG Financial Products; and other statements with respect to our beliefs, outlooks, plans, expectations, and intentions. Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include the following: economic and financial conditions in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and exchange rates; availability of equity and debt financing and refinancing; strategic actions including our ability to acquire and develop high quality assets; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; our ability to attract and retain suitable management; adverse hydrology conditions; the ability to continue to attract institutional investors to our funds; regulatory and political factors within the countries in which we operate; tenant renewal rates; availability of new tenants to fill office property vacancies; default or

bankruptcy of counterparties to our contracts and leases; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments, including terrorist acts; and other risks and factors detailed from time to time in our Form 40-F filed with the Securities and Exchange Commission, as well as other documents filed by us with the securities regulators in Canada and the United States including Management's Discussion and Analysis of Financial Results under the heading "Business Environment and Risks."

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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PART 1 — OVERVIEW

OUR BUSINESS

Brookfield is a global alternative asset manager with approximately \$150 billion in assets under management. For more than 100 years we have owned and operated assets on behalf of shareholders and clients with a focus on property, renewable power, infrastructure and private equity.

Our business model is simple: utilize our global reach to identify and acquire high quality real assets at favourable valuations, finance them on a long-term low-risk basis, and enhance the cash flows and values of these assets through our leading operating platforms to earn reliable, attractive long-term total returns for the benefit of our clients and ourselves.

We have a range of public and private investment products and services which leverage our expertise and experience and provide us with a distinct competitive advantage in the markets where we operate.

Strategy

We focus on “real assets” and businesses that form the critical backbone of economic activity, whether they provide high quality office space and retail malls in major urban markets, generate reliable clean electricity, or transport goods and resources to or from key locations.

- These assets and businesses typically benefit from some form of barrier to entry, regulatory regime or other competitive advantage that provides stability in cash flows, strong operating margins and value appreciation over the longer term.

As an asset manager, we raise and manage capital for our clients that is invested in assets we own, alongside our own capital.

- This generates an increasing stream of base management and performance-based income that increases the value to our business and adds further value to the company by providing us with additional capital to grow the business and compete for larger transactions.

We are active managers of capital.

- We strive to add value by judiciously and opportunistically reallocating capital among our businesses to continuously increase returns.

We maintain leading operating platforms (with over 23,000 employees worldwide) in order to maximize the value and cash flows from our assets.

- Our track record shows that we can add meaningful value and cash flow through “hands-on” operational expertise, through the negotiation of property leases, energy contracts or regulatory agreements, asset development, operations and other activities.

We finance our operations on a long-term, investment-grade basis, with most of our operations financed on a stand-alone asset-by-asset basis with minimal recourse to other parts of the organization. We also strive to maintain excess liquidity at all times in order to be in a position to respond to opportunities.

- This provides us with considerable stability and enables our management teams to focus on operations and other growth initiatives. It also enables us to weather financial cycles and provides the strength and flexibility to react to opportunities.

We prefer to invest in times of distress and in situations which are time consuming.

- We believe these situations provide much more attractive valuations than competitive auctions and we have considerable experience in this specialized field.

We maintain a large pipeline of attractive development and expansion investment opportunities.

- This provides us flexibility in deploying growth capital, as we can invest in both acquisitions and organic developments, depending on the relative attractiveness of returns.

Value Creation

As an asset manager, we create value for shareholders in the following ways:

- We offer attractive investment opportunities to our clients that will, in turn, enable us to earn base management fees based on the amount of capital that we manage for them, and additional returns such as incentive distributions and carried interests based on our performance. Accordingly, we create value by increasing the amount of capital under management and by achieving strong investment performance that leads to increased cash flows and intrinsic value;
- We also invest significant amounts of our own capital, alongside our clients in the same assets. This creates a strong alignment of interest and enables us to create value by directly participating in the cash flows generated by these assets and increases in their values, in addition to the performance returns that we earn as the manager;
- Our operating capabilities enable us to increase the value of the assets within our businesses, and the cash flows they produce, through our operating expertise, development capabilities and effective financing. We believe this is one of our most important competitive advantages as an asset manager; and
- Finally, as an investor and capital allocator with a value investing culture and expertise in recapitalizations and operational turnarounds, we strive to invest at attractive valuations, particularly in situations that create opportunities for superior valuation gains and cash flow returns.

BASIS OF PRESENTATION, KEY PERFORMANCE METRICS AND USE OF NON-IFRS MEASURES

This Report makes reference to Total Return, Funds From Operations (“funds from operations” or “FFO”), Net Tangible Asset Value and Intrinsic Value, all on a total and per share basis. Management uses these metrics as key measures to evaluate performance and to determine the net asset value of its businesses. These measures are not generally accepted measures under International Financial Reporting Standards (“IFRS”) and may differ from definitions used by other companies.

We do not utilize net income on its own as a key metric in assessing the performance of our business because, in our view, it does not provide a consistent or complete measure of the ongoing performance of the underlying operations. For example, net income includes fair value adjustments for our commercial office and retail properties, standing timber and financial assets, whereas fair value adjustments for our renewable power, and many assets within our infrastructure business, are included in Other Comprehensive Income. Nevertheless, we recognize that others may wish to utilize net income as a key measure and therefore provide a discussion of net income and a reconciliation to funds from operations in this section and elsewhere in our MD&A.

We provide additional information on how we determine Total Return, Funds From Operations, Net Tangible Asset Value and Intrinsic Value in the balance of this document. We provide reconciliations between Common Equity to Net Tangible Asset Value and to Intrinsic Value on page 25, as well as Total Return and Funds from Operations to Comprehensive Income on pages 34 to 35.

Unless the context indicates otherwise, references in this Report to the “Corporation” refer to Brookfield Asset Management Inc., and references to “Brookfield” or “the company” refer to the Corporation and its direct and indirect subsidiaries and consolidated entities. The information in the MD&A is presented on both a consolidated and deconsolidated basis and organized by operating platform. This is consistent with how we review performance internally and, in our view, represents the most straightforward approach. The U.S. dollar is our functional and reporting currency for purposes of preparing our consolidated financial statements, given that we conduct more of our operations in that currency than any other single currency. Accordingly, all figures are presented in U.S. dollars, unless otherwise noted.

Total Return

Total Return represents the amount by which we increase the intrinsic value of our common equity and is our most important performance metric. Our objective is to earn in excess of a 12% annualized total return on the intrinsic value of our common equity, when measured over the long term, which we define as a period of not less than five years. We believe that our businesses can achieve this rate of growth without taking on undue risk, and that compounding capital at this rate for a very long time, and protecting it against loss, will create tremendous wealth.

We define Total Return to include funds from operations plus the increase or decrease in the value of our assets over a period of time. We believe that our performance is best assessed by considering these two components in aggregate, and over the long term, because that is the basis on which we make investment decisions and operate the business. In fact, if we were solely focused on short-term financial results it is quite likely that we would operate the business very differently and, in our opinion, in a manner that would produce lower long-term returns.

Funds From Operations represent the cash flow generated on an ongoing “normal course” basis. This measure is often used to assess the value and performance of the mature assets within several of our larger asset classes, most notably our commercial office and retail operations and our renewable power and infrastructure businesses, which benefit from steady recurring cash flows. However, funds from operations is a less effective measure for assessing the performance of our businesses that are more opportunistic in nature, or our development activities and repositioning initiatives, due to the inherent volatility, or even absence, of operating cash flows. Furthermore, the majority of our capital is invested in assets that have been demonstrated to increase in value over time, due to the impact of the expected growth in the real return and contracted cash flows on their compounded value, and therefore the “current” FFO yield typically understates the long-term returns for many of our assets.

Accordingly, we believe that while FFO is a relevant metric, a complete assessment of our performance must include changes in the values of our capital, and not just the annual FFO. These valuation gains reflect our ability to invest and allocate capital wisely, take advantage of pricing anomalies and opportunities to acquire assets at less than their long-term values, and use our operating skills to enhance value for the long term.

Intrinsic Value

Our intrinsic value has two main components:

- The **net tangible asset value of our equity**. This is based on the appraised value of our net tangible assets as reported in our audited financial statements, with adjustments to eliminate deferred income taxes and revalue the assets which are not otherwise carried at fair value in our financial statements. We refer to this as Net Tangible Asset Value and use this basis of presentation throughout the MD&A; and
- The **value of our asset management franchise**. Asset management franchises are typically valued using multiples of fees or assets under management. We have provided an assessment of this value, based on our current capital under management, associated fees and potential growth. We refer to this as Asset Management Franchise Value.

The total of these two components is what we refer to as our Intrinsic Value.

The foregoing does not include our overall business franchise, which to us represents our ability to maximize values based on our extensive operating platforms and global presence, our execution capabilities, and relationships which have been established over decades. This value has not been quantified and is not reflected in our calculation of Intrinsic Value but may be the most valuable part of our business.

We provide additional information on how we determine Total Return, Funds From Operations, Intrinsic Value and Net Tangible Asset Value in the balance of this document. We provide a reconciliation from Total Return and Funds from Operations to Consolidated Financial Statements on pages 34 and 35.

PERFORMANCE HIGHLIGHTS

We recorded strong financial and operational performance during 2011, and remain well positioned for future growth. We expect to increase the cash we generate and the value of our assets through both organic expansion and new initiatives, using our strong balance sheet and operational expertise. The following list summarizes our more important achievements during the year:

- ***We generated Total Return for Brookfield shareholders of \$3.3 billion (or \$5.33 per share), representing a 14% return, compared to \$2.1 billion or 10% in the prior year.***

Improved performance and economic conditions in most of our operations contributed to this favourable result. Valuation gains contributed \$2.4 billion compared to \$1.0 billion in the prior year, while funds from operations were relatively unchanged at \$1.0 billion.

- ***Net income on a consolidated basis totalled \$3.7 billion, of which \$2.0 billion (or \$2.89 per share) accrued to Brookfield shareholders and represented an important component of Total Return.***

This result compares favourably to the \$3.2 billion of consolidated net income recorded in 2010, of which \$1.5 billion (\$2.33 per fully diluted share) accrued to Brookfield shareholders. Comprehensive income, which includes valuation adjustments to our power generation and infrastructure assets in addition to net income, increased to \$4.6 billion from \$3.4 billion, of which \$2.8 billion accrued to Brookfield shareholders (2010 – \$1.2 billion).

- ***Funds from operations totalled \$2.4 billion on a consolidated basis, of which \$1.1 billion (\$1.51 per share) accrued to Brookfield shareholders.***

We achieved improved results across our major business platforms. Investments in certain cyclical businesses that are tied to long-term growth remain below historic levels due to economic weakness, but are expected to outperform over the long term. Our strategy of building global operating units continues to generate strong risk-adjusted returns. Our commercial office business achieved record leasing volumes, our retail unit acquired in 2010 has successfully emerged from its restructuring, our hydro power unit now ranks among the world's largest public renewable power companies and our infrastructure business is well positioned as a global leader, with a number of growth opportunities.

- ***We continued to expand our asset management franchise with both listed and private entities.***

We launched a listed global renewable power business that ranks as one of the world's leading hydro power companies and are advancing capital campaigns for eight private funds with a goal of obtaining further third party commitments of approximately \$5 billion.

- ***We raised \$27 billion of capital in 2011 through asset sales, equity issuance, fund formation and debt financings.***

Low interest rates, receptive credit markets and strong investor interest in our income-generating, high quality assets continued to support our capital raising and refinancing initiatives. Our financing activities enhanced our liquidity, refinanced near-term maturities, lowered our cost of capital and extended terms, and funded new investment initiatives. Core liquidity was \$3.9 billion at December 31, 2011.

- ***Our operating teams delivered strong organic growth that increased the value and cash flows of our assets.***

We leased a record 11 million square feet of commercial office properties, with new rental rates that were on average 10% higher than expiring rents. We recycled capital in our property business by reinvesting \$0.6 billion in the acquisition of six office buildings and additional interest in the U.S. Office Fund. We completed construction on four power facilities for close to \$1 billion, adding 280 megawatts of power to a portfolio that now generates energy valued at approximately \$1 billion annually.

Our Australian railway began a \$600 million expansion that is expected to be completed by 2014, underpinned by take-or-pay contracts with major resource companies. Our Brazilian residential property businesses completed a record R\$3.9 billion of launches and R\$4.4 billion of contracted sales, reflecting demand for housing from an increasingly affluent population. Our U.S. retail business, focused on high quality destination shopping centres, is benefitting from continued sales growth and improving terms on leases, after spinning out a portfolio of 30 smaller, neighbourhood malls as a new listed entity, which we assisted in forming.

We expanded our real estate services and global relocation businesses through an acquisition that made both among the largest companies, respectively, in their sectors. Our private equity business has approximately \$8 billion invested in promising opportunities, including investments in residential homebuilding, lumber and natural gas, all out of favour sectors which we think will each turn in the foreseeable future.

- ***We are working on a number of attractive growth opportunities, including entry into new sectors and regions and the launch of new projects.***

We acquired part of the toll road that circles Santiago, Chile, and made our first investment in our Colombia Fund by purchasing an electrical distribution network for \$440 million. Australian regulators approved plans to double the size of our coal terminal, already among the largest in the world, and we are now doing a feasibility study on its expansion. We have begun construction on our Texas electricity transmission system, a \$750 million project launched two years ago, and expect to complete the network in 2013.

We are moving forward with four new hydro and wind projects in North America and a number of renewable power developments in Brazil that are expected to add 195 megawatts of installed capacity to our operations and cost a total of \$650 million. Commercial office development activities are focused on five projects in North America, Australia and the UK that comprise approximately nine million square feet, with a total value once constructed of approximately \$7 billion. We launched three new international funds and platforms, two in India and one in Dubai with proven local partners.

- ***We are executing our strategy of having flagship public entities in each of our major areas of operational expertise.***

The successful launch of our listed global renewable energy partnership and solid performance from our public infrastructure business since it was created in 2008 show there is strong investor support for high quality public entities that deliver growth and attractive cash distributions. The next step in our plan would be the launch of a flagship public real estate partnership this year that would hold all our property assets, and rank among the largest and most diversified real estate businesses, with favourable access to capital. We would maintain a meaningful ownership interest in this entity, which would have a global growth strategy, a market capitalization of approximately \$10 billion and a high dividend payout policy, and be listed on the New York and Toronto Stock Exchanges. This initiative should enhance our asset management franchise, and create value for both Brookfield and unitholders in the partnership.

- ***We increased our dividend by 8%.***

This increase reflects the resumption of our policy of increasing the distributions over time by an amount that corresponds to the growth in cash flow generated from the business, while ensuring we retain additional capital to reinvest in our business.

PART 2 — FINANCIAL REVIEW

OPERATING RESULTS

The following table summarizes our annual operating performance and the components of total return:

Total Return

YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Asset Management Services ¹		Renewable Power Infrastructure		Private Equity Corporate		Total ³ 2011	Total ³ 2010
	Property ²							
Total revenues	\$ 3,333	\$ 2,760	\$ 1,140	\$ 1,690	\$ 6,770	\$ 228	\$ 15,921	\$13,623
Funds from operations								
Net operating income ⁴	402	2,118	778	949	625	—	4,872	4,017
Investment and other income.....	—	76	—	16	58	126	276	441
	402	2,194	778	965	683	126	5,148	4,458
Interest expense.....	—	(1,014)	(394)	(340)	(237)	(345)	(2,330)	(1,810)
Operating costs.....	—	(82)	—	(49)	—	(350)	(481)	(417)
Current income taxes.....	—	(10)	(13)	(4)	(45)	(10)	(82)	(94)
Non-controlling interests.....	—	(530)	(158)	(378)	(137)	—	(1,203)	(1,031)
Total funds from operations	402	558	213	194	264	(579)	1,052	1,106
Valuation gains								
Included in IFRS statements ⁵								
Fair value changes.....	—	3,010	1,719	665	(65)	(159)	5,170	1,020
Depreciation and amortization.....	(34)	(33)	(455)	(147)	(227)	(8)	(904)	(795)
Other items.....	—	(109)	—	—	(22)	(28)	(159)	(44)
Non-controlling interests.....	—	(923)	(423)	(247)	122	—	(1,471)	(773)
Not included in IFRS statements								
Incremental values.....	100	(300)	(300)	125	75	(100)	(400)	1,200
Asset management franchise value.....	—	—	—	—	—	250	250	500
Other gains.....	—	(13)	(13)	—	(61)	—	(87)	(85)
Total valuation gains	66	1,632	528	396	(178)	(45)	2,399	1,023
Preferred share dividends	—	—	—	—	—	(106)	(106)	(75)
Total Return	\$ 468	\$ 2,190	\$ 741	\$ 590	\$ 86	\$ (730)	\$ 3,345	\$ 2,054
— Per share.....							\$ 5.33	\$ 3.23

1. Excludes net unrealized performance fees which are included in incremental values
2. Disaggregation of property segment into office, retail and other is presented on page 42
3. Reconciled to IFRS financial statements on page 34 and 35
4. Includes funds from operations from equity accounted investments
5. Includes items in consolidated statements of operations, comprehensive income and changes in equity

Funds from Operations and Realized Gains

The following table presents funds from operations, as well as the accumulated valuation gains realized during the year on major dispositions. Gains included in this metric are discussed further on page 20.

YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Total		Net		Per Share	
	2011	2010	2011	2010	2011	2010
Funds from operations (see table above).....	\$ 2,355	\$ 2,196	\$ 1,052	\$ 1,106	\$ 1.51	\$ 1.76
Realized gains.....	318	424	159	357	0.25	0.61
Funds from operations and realized gains	\$ 2,673	\$ 2,620	\$ 1,211	\$ 1,463	\$ 1.76	\$ 2.37

Review of Total Return

The table below presents our total return on a segmented basis, which facilitates the following summarized review of our operating results:

YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2011			2010		
	Funds from Operations	Valuation Gains	Total Return	Funds from Operations	Valuation Gains	Total Return
Asset management services.....	\$ 402	\$ 66	\$ 468	\$ 348	\$ 409	\$ 757
Property.....	558	1,632	2,190	421	838	1,259
Renewable power.....	213	528	741	257	(964)	(707)
Infrastructure.....	194	396	590	130	152	282
Private equity.....	264	(178)	86	277	92	369
Investment and other income.....	126	(295)	(169)	311	(4)	307
	1,757	2,149	3,906	1,744	523	2,267
Interest and operating costs ¹	(705)	—	(705)	(638)	—	(638)
	1,052	2,149	3,201	1,106	523	1,629
Asset management franchise value.....	—	250	250	—	500	500
Preferred share dividends.....	(106)	—	(106)	(75)	—	(75)
	\$ 946	\$ 2,399	\$ 3,345	\$ 1,031	\$ 1,023	\$ 2,054
— Per share.....	\$ 1.51	\$ 3.82	\$ 5.33	\$ 1.76	\$ 1.47	\$ 3.23

1. Not allocated to specific activities

We recognized a total return during the year of \$3.3 billion compared to \$2.1 billion in the prior year, reflecting annual total returns of 14% and 10%, respectively, on average intrinsic value during each year.

Funds from operations were \$1.1 billion prior to preferred share dividends, representing a slight decrease from the prior year. Our operations performed well in almost all areas, although we did record a lower level of investment gains.

Valuation gains totalled \$2.4 billion, a substantial increase over the \$1.0 billion recorded in 2010. Improved business fundamentals, increases in contractual cash flows and lower discount rates gave rise to increased valuations, particularly in our property and power operations.

Asset Management Services: Our asset management and other services contributed a total return of \$468 million compared to \$757 million in 2010. The prior year included a higher level of valuation gains related to accumulated carried interests. Funds from operations increased by 16% to \$402 million.

Asset management revenues totalled \$252 million compared to \$228 million in 2010. Base management fees increased by \$23 million to \$190 million, and are tracking at approximately \$200 million on an annualized basis. The largest contributor to this growth was the expansion of our listed and unlisted infrastructure funds. Investment banking and transaction fees increased to \$58 million from \$36 million representing favourable outcomes and an increased number of mandates.

Accumulated performance returns and carried interests that have not been recorded in our financial statements increased by \$119 million during the year. This increase is taken into account in the determination of the \$66 million of valuation gains from these activities. The total amount of accumulated performance returns and carried interest to date now stands at \$379 million, prior to associated accrued expenses of \$51 million. During the year we recorded \$4 million of performance income compared to \$25 million in 2010.

We increased the valuation of our asset management franchise by \$250 million, or 6%, to reflect the continued growth in our fee base, investment performance and progress in launching new funds.

Construction and property services provided a net contribution after direct expenses of \$150 million, compared to \$120 million, representing growth in both operations. The construction margin for the year was 9.3% compared to 9.0% in 2010. Our construction work in hand totals \$5.4 billion of projected contracted revenues for projects to be completed over the next three years compared to \$4.3 billion at the beginning of the year. We concluded an important acquisition just prior to year end to meaningfully expand our relocation and brokerage services operations.

Property: Our property segment includes our office and retail operations as well as our opportunistic investments, real estate finance and commercial property development activities, as set forth in the following table:

YEARS ENDED DECEMBER 31 (MILLIONS)	2011			2010		
	Funds from Operations	Valuation Gains	Total Return	Funds from Operations	Valuation Gains	Total Return
Office properties.....	\$ 255	\$ 818	\$ 1,073	\$ 311	\$ 423	\$ 734
Retail properties.....	239	816	1,055	(1)	461	460
Office development, opportunity, and finance.....	64	(2)	62	111	(46)	65
	<u>\$ 558</u>	<u>\$ 1,632</u>	<u>\$ 2,190</u>	<u>\$ 421</u>	<u>\$ 838</u>	<u>\$ 1,259</u>

Office Properties: Total return from our office property business was \$1,073 million, which consists of \$255 million in funds from operations and \$818 million in valuation gains for the year. This compares to \$734 million of total return in 2010, which consists of \$311 million in funds from operations and \$423 million in valuation gains for 2010.

The reduction in funds from operations reflects the reduced interest in our Australian operations following their merger into our 50% owned office property subsidiary, as well as lower occupancy levels in our U.S. operations throughout much of the year, consistent with our expectations. We made considerable progress towards increasing occupancy levels with a record year of leasing, signing approximately 11 million square feet of leases. These included 7.2 million square feet of leasing renewals and 3.8 million square feet of new leasing, which led to a reduction in our 2012–2016 lease rollover exposure by 550 basis points. The new lease rates were on average 10% higher than the expiring rents, increasing our in-place rents to \$28.57 per square foot and setting the stage for future growth in funds from operations.

We finished the year with overall occupancy of 93.3% compared to 94.8% at the beginning of 2011 and our goal is to be 95% leased by the end of 2012. The in-year decrease was due in part to several large leases expiring at the beginning of the year, as well as our strategy of selling well leased stabilized properties at favourable prices and reinvesting the proceeds in underleased properties where we can add value through our operating capabilities to achieve better long-term returns.

The improved growth profile and lower discount rates resulted in increased property appraisals in all of our major regions. Our share of valuation gains totalled \$818 million. This comes on top of \$423 million of gains in 2010. We sold three core properties during 2011 and crystallized \$159 million of valuation gains.

Retail Properties: Total return from retail properties was \$1,055 million, including \$239 million of funds from operations and \$816 million of valuation gains. We completed the financial reorganization of General Growth Properties (or “GGP”) in late 2010 and began recording our proportionate share of their operating results at the beginning of 2011. Our share of GGP’s funds from operations based on their IFRS results was \$213 million. Tenant sales at GGP were \$505 per square foot on a trailing 12-month basis as of the end of 2011, representing a 7.9% increase over the 2010 result on a comparable basis, and we have experienced eight consecutive quarters of increased sales. Our overall mall portfolio was 94.6% leased, an increase of 110 basis points during the year, and initial rents on leases executed during 2011 averaged \$65.67 per square foot, up 8.3% or \$5.04 per square foot over the comparable expiring leases.

As this is our first full year of ownership we do not report comparable results for 2010; however, GGP’s core net operating income increased 2.4% year-over-year and 7.0% in the fourth quarter illustrating the positive momentum within the business. The improved operating results, high quality of the malls, and lower discount rates gave rise to valuation gains of \$0.7 billion, of which approximately 50% was due to improved cash flows and 50% to lower discount rates.

Our retail operations in Brazil contributed \$14 million to funds from operations, despite much of our sales growth being offset by increased interest and development costs. We completed the sale of three properties during the year and our share of valuation gains for the portfolio, including the dispositions, was \$70 million.

Opportunistic, Finance and Development Activities: We recorded \$64 million of funds from operations from these activities compared to \$111 million in 2010, which included \$58 million of disposition gains compared to \$19 million in the current year.

We completed several acquisitions of property assets within our opportunity strategies through direct acquisitions as well as the purchase of distressed loan portfolios, which we believe will result in very attractive outcomes. Total investment was \$2.7 billion on behalf of ourselves and our clients, and our share was \$1.0 billion.

We are near completion of our 926,000 square foot City Square office project in Perth, and are pursuing major developments in New York City and London. In total, we are focused on five development projects totalling approximately nine million square feet that could add more than \$7.2 billion in assets.

Renewable Power: Funds from operations totalled \$213 million in the current year, and were 17% lower than the \$257 million produced in 2010 due in large part to our reduced ownership level during the year. We sold a partial interest in our Canadian power fund and a development project in 2010, recognizing disposition gains of \$291 million and generating cash proceeds of \$341 million.

We recorded \$528 million of valuation gains, which are due primarily to improvements in expected long-term prices. In the previous year, the positive impact of lower discount rates was more than offset by a reduction in expected future cash flows due to a decline in short-term electricity prices, particularly in the U.S. northeast, giving rise to an overall valuation loss of \$1.0 billion.

Hydroelectric generation levels were 8% higher year-over-year, although still 4% below long-term averages. We estimate that FFO would have been approximately \$25 million higher had we achieved long-term average wind and hydroelectric generation. Net operating income declined by 13% on a per megawatt basis relative to 2010 due to lower spot prices, an increase in the proportion of power generated in lower cost markets, offset in part by a 5% increase in the average Brazilian exchange rate during the year.

We ended 2011 with 83% of our expected generation for 2012 contracted at pre-determined prices, compared to 93% at the beginning of the year. We have elected to lock in less of our short-term power revenues with financial contracts as we believe we can benefit from higher electricity prices as markets improve. We have a number of attractive growth opportunities which we believe will lead to cash flow growth in 2012 and future years. These include five hydroelectric and wind facilities currently under development. We also have a further development pipeline of 2,000 megawatts of installed capacity and are also actively pursuing a number of small and large acquisition opportunities.

Infrastructure: We recorded total return of \$590 million, compared to \$282 million in 2010. Funds from operations increased by nearly 50% to \$194 million in the current year as a result of our increased ownership in a number of our operations at the end of 2010 as well as strong operational growth within most of the business units.

The operational growth reflects the impact of capital expansion projects in our transmission, ports and rail operations as well as favourable regulatory rate reviews and contract extensions. Collectively, our share of the FFO from our transmission, transport and energy operations increased by \$35 million. Higher volumes and pricing led to a \$29 million increase in FFO from our timber operations, driven largely by strong demand from Asian markets.

A large contributor to the valuation gains of \$396 million was the increase in value of our Western Australian rail operations resulting from the procurement of the necessary contracts and approvals to commence a \$600 million expansion. We also benefitted from improved valuations of our timber operations and utility businesses.

We recently completed acquisitions of interests in a toll road in Santiago, Chile and an electrical distribution business in Colombia.

Private Equity: This segment includes our special situations, residential and agricultural development operations. Funds from operations for 2011 totalled \$264 million compared to \$277 million in 2010. The results reflect a similar level of disposition gains in each year, as well as improving operating results.

The profile of our residential development businesses was mixed, with Brazil experiencing very strong growth, our Canadian operations continuing to produce solid results, while our U.S. operations continued to face a slow market, but at least we believe we are now coming off the bottom. The overall contribution to funds from operations from these businesses totalled \$78 million compared with \$100 million in 2010.

Our Brazilian operations continue to perform very strongly, with an increase in contracted sales of 21% to R\$4.4 billion; however, reported results do not reflect this as profits are not booked until projects are completed. We estimated that our share of the results would have been \$60 million higher if reported on a percentage-of-completion basis consistent with U.S. GAAP and Brazilian industry standards. North American results declined due to a lower level of closings in the U.S. and some Canadian closings slipping into 2012. We closed 528 homes and 912 lots in North America during 2011, compared to 1,295 homes and 2,301 lots, respectively, during 2010.

Our backlog of undelivered homes in North America increased to 659 at year-end with a sales value of \$264 million, compared to 377 homes with a value of \$151 million at the same time last year which provides a better outlook for 2012.

Other Items: Investment and other income declined as the more steady contribution from dividends and interest was offset by approximately \$62 million of market value adjustments on financial assets investments. We benefitted from \$177 million of positive market value adjustments in 2010.

Unallocated interest expense increased to \$345 million from \$313 million in 2010, reflecting higher borrowing levels in respect of our larger asset base. The increase in operating costs from \$304 million to \$350 million reflects the continued expansion of our asset management operations, and a higher level of transaction costs arising from several major initiatives undertaken during the year.

Approximately 45% of our funds from operations is denominated in non-U.S. currencies. Average exchange rates were 6% higher over the course of 2011 compared to 2010, based on the currency profile of our operations, and this had an aggregate favourable impact of \$27 million on our funds from operations relative to 2010 exchange rates.

Realized Gains: We separately report gains on the disposition of assets that we typically otherwise hold for extended periods of time. These gains represent the realization of valuation gains that have been recorded through net income or equity, but not previously included in funds from operations. As such, they represent a crystallization of the accrued gains and we feel it is helpful to include these as part of our overall funds from operations and realized gains measures, which is consistent with how we previously reported operating cash flow.

Funds from operations does include gains that occur as a normal part of our business such as gains within our private equity businesses and opportunistic property investments, as well as other non-core assets that we acquire and sell from time to time. We identify and discuss these items within the relevant operating segment reviews.

The following table shows the major disposition gains which occurred during the years ended December 31, 2011, and 2010, and which are not included in funds from operations:

YEARS ENDED DECEMBER 31 (MILLIONS)	Operating Platform	Total		Net	
		2011	2010	2011	2010
Core office property dispositions.....	Property	\$ 318	\$ 57	\$ 159	\$ 28
Brookfield Office Properties Canada equity sale.....	Property	—	76	—	38
Brookfield Renewable Power Fund equity sale.....	Power	—	212	—	212
Partial sale of wind energy project.....	Power	—	79	—	79
		<u>\$ 318</u>	<u>\$ 424</u>	<u>\$ 159</u>	<u>\$ 357</u>

FINANCIAL POSITION – 2011

The following table summarizes by principal operating segment the assets that we manage for ourselves and our clients along with the components of our invested capital:

AS AT DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Asset Management					Total 2011	Total 2010
	Property	Renewable Power	Infrastructure	Private Equity	Services and Corporate		
Assets under management	\$ 82,579	\$ 17,758	\$ 19,258	\$ 25,343	\$ 6,782	\$ 151,720	\$ 121,558
Operating assets	37,839	15,567	11,807	8,945	2,039	76,197	62,910
Accounts receivable and other	2,302	1,047	1,725	4,090	3,551	12,715	13,437
Consolidated assets¹	40,141	16,614	13,532	13,035	5,590	88,912	76,347
Corporate borrowings	—	—	—	—	3,701	3,701	2,905
Property-specific borrowings	15,696	4,197	4,802	3,174	546	28,415	23,454
Subsidiary borrowings	743	1,323	114	1,273	988	4,441	4,007
Capital securities	994	—	—	—	656	1,650	1,707
Accounts payable and other	1,827	913	1,947	3,333	2,698	10,718	11,304
	20,881	10,181	6,669	5,255	(2,999)	39,987	32,970
Non-controlling interests	9,797	2,504	4,319	2,125	104	18,849	16,301
Preferred equity	—	—	—	—	2,140	2,140	1,658
	11,084	7,677	2,350	3,130	(5,243)	18,998	15,011
Incremental values	25	300	250	1,400	875	2,850	3,250
Net tangible asset value ¹	11,109	7,977	2,600	4,530	(4,368)	21,848	18,261
Asset management franchise value	—	—	—	—	4,250	4,250	4,000
Intrinsic value	\$ 11,109	\$ 7,977	\$ 2,600	\$ 4,530	\$ (118)	\$ 26,098	\$ 22,261
– Per share						\$ 40.99	\$ 37.45

1. Excludes deferred income taxes

The following table summarizes change in the intrinsic value of our common equity during 2011:

YEAR ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Asset Management					Total	Per Share
	Property	Renewable Power	Infrastructure	Private Equity	Services and Corporate		
Total return	\$ 2,190	\$ 741	\$ 590	\$ 86	\$ (262)	\$ 3,345	\$ 5.33
Foreign currency revaluation	(137)	(224)	(37)	(52)	(52)	(502)	(0.86)
Class A shares issued, net of repurchases	—	—	—	—	1,313	1,313	(0.41)
Capital invested (returned)	1,504	(32)	142	(225)	(1,708)	(319)	(0.52)
Change in intrinsic value	3,557	485	695	(191)	(709)	3,837	3.54
Intrinsic value – beginning of year	7,552	7,492	1,905	4,721	591	22,261	37.45
Intrinsic value – end of year	\$ 11,109	\$ 7,977	\$ 2,600	\$ 4,530	\$ (118)	\$ 26,098	\$ 40.99

The largest contributor to equity growth in both 2011 and 2010 was our total return. We issued 45.1 million Class A Limited Voting Shares at an average price of \$32.53 per share, or \$1.5 billion in total, in connection with our acquisition of an additional stake in General Growth Properties. We repurchased 6.1 million Class A Limited Voting Shares at an average price of \$30.27 per share, or \$186 million in total, for net issuance of \$1.3 billion. We also returned \$319 million (2010 – \$298 million) to shareholders in the form of dividends on our common equity.

The impact of lower exchange rates for the Australian, Brazilian and Canadian currencies against the U.S. dollar reduced net invested capital by \$502 million during 2011, representing a 4% decrease in our natural (i.e., unhedged) foreign currency positions.

This retraces a \$351 million increase in the prior year. We estimate that we have recovered all of this reduction at the date of this report as the exchange rates have strengthened since year end.

The following table reconciles common equity in our IFRS financial statements to net tangible asset value for the years ended December 31, 2011 and 2010:

YEAR ENDED DECEMBER 31 (MILLIONS)	Asset					Total	Total
	Property	Renewable Power	Infrastructure	Private Equity	Management and Corporate	2011	2010
Common equity per IFRS.....	\$ 10,943	\$ 5,109	\$ 2,169	\$ 2,954	\$ (4,424)	\$ 16,751	\$ 12,795
Add back: deferred income taxes..	141	2,568	181	176	(819)	2,247	2,216
Incremental values.....	25	300	250	1,400	875	2,850	3,250
Net tangible asset value.....	\$ 11,109	\$ 7,977	\$ 2,600	\$ 4,530	\$ (4,368)	\$ 21,848	\$ 18,261

Assets and Invested Capital

Our capital continues to be invested primarily in (i) commercial office properties located predominantly in central business districts of major international centres, and well-located, high quality retail properties, (ii) renewable hydroelectric power plants in North America and Brazil; and (iii) a global portfolio of regulated or contracted infrastructure assets.

The following table presents Assets Under Management (“AUM”), Consolidated Assets and Invested Capital at the end of 2011 and 2010 for comparative purposes. Invested Capital represents the capital that we have invested in our various activities on a deconsolidated basis, consistent with the Deconsolidated Capitalization presented in the table on page 24.

AS AT DECEMBER 31 (MILLIONS)	Assets Under Management ¹		Consolidated Assets ²		Invested Capital ³	
	2011	2010	2011	2010	2011	2010
Operating platforms						
Property						
Office.....	\$ 32,848	\$ 31,712	\$ 26,478	\$ 21,214	\$ 5,493	\$ 4,810
Retail.....	33,160	13,249	7,444	4,680	4,625	1,931
Opportunity, finance and development..	16,571	12,301	6,219	5,324	991	786
	82,579	57,262	40,141	31,218	11,109	7,527
Renewable power.....	17,758	15,835	16,614	14,584	7,977	7,492
Infrastructure.....	19,258	16,634	13,532	13,264	2,600	1,905
Private equity.....	25,343	26,848	13,035	12,682	4,530	4,721
Services activities.....	3,326	1,930	2,946	1,930	2,274	1,800
Cash and financial assets.....	1,975	1,850	1,975	1,850	1,461	1,543
Other assets.....	1,481	1,199	669	819	669	919
Asset management franchise value.....	n/a	n/a	n/a	n/a	4,250	4,000
	\$ 151,720	\$ 121,558	\$ 88,912	\$ 76,347	\$ 34,870	\$ 29,907

1. Excludes incremental values, asset management franchise value and deferred tax assets

2. Excludes \$2,118 million (2010 – \$1,784 million) of deferred tax assets

3. Includes incremental values not otherwise included in IFRS and asset management franchise value, and excludes deferred tax balances

Assets under management increased by \$30 billion to \$152 billion. AUM within our retail operations increased by \$20 billion, representing our proportionate interest in the assets of General Growth Properties that are working for us and our clients. The increase in opportunity property AUM reflects the expansion of our multi-residential operations. Renewable power AUM increased by \$1.9 billion due to acquisitions and developments and improved valuations.

Consolidated assets, excluding deferred taxes, increased by \$12.6 billion to \$88.9 billion at the end of 2011. Commercial office assets increased by \$5.3 billion, which includes the impact of consolidating our U.S. Office Fund following ownership changes during the year. Retail assets increased by \$2.8 billion which includes our follow-on investment of \$1.8 billion in GGP and the \$2.0 billion increase in renewable power assets reflects acquisitions and developments within these operations as noted above. All three of these asset groups also benefitted from improved valuations.

Invested capital increased by \$5.0 billion or 17% during the year to \$34.9 billion. Valuation gains were responsible for a large portion of the increase. In addition, net issuances of common and preferred equity was \$1.3 billion and \$0.5 billion, respectively, to fund additional investments. In particular, the amount of capital invested in our retail operations increased by \$2.7 billion, including \$1.9 billion of incremental cash invested into this area of our operations and \$0.8 billion of valuation gains.

Asset Valuations

Asset valuations assume normal transaction circumstances and are discussed in more detail elsewhere in this report. Net tangible values are based for the most part on appraised values of our operating assets and to a lesser extent on observed values for financial assets. Appraisal values are impacted primarily by discount rates (and therefore the underlying risk free rate and applicable risk premium) and anticipated forward cash flows (such as net lease payments and power prices).

Our operating base consists largely of real return assets that are typically financed with non-recourse fixed rate debt. Accordingly the circumstances that give rise to changes in discount rates will typically be mitigated to varying degrees over the longer term through the impact of these same circumstances (i.e., inflation, economic growth) on our revenue streams and financings. This provides important stability and capital protection over the long term. These characteristics, however, are not always reflected in short-term valuations which provides meaningful opportunities to increase returns by reallocating capital when short-term values deviate from long-term values.

Capital Deployment

We invested \$7.6 billion of capital during the year for ourselves and our clients through acquisitions and development. The major items are highlighted in the following table together with our proportionate share of the invested capital:

YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Brookfield's	
	Total	Share
Property.....	\$ 3,515	\$ 3,110
Renewable power.....	875	715
Infrastructure.....	1,305	795
Private equity.....	1,700	1,380
Other.....	250	250
	<u>\$ 7,645</u>	<u>\$ 6,250</u>

Capitalization

We finance our operations on an investment-grade basis. The high quality and stable profile of our asset base and the strength of our financial relationships has enabled us to continuously refinance maturities in the normal course.

Core liquidity, which represents cash and financial assets and undrawn credit facilities at the Corporation and our principal operating subsidiaries, was approximately \$3.9 billion at December 31, 2011. This includes \$2.4 billion at the corporate level and \$1.5 billion at our principal operating units. We continue to maintain an elevated level of liquidity as we see a substantial number of highly promising investment opportunities. We also have undrawn allocations of capital from clients totalling \$5.4 billion to finance qualifying acquisitions.

The following table presents our capitalization on three bases of presentation: corporate (i.e., deconsolidated), proportionally consolidated and on a consolidated basis using the same methodology as our IFRS financial statements:

	Corporate		Proportionate		Consolidated	
AS AT DECEMBER 31 (MILLIONS)	2011	2010	2011	2010	2011	2010
Corporate borrowings.....	\$ 3,701	\$ 2,905	\$ 3,701	\$ 2,905	\$ 3,701	\$ 2,905
Non-recourse borrowings						
Property-specific mortgages.....	—	—	19,083	15,956	28,415	23,454
Subsidiary borrowings ¹	988	858	3,679	3,610	4,441	4,007
	4,689	3,763	26,463	22,471	36,557	30,366
Accounts payable and other ²	1,287	1,556	8,615	7,577	12,836	13,088
Capital securities.....	656	669	1,153	1,188	1,650	1,707
Equity						
Non-controlling interests.....	—	—	—	—	18,849	16,301
Preferred equity.....	2,140	1,658	2,140	1,658	2,140	1,658
Shareholders' equity ³	26,098	22,261	26,098	22,261	26,098	22,261
Total equity.....	28,238	23,919	28,238	23,919	47,087	40,220
Total capitalization.....	\$ 34,870	\$ 29,907	\$ 64,469	\$ 55,155	\$ 98,130	\$ 85,381
Debt to capitalization ⁴	15%	15%	44%	44%	39%	37%

1. Includes \$988 million (December 31, 2010 – \$858 million) of contingent swap accruals which are guaranteed by the Corporation and are accordingly included in Corporate Capitalization
2. Excludes deferred income taxes
3. Pre-tax basis and includes incremental values and asset management franchise value
4. Excludes asset management franchise value of \$4.25 billion in 2011 and \$4.0 billion in 2010

Corporate Capitalization

Our corporate (deconsolidated) capitalization shows the amount of debt that is recourse to the Corporation, and the extent to which it is supported by our invested capital and remitted cash flows. Corporate borrowings increased by \$800 million to fund business development; however, we also raised additional equity of \$1.8 billion which, together with total return, kept our deconsolidated debt-to-capitalization ratio at 15%. Our strategy is to maintain a relatively low level of debt at the parent company level and finance our operations primarily at the asset or operating unit level with no recourse to the Corporation. Subsidiary borrowings included in our corporate capitalization are contingent swap accruals, issued by a subsidiary, that are guaranteed by the Corporation.

Equity capital totals \$28.2 billion and represents 80% of our corporate capitalization. The average term to maturity of our corporate debt is seven years.

Proportionate Capitalization

Proportionate consolidation, which reflects our proportionate interest in the underlying entities, depicts the extent to which our underlying assets are leveraged, which is an important component of enhancing shareholder returns. We believe the 44% debt-to-capitalization ratio at December 31, 2011 (December 31, 2010 – 44%) is appropriate given the high quality of the assets, the stability of the associated cash flows and the level of financings that assets of this nature typically support, as well as our liquidity profile. Property-specific borrowings on this basis increased by \$3.1 billion which is principally due to our increased ownership of General Growth Properties.

Consolidated Capitalization

Consolidated capitalization reflects the full consolidation of partially-owned entities, notwithstanding that our capital exposure to these entities is limited. The debt-to-capitalization ratio on this basis is 39% (December 31, 2010 – 37%).

We note, however, that in many cases our consolidated capitalization includes 100% of the debt of the consolidated entities, even though in most cases we only own a portion of the entity and therefore our pro rata exposure to this debt is much lower.

For example, we have access to the capital of our clients and co-investors through public market issuance and, in some cases, contractual obligations to contribute additional equity. In other cases, this basis of presentation excludes some or all of the debt of partially owned entities that are equity accounted or proportionately consolidated, such as our investment in General Growth Properties and several of our infrastructure businesses.

The increase in borrowings on this basis reflects the consolidation of our U.S. Office Fund and several other assets and businesses since the beginning of 2011. These changes had little impact on our proportionate consolidation as the borrowings were already reflected in that basis of presentation.

Shareholders' Equity

We added \$4.3 billion to equity during the year, representing the accumulation of cash flows generated, increases in the value of our invested capital and \$1.8 billion in common and preferred equity issuances.

– Preferred Equity

We issued C\$235 million and C\$250 million of perpetual rate-reset preferred shares with initial coupons of 4.6% and 4.8% respectively, during February and October 2011, with the proceeds used to reduce bank and commercial paper borrowings.

– Common Equity

The following table reconciles common equity per our IFRS financial statements to Net Tangible Asset Value and Intrinsic Value:

	2011		2010	
	Total	Per Share	Total	Per Share
AS AT DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)				
Common equity per IFRS financial statements	\$ 16,751	\$ 26.77	\$ 12,795	\$ 22.09
Add back deferred income taxes ¹	2,247	3.42	2,216	3.60
Incremental values.....	2,850	4.33	3,250	5.27
Net tangible asset value	21,848	34.52	18,261	30.96
Asset management franchise value.....	4,250	6.47	4,000	6.49
Total intrinsic value	\$ 26,098	\$ 40.99	\$ 22,261	\$ 37.45

1. Net of non-controlling interests

Values not Recognized Under IFRS

Values not recognized under IFRS relate to certain assets that are not reflected at fair value under IFRS. As a result, we have provided an estimate of the incremental value of these items over their carried values to arrive at a more complete and consistent determination of net tangible asset value. These include items carried at historical book values, such as the values for our property services and construction businesses, certain of our renewable power and infrastructure assets, assets acquired at distressed values that are not otherwise revalued and development land carried at the lower of cost or market.

The incremental values in the following table are reviewed in each of the relevant operating segments:

	2011	2010
AS AT DECEMBER 31 (MILLIONS)		
Asset management and other services.....	\$ 875	\$ 775
Operating platforms		
Property.....	25	325
Renewable power.....	300	600
Infrastructure.....	250	125
Private equity.....	1,400	1,325
Other assets.....	—	100
	\$ 2,850	\$ 3,250

The largest amounts relate to:

- our asset management and service businesses, which include approximately \$330 million in respect of net carried interests payable to us based on current values, as well as incremental values of approximately \$545 million attributable to our construction and property services;
- \$875 million of incremental value in our residential development business, included in our private equity segment, that relates to the value of development lands that are carried at historical cost in our IFRS statements; and
- \$525 million in respect of private equity investments, the assets of which we typically acquire at a discount to long-term value and which are, for the most part, carried at depreciated historical book values.

The overall decline of \$400 million is due primarily to the elimination of incremental values recorded at the end of 2010 that were recorded in our IFRS statements during 2011. These included \$325 million in respect of valuation increases within General Growth Properties and \$350 million in respect of renewable power development projects. These decreases were partially offset by increases in other incremental values, such as deferred performance income.

Asset Management Franchise Value

Over the past 10 years we have increased the scale of our asset management operations to the point where we have substantial capital for investment from clients. The value of this franchise is derived from both the cash flows it generates, and the capital it allows us to operate with. This size enables us to compete where few others can, and therefore offers us a competitive advantage in generating greater returns for our clients. Global asset management franchises are generally valued at very high multiples of income, in particular those in areas where substantial growth in assets under management is expected to be achieved and where margins are high.

As we provide valuations of our tangible assets through our financial statements, and given the growing value of this “intangible” business, we felt that we should also attempt to produce an estimate of the current value of our operation based on the existing capital under management and the franchise we have. Our estimate is approximately \$4.3 billion, or \$6.47 per share, and we have included this value in our estimate of the intrinsic value of our common equity.

While we have specific assumptions and plans on how we derive this value in each of our operations, in general, we assume capital under management in our unlisted funds and managed listed issuers growing at a rate of 10% over the next 10 years and our annualized gross margin migrates to 150 basis points, as we can add meaningfully to managed capital without a commensurate increase in expenses. We then capitalize the resultant annualized return at a 15 times multiple, and discount the cash flows and terminal value at 15%. We will continue to provide information to enable readers to assess our progress and consider these values and assumptions.

Financing Activities and Liquidity

We issued or raised \$26.6 billion of capital during 2011 to finance growth activities, extend our maturity profile and supplement our liquidity as shown in the following table:

(MILLIONS)	Proceeds	Rate	Term
Borrowings			
Unsecured.....	\$ 5,950	3.32%	4 years
Asset specific.....	13,755	5.22%	6 years
Equity/asset sales.....	2,945	n/a	Perpetual
Common share issuance.....	1,460	—	Perpetual
Preferred share issuance.....	740	4.84%	Perpetual
Private funds.....	1,750	n/a	9 years
	<u>\$ 26,600</u>		

The refinancing activities have enabled us to extend or maintain our average maturity term at favourable rates. Approximately \$7.3 billion of the asset specific financings and the \$740 million of preferred shares issued have fixed rate coupons. The continued steepness in the yield curve and prepayment terms on existing debt continues to reduce the attractiveness of pre-financing a number of our future maturities; however, we are actively refinancing short-dated maturities and longer-dated maturities when the opportunities present themselves.

We have also locked in the reference rates for approximately \$2.8 billion of anticipated future financings in the United States and Canada over the next four years.

Core liquidity, which represents cash and financial assets and undrawn credit facilities at the Corporation and our principal operating subsidiaries, was approximately \$3.9 billion at December 31, 2011. This includes \$2.4 billion at the corporate level and \$1.5 billion at our principal operating units. We continue to maintain an elevated level of liquidity as we see a substantial number of highly promising investment opportunities. We also have undrawn allocations of capital from clients totalling \$5.4 billion to finance qualifying acquisitions.

Capital Under Management

The following table summarizes total assets under management and the capital managed for clients and co-investors:

AS AT DECEMBER 31 (MILLIONS)	Total Assets Under Management		Client Capital					
			2011					2010
	Fee Bearing			Other		Total	Total	
	Private	Listed	Public	Listed				
	2011	2010	Funds	Issuers	Securities	Entities		
Property.....	\$ 82,579	\$ 57,262	\$ 7,014	\$ 1,851	\$ 6,266	\$ 4,552	\$ 19,683	\$ 21,596
Renewable power.....	17,758	15,835	587	1,869	—	—	2,456	2,015
Infrastructure.....	19,258	16,634	5,422	3,665	1,474	—	10,561	7,937
Private equity.....	25,343	26,848	2,666	—	12,093	2,934	17,693	18,385
Corporate and other...	6,782	4,979	—	—	—	—	—	—
December 31, 2011...	\$ 151,720	n/a	\$ 15,689	\$ 7,385	\$ 19,833	\$ 7,486	\$ 50,393	n/a
December 31, 2010.....	n/a	\$ 121,558	\$ 16,859	\$ 5,425	\$ 21,069	\$ 6,580	n/a	\$ 49,933

Private Funds

Third-party capital commitments to private funds decreased by \$1.2 billion during the year to \$15.7 billion. The decrease reflects distributions of capital and expiry of uninvested commitments offset by \$1.5 billion of new commitments. Our approach to value investing means that we will on occasion let investment periods lapse without fully investing available capital if we are not satisfied with potential returns, although our objective is to fully invest the capital entrusted to us by our clients. The invested capital within our private funds of \$10.3 billion has an average term of nine years. Private fund capital includes \$5.4 billion that has not been invested to date but which is available to pursue acquisitions within each fund's specific mandate. Of the total uninvested capital, \$1.1 billion relates to property funds and \$2.4 billion relates to infrastructure funds. This uncalled capital has an average term, during which it can be called, of approximately two years.

Listed Issuers

The increase in Listed Issuer capital of \$2.0 billion includes the issuance of \$0.5 billion of new capital from our Infrastructure entity and a \$1.5 billion increase in the market value of our three principal listed issuers. All three entities recorded favourable performance and increased distributions during the year.

Public Securities

In our public securities operations, we manage fixed income and equity securities with a particular focus on real estate and infrastructure, including high yield and distress securities. Capital under management in this business line decreased by \$1.2 billion during the year, of which \$0.8 billion represents net outflows and approximately \$0.4 billion represents a valuation decrease. We have continued to refocus the business on higher margin products and have eliminated several lower margin offerings.

The following table summarizes client capital under management within these operations. We typically do not invest our own capital in these strategies as the assets under management tend to be securities rather than physical assets.

AS AT DECEMBER 31
(MILLIONS)

	2011	2010
Public securities		
Fixed income.....	\$ 12,093	\$ 13,862
Equity.....	7,740	7,207
	<u>\$ 19,833</u>	<u>\$ 21,069</u>

Other Listed Entities

We have established a number of our business units as listed public companies to allow other investors to participate and provide us with additional capital to expand these operations. This includes common equity issued to others by Brookfield Office Properties, Brookfield Residential and Brookfield Incorporações. In addition, certain of our portfolio investments are also listed public companies. We do not earn fees from this capital but it forms an important component of our overall capitalization and enables us to conduct our business at a greater scale than would otherwise be possible.

STATEMENTS OF NET INCOME AND COMPREHENSIVE INCOME

Comprehensive income consists of two components: Net Income and Other Comprehensive Income. Together, these two components constitute most of the elements that comprise our Total Return as illustrated in the table below, which also serves as a reconciliation between Funds from Operations and Net Income, and between Comprehensive Income and Total Return and to facilitate a discussion of major components of Comprehensive Income that are not covered elsewhere in this report.

	Comprehensive Income				Total Return	
	Total		Net ¹		Net ¹	
AS AT DECEMBER 31 (MILLIONS)	2011	2010	2011	2010	2011	2010
Funds from operations	\$ 2,355	\$ 2,196	\$ 1,052	\$ 1,106	\$ 1,052	\$ 1,106
Less: disposition gains not included in IFRS....	(181)	(85)	(87)	(85)	(87)	(85)
Add: fair value changes included in equity accounted income.....	1,529	271	1,268	167	1,268	167
Net income prior to the following items.....	3,703	2,382	2,233	1,188		
Fair value changes.....	1,286	1,651	479	990	479	990
Depreciation and amortization.....	(904)	(795)	(659)	(693)	(659)	(693)
Deferred income taxes.....	(411)	(43)	(96)	(31)	n/a	n/a
Net income	<u>3,674</u>	<u>3,195</u>	<u>1,957</u>	<u>1,454</u>		
Other comprehensive income						
Fair value changes.....	1,920	(906)	1,244	(955)	1,244	(955)
Foreign currency translation.....	(837)	653	(443)	276	n/a	n/a
Deferred income taxes.....	(147)	448	(6)	453	n/a	n/a
Other comprehensive income	<u>936</u>	<u>195</u>	<u>795</u>	<u>(226)</u>		
Comprehensive income	<u>\$ 4,610</u>	<u>\$ 3,390</u>	<u>\$ 2,752</u>	<u>\$ 1,228</u>		
Items recorded directly in IFRS equity					304	(101)
Items not included in IFRS statements						
Changes in incremental values.....					(400)	1,200
Asset management franchise value.....					250	500
Total valuation gains					<u>2,399</u>	<u>1,023</u>
Preferred share dividends					<u>(106)</u>	<u>(75)</u>
Total return					<u>\$ 3,345</u>	<u>\$ 2,054</u>

1. Net of non-controlling interests

Our definition of total return includes funds from operations together with valuation gains. The valuation gains include fair value changes and other gains recorded in our IFRS financial statements as well as depreciation and amortization. As discussed elsewhere, we include incremental values for items that are not fair valued in IFRS.

Fair Value Changes

Fair value changes are recorded primarily in four areas of our financial statements:

- Fair value changes related to our commercial office and retail properties, standing timber and agricultural assets are recorded in net income, as are changes in the values of financial contracts and instruments and power sales agreements that do not qualify for hedge accounting treatment.
- We include our proportionate share of fair value changes recorded by equity accounting investees as a component of equity accounted income.
- Fair value changes relating to property, plant and equipment employed within our renewable power generating business and many of our infrastructure businesses are recorded in other comprehensive income, along with changes in the values of financial contracts and power sales agreements that do not qualify for hedge accounting treatment.

- Fair value changes recorded directly in equity typically relate to changes in ownership because IFRS requires that any gains arising from the partial sale of consolidated operations be recorded in equity if the operations are still consolidated following the sale.

Fair value changes totalled \$5.2 billion in 2011, prior to \$131 million of disposition gains which were recognized in funds from operations. After considering the amounts attributable to non-controlling interest, fair value changes totalled \$3.3 billion. The following table allocates the fair value changes to the relevant operating segments in which they are recorded, according to the various line items within our financial statements.

YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	2011						Total 2010
	Property	Renewable Power	Infrastructure	Private Equity	Corporate	Total	
Included in Net Income							
Equity accounted.....	\$ 1,620	\$ (13)	\$ (78)	\$ —	\$ —	\$ 1,529	\$ 271
Fair value changes							
Operating assets.....	1,556	71	305	48	—	1,980	1,729
Less: disposition gains.....	(109)	—	—	(22)	—	(131)	(105)
Other items.....	—	(376)	(19)	(110)	(58)	(563)	27
	<u>1,447</u>	<u>(305)</u>	<u>286</u>	<u>(84)</u>	<u>(58)</u>	<u>1,286</u>	<u>1,651</u>
Included in OCI							
Revaluation of PP&E.....	—	2,293	328	29	—	2,650	(948)
Other items.....	(238)	(465)	129	(55)	(101)	(730)	42
	<u>(238)</u>	<u>1,828</u>	<u>457</u>	<u>(26)</u>	<u>(101)</u>	<u>1,920</u>	<u>(906)</u>
Recorded directly in equity.....	<u>72</u>	<u>209</u>	<u>—</u>	<u>23</u>	<u>—</u>	<u>304</u>	<u>(101)</u>
	<u>\$ 2,901</u>	<u>\$ 1,719</u>	<u>\$ 665</u>	<u>\$ (87)</u>	<u>\$ (159)</u>	<u>\$ 5,039</u>	<u>\$ 915</u>

— Included in Net Income

Fair value changes within equity accounted investments totalled \$1.5 billion and represent our share of increases in property valuations within General Growth Properties (\$1.1 billion) and our U.S. Office Fund (\$0.4 billion) prior to its consolidation during 2011. In 2010, equity accounted fair value changes relate almost entirely to the U.S. Office Fund.

Fair value changes recorded as a specific line item in Net Income are segregated between operating assets and other items. Operating asset gains include \$1.1 billion of increases in our office properties, of which our U.S. office properties totalled \$0.7 billion. The remaining \$0.4 billion of increases in our property operations were primarily from our retail malls in Brazil. We also recorded changes in the fair values of our standing timber which totalled \$292 million. Fair value changes in the prior year related primarily to increases in the value of U.S. office properties reflecting improved leasing and lower discount rates.

Other fair value items include a \$376 million downwarded revaluation in our renewable power operations, reflecting the increase in the liability representing the units held by other investors in our Canadian renewable power fund. Prior to the reorganization of the fund in late 2011, the carrying value of these interests was based on market prices and recorded as a liability. Other items in 2010 reflect an increase in the value of power sales agreements.

Revaluation gains included in other comprehensive income include an increase of \$2.3 billion in the carrying value of our renewable power assets, reflecting increases in the property, plant and equipment while “other items” include an offsetting reduction in the carrying values associated power sales agreements. Revaluation gains also include \$300 million in respect of renewable power development projects that was not previously included in IFRS fair values.

Fair value gains within infrastructure totalled \$457 million and related primarily to our rail and transmission operations.

Other items in Other Comprehensive Income include changes in the fair values of contracts pursuant to which we manage interest rate and currency risks, which occurred primarily in our property and corporate segments.

Revaluation charges within other comprehensive income during 2010 related to our power generating operations in North America as the impact of lower discount rates was more than offset by lower expected prices.

– Items Recorded Directly in Equity

In 2011, we recorded a gain of \$304 million directly in equity. This includes a \$209 million gain that occurred upon the reorganization and expansion of our renewable power fund in November 2011 to include our entire global portfolio of renewable power facilities. One consequence of the reorganization was that the units became equity interests for IFRS purposes, with their carrying value based on the carrying value of the net assets of the fund, whereas prior to that time they were recorded as liabilities and the carrying value based on stock market prices. As noted above, increases in the quoted market price of the units gave rise to a \$376 million increase in the associated liability, recorded as a charge in net income. The gain represents the partial reversal of this charge upon the realignment of the carrying value of the units with their proportionate share of the net assets of the fund.

Depreciation and Amortization

Depreciation and amortization for each principal operating segment is summarized in the following table:

YEARS ENDED DECEMBER 31 (MILLIONS)	Total		Net ¹		
	2011	2010	2011	2010	Variance
Property.....	\$ 33	\$ 12	\$ 28	\$ 11	\$ 17
Renewable power.....	455	488	445	488	(43)
Infrastructure.....	147	33	46	12	34
Private equity.....	227	197	98	128	(30)
Asset management and corporate.....	42	65	42	54	(12)
	<u>\$ 904</u>	<u>\$ 795</u>	<u>\$ 659</u>	<u>\$ 693</u>	<u>\$ (34)</u>

1. Net of non-controlling interests

Depreciation relates mostly to our renewable power generating operations, with smaller amounts arising from infrastructure operations and industrial businesses held within our private equity operations. We do not recognize depreciation or depletion on our commercial office and retail properties, standing timber, and agricultural assets, respectively, as each of these asset classes are revalued on a quarterly basis in net income as part of “fair value changes.” Depreciation within our infrastructure operations increased due to the consolidation of operating units following the Prime merger, and decreased within our renewable power operations due to lower carrying values at the beginning of 2011 compared to 2010.

The depreciation relating to our renewable power facilities and infrastructure operations is recorded in net income on a quarterly basis during the year and then the assets are revalued at the end of the year through other comprehensive income, resulting in a mismatch until the two results are both reflected in our statement of comprehensive income at year end. This is why we consider these items together in determining total return and discussing our results. In 2011, the fair value adjustments relating to these assets totalled \$2.7 billion, more than offsetting the depreciation recorded during the year.

Foreign Currency Translation

We record the impact of changes in foreign currencies on the carrying value of our net investment in non-U.S. operations in other comprehensive income. During 2011, the value of our principal non-U.S. currencies (Australia, Brazil and Canada) all declined against the U.S. dollar, giving rise to a total decrease of \$837 million after the mitigating impact of hedges, or \$443 million after non-controlling interests.

This differs from the decrease of \$502 million included in our continuity of intrinsic common equity value because we calculate total return on a pre-tax basis.

Deferred Income Taxes

The provision for deferred income taxes in net income increased to \$411 million from \$43 million in 2010. Our net share, after deducting amounts attributable to non-controlling interests, was \$96 million in 2011 and \$31 million in 2010. The total amount includes the impact of increase in the fair value of assets relative to their tax basis. Our effective tax rate of 13% differs from the average statutory rate of 28%. We provide additional information on our tax profile and a reconciliation to our statutory rate in Note 13 to our consolidated financial statements.

Items not Included in IFRS Statements

The \$150 million reduction in fair values of non-IFRS balances includes:

- the elimination of \$325 million relating to the fair value of our investment in GGP that is now included in our IFRS statements;
- the elimination of a \$300 million amount that was previously recorded in respect of renewable power developments. Following the formation of our global power fund, we now carry projects such as these at fair value within our financial statements;
- a \$125 million increase in the fair value of infrastructure operations that is not otherwise reflected in IFRS;
- a \$100 million increase in net carried interests payable to us; and
- a \$250 million increase in the franchise value of our asset management activities to reflect continued growth in base fees and fund formation.

Revenues

YEARS ENDED DECEMBER 31
(MILLIONS)

	2011	2010
Asset management and other services.....	\$ 3,333	\$ 2,521
Property.....	2,760	2,589
Renewable power.....	1,140	1,161
Infrastructure.....	1,690	867
Private equity and development.....	6,770	6,011
Cash, financial assets and other.....	228	474
Total consolidated revenues.....	<u>\$ 15,921</u>	<u>\$ 13,623</u>

Revenues increased in all segments as a result of the strengthening of non-U.S. currencies relative to the U.S. dollar. Asset management and other services reflect higher activity levels in our construction business. Commercial properties and infrastructure revenues include the consolidation of the U.S. Office Fund and the consolidation of several business units following the Prime merger in November 2010, respectively. Development revenues increased due to a higher amount of projects completed in our Brazilian operations.

OUTLOOK

A large portion of our funds from operations is generated by our office, retail, renewable power and infrastructure businesses which we manage for ourselves and our clients. The revenues in all of these businesses are largely contracted through leases, power sales agreements and regulated rate base or operating agreements. This provides stability to the cash flows. In addition, these businesses are also financed largely with long-term asset specific borrowings which provides for additional stability. Our asset management contracts provide for base management fees earned on capital committed to our funds, many of which have initial terms of 10 years or more.

Property: We continue to have significant momentum in our leasing activities, coming off a record year in which we leased approximately 11 million square feet. The resulting increase in in-place rents and the reduction in lease roll-over during the next five years provide further stability to our cash flows while, at the same time, we have the ability to increase occupancy further at higher net rents, particularly in the U.S.

Our properties are primarily high quality urban assets in the most dynamic markets in the U.S., Canada, Australia and UK, and in all of these markets we continue to see strong demand from tenants for space in our properties. We also have an attractive pipeline of development projects and continue to see a high volume of transaction activity that will enable us to monetize existing assets and redeploy capital into high quality properties that provide the opportunity to achieve greater returns over the long term.

Renewable Power: Water inflows and generation during the beginning of 2012 have been consistent overall with long-term average and reservoir levels are slightly above average. Accordingly, we are in a position to achieve long-term generation targets for 2012, should normal water conditions prevail. We also expect to benefit in future years from the contribution from the development and acquisition of additional hydroelectric and wind facilities. We have 83% of our expected generation under contract for 2012, and 70% under long-term contracts with an average term of 14.5 years. This significantly reduces our exposure to short-term or spot pricing, which continues to be at low levels. Over the longer term, we expect that renewable energy, such as the hydroelectric and wind power we produce, will continue to command a premium in the market and lead to extended increases in realized prices and funds from operations.

Infrastructure: Our focus remains on investing in expansion opportunities within our Infrastructure businesses, as well as pursuing the demonstrable increase in transaction activity. Cash flows from our Utilities, Transport and Energy businesses are resilient and are expected to remain stable in the foreseeable future. We have a number of expansion projects underway that we expect will contribute meaningful to growth in funds from operations through 2012 and 2013, in particular, our rail expansion in Western Australia. We expect our timber operations to be positively impacted in the mid-to-long term due to supply constraints and ongoing demand from Asian markets.

Private Equity Activities: The cash flows from operations are supplemented by earnings from businesses that are more closely correlated with the U.S. economic cycle. Some of these are producing results that are significantly below normalized levels as a result of the recent recession and ongoing low growth in areas, such as U.S. homebuilding, although others are experiencing improving results due to operational restructuring and improving fundamentals. We are encouraged by a number of positive signals of recovery and expect to benefit from growth in these businesses both in terms of operating cash flow and monetization proceeds.

We record gains from time to time on the monetization of investments. These are, by their nature, difficult to predict with certainty but the breadth of our operations and active management of our assets have resulted in a meaningful amount of gains being realized in most periods.

Our businesses are located in a number of regions, including a substantial presence in the United States, Australia, Brazil and Canada. Accordingly, cash flows and net asset values will vary with changes in the applicable foreign exchange rates. Other factors that could impact our performance in 2012, both positively and negatively, are reviewed in Part 4 of this Report.

We believe Brookfield is well positioned for continued growth through 2012 and beyond. This is based on the stability and growth potential of our operating businesses, the strength of our capitalization and liquidity, our execution capabilities and our expanded relationships, as discussed elsewhere in this MD&A.

SUPPLEMENTAL INFORMATION

Reconciliation of Total Return and Funds from Operations to Comprehensive Income – 2011

YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Consolidated Financial Statements	Non-controlling Interests ¹	Equity Accounted Income ²	Fair Value Changes ³	Other Items ⁴	Management Discussion & Analysis
Asset management and services.....	\$ 388	\$ —	\$ 14	\$ —	\$ —	\$ 402
Revenues less direct operating costs						
Property.....	1,678	—	430	—	13	2,121
Renewable power.....	740	—	25	—	13	778
Infrastructure.....	756	—	193	—	—	949
Private equity.....	538	—	23	—	61	622
Equity accounted income.....	2,205	—	(2,205)	—	—	—
	6,305		(1,520)	—	87	4,872
Investment and other income.....	328	—	(9)	—	(43)	276
	6,633	—	(1,529)	—	44	5,148
Expenses						
Interest.....	2,352	—	—	—	(22)	2,330
Operating costs.....	481	—	—	—	—	481
Current income taxes.....	97	—	—	—	(15)	82
Non-controlling interests.....	—	1,209	—	—	(6)	1,203
Net income prior to other items/FFO	3,703	(1,209)	(1,529)	—	87	1,052
Other Items/Valuation gains						
Fair value changes.....	1,286	—	1,529	1,920	435	5,170
Depreciation and amortization.....	(904)	—	—	—	—	(904)
Deferred income tax.....	(411)	—	—	—	411	—
Other items.....	—	—	—	—	(159)	(159)
Non-controlling interests.....	—	(508)	—	(676)	(287)	(1,471)
Net income.....	3,674					
Other comprehensive income						
Fair value changes.....	1,920	—	—	(1,920)	—	—
Foreign currency.....	(837)	—	—	—	837	—
Deferred taxes.....	(147)	—	—	—	147	—
Non-controlling interests.....	—	(141)	—	676	(535)	—
Other comprehensive income.....	936					
Comprehensive income.....	4,610					
Items not included in IFRS						
Incremental values.....	n/a	—	—	—	(400)	(400)
Assets management franchise value.....	n/a	—	—	—	250	250
Less: amounts recorded in FFO.....	n/a	—	—	—	(87)	(87)
Total valuation gains.....	n/a	(649)	1,529	—	612	2,399
Preferred share dividends.....	—	—	—	—	(106)	(106)
Comprehensive income/Total return.....	\$ 4,610	\$ (1,858)	\$ —	\$ —	\$ 593	\$ 3,345

1. Allocates non-controlling interests between funds from operations and valuation gains
2. Allocated equity-accounted income to operating segments and between funds from operations and valuation gains
3. Aggregates fair value changes and associated non-controlling interest in net income and other comprehensive income
4. Includes amounts recorded directly in equity under IFRS and excludes impact foreign currency revaluation and deferred taxes from calculation of total return

SUPPLEMENTAL INFORMATION

Reconciliation of Total Return and Funds from Operations to Comprehensive Income – 2010

YEAR ENDED DECEMBER 31, 2010 (MILLIONS)	Consolidated Financial Statements	Non-controlling Interests ¹	Equity Accounted Income ²	Fair Value Changes ³	Other Items ⁴	Management Discussion & Analysis
Asset management and services.....	\$ 365	\$ (17)	\$ —	\$ —	\$ —	\$ 348
Revenues less direct operating costs						
Property.....	1,495	—	256	—	—	1,751
Renewable power.....	748	—	23	—	—	771
Infrastructure.....	221	—	204	—	—	425
Private equity.....	628	—	9	—	85	722
Equity accounted income.....	765	—	(765)	—	—	—
	4,222	(17)	(273)	—	85	4,017
Investment and other income.....	503	—	2	—	(64)	441
	4,725	(17)	(271)	—	21	4,458
Expenses						
Interest.....	1,829	—	—	—	(19)	1,810
Operating costs.....	417	—	—	—	—	417
Current income taxes.....	97	—	—	—	(3)	94
Non-controlling interests.....	—	1,073	—	—	(42)	1,031
Net income prior to other items/FFO.....	2,382	(1,090)	(271)	—	85	1,106
Other Items/Valuation gains						
Fair value changes.....	1,651	—	271	(906)	4	1,020
Depreciation and amortization.....	(795)	—	—	—	—	(795)
Deferred income tax.....	(43)	—	—	—	43	—
Other items.....	—	—	—	—	(44)	(44)
Non-controlling interests.....	—	(651)	—	(313)	191	(773)
Net income.....	3,195					
Other comprehensive income						
Fair value changes.....	(906)	—	—	906	—	—
Foreign currency.....	653	—	—	—	(653)	—
Deferred taxes.....	448	—	—	—	(448)	—
Non-controlling interests.....	—	(421)	—	313	108	—
Other comprehensive income.....	195					
Comprehensive income.....	3,390					
Items not included in IFRS						
Incremental values.....	n/a	—	—	—	1,200	1,200
Assets management franchise value.....	n/a	—	—	—	500	500
Less: amounts recorded in FFO.....	n/a	—	—	—	(85)	(85)
Total valuation gains.....	n/a	(1,072)	271	—	816	1,023
Preferred share dividends.....	—	—	—	—	(75)	(75)
Comprehensive income/Total return.....	\$ 3,390	\$ (2,162)	\$ —	\$ —	\$ 826	\$ 2,054

1. Allocates non-controlling interests between funds from operations and valuation gains

2. Allocated equity-accounted income to operating segments and between funds from operations and valuation gains

3. Aggregates fair value changes and associated non-controlling interest in net income and other comprehensive income

4. Includes amounts recorded directly in equity under IFRS and excludes the impact of foreign currency revaluation and deferred taxes from the calculation of total return

SUPPLEMENTAL INFORMATION

Total Return – 2010

The following table summarizes our annual operating performance and the components of total return and is reconciled to our IFRS financial statements:

YEAR ENDED DECEMBER 31, 2010 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Asset Management Services ¹	Property ²	Renewable Power	Infrastructure	Private Equity	Corporate	Total
Total revenues	\$ 2,492	\$ 2,589	\$ 1,161	\$ 867	\$ 6,011	\$ 503	\$ 13,623
Funds from operations							
Net operating income ³	348	1,747	771	424	727	—	4,017
Investment and other income.....	—	91	—	6	33	311	441
	348	1,838	771	430	760	311	4,458
Interest expense.....	—	(812)	(375)	(141)	(169)	(313)	(1,810)
Operating costs.....	—	(86)	—	(27)	—	(304)	(417)
Current income taxes.....	—	(8)	(18)	(3)	(44)	(21)	(94)
Non-controlling interests.....	—	(511)	(121)	(129)	(270)	—	(1,031)
Total funds from operations	348	421	257	130	277	(327)	1,106
Valuation gains							
Included in IFRS statements ⁴							
Fair value changes.....	(51)	1,077	(446)	386	141	(87)	1,020
Depreciation and amortization.....	(65)	(12)	(488)	(33)	(197)	—	(795)
Other items.....	—	(105)	—	—	—	61	(44)
Non-controlling interests.....	—	(447)	(180)	(226)	58	22	(773)
Not included in IFRS statements							
Incremental values.....	525	325	150	25	175	—	1,200
Asset management franchise value.....	—	—	—	—	—	500	500
Other gains.....	—	—	—	—	(85)	—	(85)
Total valuation gains	409	838	(964)	152	92	496	1,023
Preferred share dividends	—	—	—	—	—	(75)	(75)
Total Return	\$ 757	\$ 1,259	\$ (707)	\$ 282	\$ 369	\$ 94	\$ 2,054
— Per share.....							\$ 3.23

1. Excludes net unrealized performance fees which are included in incremental values
2. Disaggregation of property segment into office, retail and other is presented on page 42
3. Includes funds from operations from equity accounted investments
4. Includes items in consolidated statements of operations, comprehensive income and changes in equity

Fair Value Changes – 2010

YEAR ENDED DECEMBER 31, 2010 (MILLIONS)	Property	Renewable Power	Infrastructure	Private Equity	Corporate	Total
Fair value changes						
Included in Net Income						
Equity accounted.....	\$ 398	\$ (7)	\$ (130)	\$ 10	\$ —	\$ 271
Fair value changes						
Operating assets.....	727	743	243	16	—	1,729
Less: disposition gains.....	(105)	—	—	—	—	(105)
Other items.....	—	(159)	183	(15)	18	27
	622	584	426	1	18	1,651
Included in OCI						
Revaluation of PP&E.....	—	(973)	11	14	—	(948)
Other items.....	7	(50)	22	28	35	42
	7	(1,023)	33	42	35	(906)
Recorded directly in equity.....	(55)	—	57	88	(191)	(101)
	\$ 972	\$ (446)	\$ 386	\$ 141	\$ (138)	\$ 915

SUPPLEMENTAL INFORMATION

Financial Position – 2010

The following table summarizes by principal operating segment the assets that we manage for ourselves and our clients along with the components of our invested capital:

AS AT DECEMBER 31, 2010 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Property	Renewable Power	Infrastructure	Private Equity	Asset Management and Corporate	Total 2010
Assets under management	\$ 57,262	\$ 15,835	\$ 16,634	\$ 26,848	\$ 4,979	\$ 121,558
Operating assets.....	29,016	13,283	9,926	8,636	2,049	62,910
Accounts receivable and other	2,202	1,301	3,338	4,046	2,550	13,437
Consolidated assets ¹	31,218	14,584	13,264	12,682	4,599	76,347
Corporate borrowings.....	—	—	—	—	2,905	2,905
Property-specific borrowings.....	12,740	3,834	4,463	2,287	130	23,454
Subsidiary borrowings.....	579	1,152	148	1,233	895	4,007
Capital securities.....	1,038	—	—	—	669	1,707
Accounts payable and other.....	1,537	838	3,182	3,290	2,457	11,304
	15,324	8,760	5,471	5,872	(2,457)	32,970
Non-controlling interests.....	8,122	1,868	3,691	2,476	144	16,301
Preferred equity.....	—	—	—	—	1,658	1,658
	7,202	6,892	1,780	3,396	(4,259)	15,011
Incremental values.....	325	600	125	1,325	875	3,250
Net tangible asset value ¹	7,527	7,492	1,905	4,721	(3,384)	18,261
Asset management franchise value.....	—	—	—	—	4,000	4,000
Intrinsic value	\$ 7,527	\$ 7,492	\$ 1,905	\$ 4,721	\$ 616	\$ 22,261
– Per share.....						\$ 37.45

1. Excludes deferred income taxes

The following table summarizes changes in the net intrinsic value of our common equity during 2010:

YEAR ENDED DECEMBER 31 (MILLIONS)	Property	Renewable Power	Infrastructure	Private Equity	Asset Management and Corporate	Total 2010
Total return	\$ 1,259	\$ (707)	\$ 282	\$ 369	\$ 851	\$ 2,054
Foreign currency revaluation.....	211	48	43	104	(55)	351
Capital invested (returned).....	618	(317)	(66)	(338)	(195)	(298)
Change in intrinsic value.....	2,088	(976)	259	135	601	2,107
Intrinsic value – beginning of year.....	5,439	8,468	1,646	4,586	15	20,154
Intrinsic value – end of year	\$ 7,527	\$ 7,492	\$ 1,905	\$ 4,721	\$ 616	\$ 22,261

The following table reconciles common equity in our IFRS financial statements to net tangible asset value as at December 31, 2010:

YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Property	Renewable Power	Infrastructure	Private Equity	Asset Management and Corporate	Total 2010
Common equity per IFRS	\$ 7,239	\$ 4,323	\$ 1,765	\$ 3,295	\$ (3,827)	\$ 12,795
Add back: deferred income taxes.....	(37)	2,569	15	101	(432)	2,216
Incremental values.....	325	600	125	1,325	875	3,250
Net tangible asset value	\$ 7,527	\$ 7,492	\$ 1,905	\$ 4,721	\$ (3,384)	\$ 18,261

PART 3 — REVIEW OF OPERATIONS

ASSET MANAGEMENT INCOME AND SERVICE ACTIVITIES

This section reviews the contribution from our asset management fees and our other fee-based service businesses.

Total Return

YEARS ENDED DECEMBER 31
(MILLIONS)

	2011	2010
Asset management revenues.....	\$ 252	\$ 228
Construction and property services, net of direct expenses.....	150	120
Funds from operations.....	402	348
Valuation gains.....	66	409
Total return.....	\$ 468	\$ 757

Asset Management and Other Fees

Asset management and other fees contributed the following revenues during the year:

YEARS ENDED DECEMBER 31 (MILLIONS)	Total ¹		Net	
	2011	2010	2011	2010
Base management fees ²	\$ 269	\$ 230	\$ 190	\$ 167
Performance based income ²	139	408	123	249
Transaction fees ²	58	36	58	36
	466	674	371	452
Less: deferred recognition of performance based income ³	(133)	(348)	(119)	(224)
	\$ 333	\$ 326	\$ 252	\$ 228

1. Total represents the gross amount of fees inclusive of fees on Brookfield's invested capital
2. Revenues
3. Deferred into future periods, until clawback provisions expire

Base management fees increased by 14% to \$190 million compared to \$167 million in 2010. This reflects the contribution from new funds and an increase in capital committed, particularly in our private equity and infrastructure operations. Annualized base management fees totalled approximately \$200 million at December 31, 2011. This does not include any contribution from the approximately \$1.5 billion of private funds on which our compensation is derived primarily from performance-based measures and carried interests, as opposed to base management fees. The weighted average term of the commitments related to the base fees is nine years, and our goal is to increase the level of base management fees as we continue to expand our asset management activities.

Our share of accumulated performance income totalled \$379 million at December 31, 2011, and is included in incremental values. This represents a net increase of \$119 million compared to the prior year. We estimated that direct expenses of approximately \$51 million will arise on the realization of the income that has accumulated to date. We only recognized \$4 million of net performance income during the year in our financial statements and deferred the balance as our accounting policies preclude recognition until the end of any determination or clawback period which is typically at or near the end of the fund's term.

Transaction fees totalled \$58 million in 2011. The increase from 2010 reflects expansion in our investment banking activities and some particularly successful outcomes. We have expanded our investment banking activities into the U.S. and the UK, and continue to advise on a number of mandates in Canada and Brazil. Our primary focus is on real estate and infrastructure transactions.

Construction and Property Services

The following table summarizes funds from operations from our construction and property services operations:

YEARS ENDED DECEMBER 31 (MILLIONS)	Funds from Operations	
	2011	2010
Construction services.....	\$ 120	\$ 102
Property services.....	30	18
	<u>\$ 150</u>	<u>\$ 120</u>

Operating margins across the construction business increased to 9.3% for the year compared to 9.0% in 2010, prior to unallocated general and administrative costs. Much of the increase was attributable to our Australasian operations reflecting increased activity following a number of successful tenants for major property and social infrastructure projects.

The remaining work-in-hand totalled \$5.4 billion at the end of December 31, 2011, and represented approximately 2.8 years of scheduled activity. We continue to pursue and secure new projects which should position us well for future growth. The following table summarizes the work-in-hand at the end of 2011 and 2010:

AS AT DECEMBER 31 (MILLIONS)	2011	2010
Australasia.....	\$ 3,091	\$ 2,681
Middle East.....	533	677
United Kingdom.....	1,780	960
	<u>\$ 5,404</u>	<u>\$ 4,318</u>

Property services fees include property and facilities management, leasing and project management and a range of real estate services. Cash flow from this business increased to \$30 million in 2011 compared to \$18 million last year reflecting the continued expansion of our property services business. We acquired a large relocation and residential brokerage business in late 2011 that has significantly expanded our market position and should add meaningfully to these operations in future years.

Valuation Gains

Valuations increased by \$66 million relating to an increase in accrued performance-based income that we would be entitled to receive based on current valuations, net of associated direct expenses, offset by depreciation and completion of major projects within our construction and property services businesses.

Outlook and Growth Initiatives

We have significantly increased the level of capital under management for our clients in recent years, as well as the internal resources needed to manage this capital and source additional commitments. We believe the performance of our funds through the recent economic crisis, and the attractiveness of our investment strategies to our clients should enable us to achieve our goal of increasing capital under management and the associated fees substantially in the coming years. We are actively raising capital for eight funds over the course of 2012 and 2013, seeking to obtain approximately \$5 billion of commitments from third-party investors, four of which have already held first and second closings. The recent issuance of additional equity by Brookfield Infrastructure Partners and the formation of Brookfield Renewable Energy Partners are important steps forward in our continued expansion of listed entities.

PROPERTY

Overview

Our property operations are organized into three segments:

- Office properties, which are primarily held through 50% owned Brookfield Office Properties and consist of high quality well located office buildings in major cities in Australia, Canada and the United States. We also hold a 22% interest in Canary Wharf Group, which includes similar high quality properties in London, UK;
- Retail properties, located in the United States, held through our 40% consortium interest in General Growth Properties, in Brazil through our 35% owned institutional fund, and direct interests in Australia; and
- Office development, opportunity investing and real estate finance activities. Office developments are conducted primarily through Brookfield Office Properties, and our opportunity and real estate finance activities are conducted primarily through a number of institutional funds.

Assets Under Management and Invested Capital

The following table allocates the capital invested in our property operations by principal operating segment:

AS AT DECEMBER 31 (MILLIONS)	Office Properties		Retail Properties		Opportunity, Finance and Development		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets under management.....	\$ 32,848	\$ 31,712	\$ 33,160	\$ 13,249	\$ 16,571	\$ 12,301	\$ 82,579	\$ 57,262
Consolidated properties.....	21,927	15,256	2,601	3,140	2,707	2,122	27,235	20,518
Development properties.....	—	—	—	—	1,704	1,321	1,704	1,321
Unconsolidated properties.....	3,305	4,383	4,363	1,182	270	156	7,938	5,721
Loans and notes receivable.....	—	—	—	—	962	1,456	962	1,456
Accounts receivable and other.....	1,246	1,575	480	358	576	269	2,302	2,202
	26,478	21,214	7,444	4,680	6,219	5,324	40,141	31,218
Property-specific borrowings.....	11,398	8,450	1,371	1,718	2,927	2,572	15,696	12,740
Subsidiary borrowings.....	381	188	—	14	362	377	743	579
Capital securities.....	994	1,038	—	—	—	—	994	1,038
Accounts payable and other.....	1,452	1,132	197	300	178	105	1,827	1,537
	12,253	10,406	5,876	2,648	2,752	2,270	20,881	15,324
Non-controlling interests.....	6,785	5,596	1,251	1,042	1,761	1,484	9,797	8,122
	5,468	4,810	4,625	1,606	991	786	11,084	7,202
Incremental values.....	25	—	—	325	—	—	25	325
Net tangible asset value¹.....	\$ 5,493	\$ 4,810	\$ 4,625	\$ 1,931	\$ 991	\$ 786	\$ 11,109	\$ 7,527

1. Excludes deferred income taxes

Principal variances in our financial position include the following:

Office Properties

- We concluded joint venture arrangements with our partner in the portfolio owned through our U.S. Office Fund, which resulted in the consolidation of this portfolio onto our balance sheet. This added \$5.0 billion of assets to our consolidated office properties and \$3.3 billion to property-specific borrowings. The decrease in unconsolidated properties of the \$1.3 billion investment in the fund was partially offset by the \$0.8 billion carrying value of equity accounted properties within the underlying portfolio that came onto our balance sheet with the consolidation.
- Consolidated properties also reflect the acquisition of five properties at a cost of \$2.0 billion and the sale of three properties with a carrying value of \$1.3 billion. In addition, we recorded valuation gains of \$0.8 billion.
- Unconsolidated properties also reflect the reclassification of Four World Financial Center to consolidated properties, following our (\$0.4 billion) acquisition of our partners' interest in the building, as well as valuation gains of \$0.4 billion, and include our 22% investment in Canary Wharf Group, which is carried at \$856 million.
- Non-controlling interests reflect the consolidation of the U.S. Office Fund, the purchase of interests in the Fund from clients, and participation in valuation gains by investors in our Fund and 50% owned Brookfield Office Properties.

Retail Properties

- The decline in consolidated properties reflects the sale of four assets in the UK and three assets within our Brazil Retail Fund, offset by valuation gains of \$73 million. The \$176 million proceeds from the Brazil asset sale led to a modest disposition gain and a reduction in property-specific borrowings. Our ownership in the Fund increased from 25% to 35% following our investment of further capital in the Fund.
- The unconsolidated properties balance of \$4.4 billion includes our 23% investment in GGP. Our total investment, including that of our clients, is 40%. The balance increased during the year due to our follow-on purchase of an additional \$1.7 billion in GGP common shares, as well as valuation gains recorded in our IFRS statements totalling \$0.7 billion.
- Incremental values of \$325 million at the end of 2010 related to increase in the value of GGP's portfolio that were recorded in our IFRS statements during 2011 and therefore the adjustment is no longer required.

Office Development, Opportunity and Finance

- Consolidated assets at year end include \$1.8 billion of development properties and \$4.5 billion relating to our opportunistic investing and real estate finance activities, compared to \$1.3 billion and \$3.7 billion, respectively, at the end of 2010.
- The increase in development properties reflects the continued development of a flagship office property in Perth. The increase in opportunity and finance assets reflects the continued expansion of our activities in this area with the acquisition of several loan portfolios and assets during the year.
- The increase in assets under management represents the expansion of our activities in multi-residential properties.

Total Return

YEARS ENDED DECEMBER 31 (MILLIONS)	Office Properties		Retail Properties		Development, Opportunity and Finance		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Net operating income								
Consolidated properties.....	\$ 1,197	\$ 982	\$ 158	\$ 143	\$ 115	\$ 135	\$ 1,470	\$ 1,260
Financial assets.....	—	—	—	—	116	70	116	70
Unconsolidated properties.....	191	255	238	1	1	—	430	256
Asset monetizations.....	—	—	53	—	49	161	102	161
	<u>1,388</u>	<u>1,237</u>	<u>449</u>	<u>144</u>	<u>281</u>	<u>366</u>	<u>2,118</u>	<u>1,747</u>
Canary Wharf dividend.....	16	26	—	—	—	—	16	26
Investment and other income.....	55	62	5	3	—	—	60	65
	<u>1,459</u>	<u>1,325</u>	<u>454</u>	<u>147</u>	<u>281</u>	<u>366</u>	<u>2,194</u>	<u>1,838</u>
Interest expense.....	(718)	(584)	(173)	(141)	(123)	(87)	(1,014)	(812)
Operating costs.....	(82)	(86)	—	—	—	—	(82)	(86)
Current income taxes.....	—	1	(10)	(9)	—	—	(10)	(8)
Non-controlling interests.....	(404)	(345)	(32)	2	(94)	(168)	(530)	(511)
Funds from operations	<u>255</u>	<u>311</u>	<u>239</u>	<u>(1)</u>	<u>64</u>	<u>111</u>	<u>558</u>	<u>421</u>
Valuation gains								
Included in IFRS statements								
Fair value changes.....	1,511	934	1,441	94	58	49	3,010	1,077
Depreciation and amortization.....	(30)	(11)	(1)	(1)	(2)	—	(33)	(12)
Other items.....	—	—	(51)	—	(58)	(105)	(109)	(105)
Non-controlling interests.....	(680)	(500)	(243)	43	—	10	(923)	(447)
Not included in IFRS statements								
Incremental values.....	25	—	(325)	325	—	—	(300)	325
Other gains.....	(8)	—	(5)	—	—	—	(13)	—
Total valuation gains	<u>818</u>	<u>423</u>	<u>816</u>	<u>461</u>	<u>(2)</u>	<u>(46)</u>	<u>1,632</u>	<u>838</u>
Total return	<u>\$ 1,073</u>	<u>\$ 734</u>	<u>\$ 1,055</u>	<u>\$ 460</u>	<u>\$ 62</u>	<u>\$ 65</u>	<u>\$ 2,190</u>	<u>\$ 1,259</u>

Office Properties

Net operating income from consolidated properties is presented in the following table which shows net operating income from existing properties as well as assets which have been acquired, developed or sold. This illustrates the stability of these cash flows that arises from the high occupancy levels and long-term lease profile.

YEARS ENDED DECEMBER 31 (MILLIONS)	2011	2010	2009
Existing properties			
United States.....	\$ 363	\$ 385	\$ 380
Canada.....	217	220	221
Australasia.....	211	211	203
Europe.....	32	32	32
	<u>823</u>	<u>848</u>	<u>836</u>
Currency variance.....	—	(31)	(77)
	<u>823</u>	<u>817</u>	<u>759</u>
Acquired, developed and sold.....	374	165	118
Net operating income from consolidated properties	<u>\$ 1,197</u>	<u>\$ 982</u>	<u>\$ 877</u>

Net operating income on a comparable basis was consistent with the prior year, although decreased in the United States, and increased by 1% including currency appreciation. The decrease in the United States was driven by occupancy reductions in the U.S. due to the expiry of property leases in New York and Boston.

The contribution from properties acquired, developed and sold since the beginning of the comparative period includes the consolidation of the U.S. Office Fund (\$127 million) and the New Zealand Property Fund, as well as acquisitions in Houston, Washington D.C., Denver, Melbourne, and Perth, partly offset by the sale of properties in Boston and New Jersey. The decrease in income from unconsolidated properties reflects the transfer of the U.S. Office Fund to consolidated properties (\$70 million) offset by income from the acquisition of unconsolidated interests in a new property in Manhattan and increased income from other equity accounted properties. The increase in interest expense reflects these activities as well as the impact of foreign currency translation on borrowings in Australia and Canada.

Our share of valuation and disposition gains was \$818 million, compared to \$423 million during 2010. Our portfolios benefitted from continued improvements in expected cash flows as well as the impact of lower interest rates on discount and capitalization rates used to value the buildings.

The key valuation metrics of our commercial office properties are presented in the following table. The valuations are most sensitive to changes in the discount rate. A 10% change in the contractual cash flows or a 100 basis-point change in the discount rates and terminal capitalization rates would impact our common equity value by \$1.2 billion and \$1.6 billion, respectively, after reflecting the interests of minority shareholders. Average discount and capitalization rates declined in the United States, giving rise to the increased valuations. Rates were largely unchanged in other regions.

AS AT DECEMBER 31	United States			Canada			Australasia		
	2011	2010	2009	2011	2010	2009	2011	2010	2009
Discount rate.....	7.5%	8.1%	8.8%	6.7%	6.9%	7.4%	9.1%	9.1%	9.3%
Terminal capitalization rate.....	6.3%	6.7%	6.9%	6.2%	6.3%	6.7%	7.5%	7.4%	7.8%
Investment horizon (years).....	12	10	10	11	11	10	10	10	10

The overall portfolio occupancy rate in our office properties at the end of 2011 was 93.3%. Occupancy levels in the United States declined to 91.3% from the prior year as a result of the sale of 1400 Smith Street in Houston which was 100% leased, expiries in New York and Boston, and the acquisition of a low occupancy property at attractive values. Occupancy levels elsewhere in our portfolio remain favourable. We have leased approximately 11 million square feet this year and we have a leasing pipeline of five million square feet at this time, which would further improve our leasing profile.

					Expiring Leases (000's sq. ft.)						
AS AT DECEMBER 31, 2011	% Leased	Average Term	Net Rental Area	Currently Available	2012	2013	2014	2015	2016	2017	2018 & Beyond
North America											
United States.....	91.3%	7.0	44,019	3,851	3,027	5,810	3,171	3,849	2,036	1,773	20,502
Canada.....	96.3%	8.7	17,108	639	435	1,798	439	1,680	1,809	625	9,683
Australasia.....	96.6%	6.1	10,291	350	378	672	872	1,227	1,115	1,038	4,639
Europe.....	100.0%	10.3	556	—	—	—	262	—	—	—	294
Total/Average.....	93.3%	7.3	71,974	4,840	3,840	8,280	4,744	6,756	4,960	3,436	35,118
Percentage of total.....			100.0%	6.7%	5.3%	11.5%	6.6%	9.4%	6.9%	4.8%	48.8%
As at December 31, 2010				5.0%	5.9%	15.0%	6.2%	10.9%	6.9%	4.9%	39.3%

We reduced the lease rollover profile for the 2012–2016 period by 550 basis points compared to the end of 2010.

We use in-place net rents as a measure of leasing performance, and calculate this as the annualized amount of cash rent receivable from leases on a per square foot basis including tenant expense reimbursements, less operating expenses. This measure represents the amount of cash generated from leases in a given period.

In North America, average in-place net rents across our portfolio approximate \$25 per square foot compared to \$24 per square foot at the end of 2010. Net rents remain at a discount of approximately 24% to the average market rent of \$31 per square foot. This gives us confidence that we will be able to maintain or increase our net rental income in the coming years and, together with our high overall occupancy, to exercise patience in signing new leases.

In Australasia, average in-place rents in our portfolio are A\$49 per square foot, which represents an 2% discount to market rents. The occupancy rate across the portfolio remains high at 97% and the weighted average lease term is approximately six years. Leases in Australia typically include annual escalations, with the result that in-place lease rates tend to increase along with long-term increases in market rents.

Retail Properties

Our net share of GGP's funds from operations on an IFRS basis was \$213 million. GGP reported 8% growth in core FFO, which reflects increases in both net rents and occupancy. Tenant sales were \$505 per square foot on a trailing 12-month basis as of year-end 2011, a 7.9% increase over year-end 2010 on a comparable basis. Comparable tenant sales have now increased for eight consecutive quarters. Regional mall percentage leased was 94.6% at year-end 2011, an increase of 110 basis points over year-end 2010. The initial rent on leases executed in 2011 was \$65.67 per square foot representing an increase of 8.3% or \$5.04 per square foot compared to the expiring rent on comparable leases.

GGP refinanced \$4.2 billion (\$3.2 billion at GGP's share) of mortgage notes at a weighted average interest rate of 5.06% and average term of 10.1 years. The average interest rate of the original loans was 5.83% and the remaining term-to-maturity was 2.2 years. Approximately \$1.8 billion of the original loans were refinanced upon their maturity and \$2.4 billion were refinanced prior to their scheduled maturities. Net new proceeds on the refinancings totalled \$2 billion. As of December 31, 2011, GGP had \$745 million of cash and cash equivalents, including \$174 million held in joint ventures. GGP's \$750 million corporate line of credit remains undrawn.

During 2011, the company opened 28 new anchor/big box stores across its nationwide regional mall portfolio totalling approximately 920,000 square feet. Also during 2011, the company opened three department stores totalling approximately 402,000 square feet – two Nordstrom stores and one Von Maur. GGP has an additional four department stores totalling approximately 516,000 square feet scheduled to open in 2012 and 2013, including Von Maur, Lord & Taylor, Herberger's and Bloomingdale's.

We recorded valuation gains of \$0.8 billion, of which \$0.7 billion relate to our U.S. retail interests and \$70 million to our Brazil interest. The U.S. valuation gains were the result, in equal measure, of improved leasing and a more favourable discount rate. The Brazil valuation gains were due principally to a 40 basis-point reduction in the discount rate used to value the properties.

The valuation of our U.S. portfolio was determined using a combination of three approaches: a direct capitalization method that involves applying market-based capitalization rates to projected 2012 property cash flows; discounted cash flows; and comparable market prices and independent valuations. The blended capitalization rate utilized for the direct capitalization method was approximately 5.9%.

Our Brazilian portfolio was valued on a discounted cash flow basis using a discount rate of 9.6% (2010 – 10.0%), a terminal capitalization rate of 7.3% (2010 – 7.3%) and an investment horizon of 10 years (2010 – 10 years).

In our Brazil portfolio, same store tenant sales increased 8% to \$829 per square foot compared to the prior year, and occupancy increased by 40 basis points to 94.7%, reflecting the continued improvement in market conditions.

In our Australian portfolio, we completed a premier retail development in Perth valued at \$180 million which contributed \$10 million to net operating income for the current year.

Our retail portfolio occupancy rate at the end of the fourth quarter was 93.5% overall. Occupancy levels in our U.S. malls increased 90 basis points to 93.2%, from the beginning of the year, and the initial rent on leases signed in 2011 was \$65.67 per square foot.

AS AT DECEMBER 31, 2011	% Leased	Average Term	Net Rental Area	Currently Available	Expiring Leases (000's sq. ft.)						2018 & Beyond
					2012	2013	2014	2015	2016	2017	
United States ¹	93.2%	5.1	61,638	4,211	6,509	6,334	5,906	5,363	5,684	5,076	22,555
Australasia.....	97.7%	7.4	3,442	79	85	62	80	143	779	370	1,844
Brazil.....	94.7%	6.8	3,069	164	675	376	470	433	218	109	624
Total/Average.....	93.5%	5.3	68,149	4,454	7,269	6,772	6,456	5,939	6,681	5,555	25,023
Percentage of total			100%	6.5%	10.7%	9.9%	9.5%	8.7%	9.8%	8.2%	36.7%

1. Represents regional malls only and excludes leases on traditional anchor stores and specialty leasing license agreements

Office Development, Opportunity and Finance

We continued development of our City Square project in Perth, which has a total projected construction cost of approximately A\$935 million. The project is virtually 100% pre-leased and scheduled for completion in the first half of 2012, and we expect to launch a second tower in late 2012.

We own development rights on Ninth Avenue between 31st Street and 33rd Street in New York City, which includes 5.4 million square feet of commercial office space entitlements. We expect that this will be one of the first sites for office development in Manhattan, once new office properties become economic, and are commencing work to build the necessary foundations. We recently acquired an adjacent property during the year to further expand this important development initiative. We also hold a well positioned development site in London, UK, and have begun to prepare the site for construction. In both cases, full construction will be dependent on securing leases.

Our opportunity investment funds have approximately \$900 million of capital invested on behalf of ourselves and our clients. One of our funds is fully invested and we have been selling properties, while we are actively investing the capital in the two more recent funds. We deployed nearly \$446 million of capital during 2011 in several transactions, which included the purchase of a distressed non-performing New Zealand loan portfolio for an equity outlay of \$190 million and the purchase of bank debt secured by a five million square foot portfolio of office properties on the U.S. west coast for \$176 million.

Our net invested capital in the funds is \$429 million and our share of the underlying cash flow for 2011 was \$34 million (2010 – \$79 million). In 2010, we disposed of properties recognizing net disposition gains of \$44 million.

Our real estate finance funds have \$1.2 billion of capital invested on behalf of ourselves and our clients. Our share of capital invested in these operations was \$371 million at December 31, 2011 (December 31, 2010 – \$374 million). These activities contributed \$32 million of funds from operations and gains during 2011, consistent with \$37 million in 2010.

We continue to pursue a number of opportunistic real estate investments, primarily in the United States, where refinancing requirements and recapitalization opportunities are resulting in increased transaction activity.

Outlook and Growth Initiatives

We expect to increase the cash flows from our office and retail property activities through continued leasing activity as described above. In particular, we are operating at least 400 basis points below our normal office occupancy level in the United States, which provides the opportunity to expand cash flows through higher occupancy. Most of our markets have favourable outlooks, which we expect will also lead to strong growth in lease rates. We do, however still face a meaningful amount of office lease rollover in 2013, which may restrain FFO growth from this part of our portfolio in the near term.

In our North American retail business, we continue to improve the profitability of the business by rationalizing the portfolio and leases, refinancing debt and reducing costs. Subsequent to year end, GGP completed its plan to spin off Rouse Properties to its shareholders, including Brookfield, in line with the objective to focus GGP on its fortress mall portfolio, which generates tenant sales over \$500 per square feet.

Transaction activity is picking up across our global office markets and we are considering a number of different opportunities to acquire single assets, development sites and portfolios at attractive returns. In our continued effort to enhance returns through capital reallocation, we are also looking to divest of all, or a partial interest in a number of mature assets to capitalize on existing market conditions.

Given the small amount of new office development that occurred over the last decade and the near total development halt during the global financial crisis, we see an opportunity to advance our development inventory in the near term in response to demand we are seeing in our major markets. We are currently focused on five development projects totalling approximately nine million square feet. This pipeline could add more than \$7.2 billion in assets and we are actively advancing planning and entitlements and seeking tenants for these sites. In addition, we continue to reposition and redevelop existing retail properties, in particular, a number of the fortress shopping centres in the U.S.

RENEWABLE POWER

Overview

Our renewable power assets are held through Brookfield Renewable Energy Partners LP (“Brookfield Renewable” or “BREP”), which we established in late 2011, and currently own 68%. The formation of BREP achieved a number of important goals for us. First, the transaction greatly simplifies our operating structure as we combined all of our power assets under one publicly traded flagship entity. Second, establishing BREP significantly advances our longer term asset management objectives. As BREP’s asset manager, we will be compensated to the extent we increase the total capitalization value of the business and its distribution profile on a per share basis. Third, establishing BREP as a listed entity enhances our ability to access public equity capital as we grow the business over the long term. It also increases our ability to monetize a portion of our investment to reallocate capital into higher yielding initiatives. Finally, in forming BREP, we entered into arrangements where we purchase a portion of BREP’s power at predetermined prices, providing a stable revenue profile for shareholders of BREP and providing us with continued participation in future increases (or decreases) in power prices.

Assets Under Management and Invested Capital

AS AT DECEMBER 31 (MILLIONS)	United States		Canada		Brazil		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets under management.....	\$ 6,276	\$ 5,447	\$ 8,093	\$ 7,194	\$ 3,389	\$ 3,194	\$ 17,758	\$ 15,835
Hydroelectric generation.....	5,333	4,914	5,510	5,194	2,729	2,319	13,572	12,427
Wind energy.....	—	—	1,387	554	—	—	1,387	554
Co-generation.....	—	—	87	63	—	—	87	63
Facilities under development.....	289	59	70	101	162	79	521	239
Accounts receivable and other.....	280	499	422	393	345	409	1,047	1,301
	5,902	5,472	7,476	6,305	3,236	2,807	16,614	14,584
Property-specific borrowings.....	1,968	1,873	1,584	1,284	645	677	4,197	3,834
Subsidiary borrowings.....	—	—	—	—	—	—	1,323	1,152
Accounts payable and other.....	193	176	559	418	161	244	913	838
Non-controlling interests ¹	743	220	1,060	1,328	813	70	2,259	1,618
Preferred shares.....	—	—	—	—	—	—	245	250
	2,998	3,203	4,273	3,275	1,617	1,816	7,677	6,892
Incremental values.....	—	—	—	—	—	—	300	600
	\$ 2,998	\$ 3,203	\$ 4,273	\$ 3,275	\$ 1,617	\$ 1,816	\$ 7,977	\$ 7,492

1. Total includes co-investor interest associated with subsidiary borrowings and preferred shares

Major variances in our invested capital year-over-year include:

- Hydroelectric generation assets increased by \$1.1 billion due to net valuation increases of \$1.0 billion and acquisitions and developments of \$270 million, offset by lower currency exchange rates for our non-U.S. assets.
- Wind energy assets increased by \$833 million reflecting valuation increases as well as the reclassification of a wind energy development project in Ontario, Canada, upon completion in November 2011. The cost of the project was previously included in facilities under development and development profits were previously included in incremental values.
- Facilities under development increased as we acquired two late stage development wind projects in the U.S. and invested capital into two hydro projects in Brazil. Facilities under development in Canada decreased as we transferred completed projects to operating assets. We had previously recorded valuation increases in facilities under development as incremental values but reduced these amounts by \$300 million now that these amounts are recorded in our IFRS financial statements.
- Borrowings increased modestly year-over-year, with both unsecured subsidiary and property-specific borrowings increasing in order to fund acquisitions and development projects.
- Non-controlling interests also increased in aggregate due to the acquisition of new hydro facilities and wind development projects in partnership with investors in our Americas Infrastructure Fund.
- We combined our directly held U.S. and Brazilian operations with our 34% owned Canadian listed fund to form Brookfield Renewable Energy Partners. Our ownership interest in the combined business totalled 73% at year end resulting in a reduced non-controlling interest in our Canadian operations and increased non-controlling interest in our U.S. and Brazilian operations. In addition, we acquired a 30 megawatt hydro facility in Brazil, and late stage wind development projects in the U.S. during the year with our institutional partners, and have reflected their share of the assets in non-controlling interests.

The assets deployed in our renewable power operations are revalued on an annual basis. The key valuation metrics of our hydro and wind generating facilities at the end of 2011 and 2010 are summarized below. The valuations are impacted primarily by the discount rate and long-term power prices. A 100 basis-point change in the discount and terminal capitalization rates and a 5% change in long-term power prices will impact the value of our net invested capital by \$2.1 billion and \$0.5 billion, respectively.

AS AT DECEMBER 31	United States		Canada		Brazil	
	2011	2010	2011	2010	2011	2010
Discount rate.....	6.7%	7.7%	5.7%	6.1%	9.9%	10.8%
Terminal capitalization rate....	7.2%	7.9%	6.8%	7.1%	n/a	n/a
Exit date.....	2031	2030	2031	2030	2029	2029

The discount and terminal capitalization rates decreased in both the United States and Canada due to improved economic outlook and lower risk-free rates. The discount rates in Brazil decreased as a result of improved economic fundamentals. Our generation facilities in Brazil are held under concessions and authorizations which have a fixed maturity date and accordingly, we do not ascribe a terminal value to these assets under IFRS, although we believe that we will be able to renew these concessions upon maturity.

The \$300 million of incremental values represents gains relating to long-term power sale contracts that are deferred for IFRS purposes.

Total Return

YEARS ENDED DECEMBER 31 (MILLIONS)	United States		Canada		Brazil		Total ¹	
	2011	2010	2011	2010	2011	2010	2011	2010
Funds from operations								
Hydroelectric generation.....	\$ 312	\$ 367	\$ 131	\$ 164	\$ 226	\$ 177	\$ 669	\$ 708
Wind energy.....	—	—	58	40	—	—	58	40
Co-generation.....	—	—	26	23	—	—	26	23
Asset realizations.....	12	—	13	—	—	—	25	—
	324	367	228	227	226	177	778	771
Interest expense ²	(155)	(138)	(90)	(81)	(85)	(79)	(394)	(375)
Current income taxes.....	2	(2)	—	(3)	(15)	(13)	(13)	(18)
Non-controlling interests.....	(43)	(37)	(102)	(80)	(13)	(4)	(158)	(121)
Funds from operations.....	128	190	36	63	113	81	213	257
Valuation gains								
Included in IFRS statements								
Fair value changes.....	424	(656)	1,122	(113)	173	323	1,719	(446)
Depreciation and amortization.....	(130)	(181)	(197)	(188)	(128)	(119)	(455)	(488)
Non-controlling interests.....	(155)	(38)	(131)	(138)	(137)	(4)	(423)	(180)
Not included in IFRS statements								
Incremental values.....	—	—	—	—	—	—	(300)	150
Other items.....	—	—	(13)	—	—	—	(13)	—
Total valuation gains.....	139	(875)	781	(439)	(92)	200	528	(964)
Total return.....	\$ 267	\$ (685)	\$ 817	\$ (376)	\$ 21	\$ 281	\$ 741	\$ (707)

1. Includes unallocated operating and tax expenses as well as associated non-controlling interests in addition to the regional amounts

2. Total includes \$64 million of interest on unallocated subsidiary debt (2010 – \$77 million)

Net operating income produced by our generating facilities was largely unchanged at \$778 million compared to \$771 million in the prior year. The majority of our portfolio benefits from long-term power contracts with inflation based escalation protecting us against near term decreases in prices; however, a portion of our generation in the northeast United States is subject to spot market prices which declined lower during the current year. We held a reduced ownership interest in our power operations relative to 2010. Accordingly, funds from operations declined in 2011 to \$213 million as a larger portion of operating income accrued to non-controlling interests. We recorded \$25 million of asset realizations in 2011, whereas the sale of our interests in our Canadian Fund and development project to co-investors during 2010 gave rise to realization gains of \$291 million in that year.

The increase in interest expense on property-specific and subsidiary borrowings reflects additional borrowings to fund acquisition and development activities, as well as increases in the average exchange rates for Brazil and Canada.

We recorded fair value changes in our financial statements of \$1.7 billion from the annual revaluation of our renewable power assets and associated contractual arrangements. This included the recapture of \$455 million of depreciation that was expensed during the year, thereby reducing the carrying values prior to the revaluation. We recorded a net decrease in fair values of \$446 million in 2010 as the positive impact of lower discount rates was more than offset by the impact of lower projected electricity prices on the valuation of our business, in addition to \$488 million of depreciation recorded in that year. Values not recognized under IFRS decreased by \$300 million during the year principally because the value previously attributed to development projects is now recognized in our financial statements.

Our net share of the valuation items after non-controlling interests was a net gain of \$528 million in 2011 and a net loss of \$964 million in 2010. The overall valuation gains reflect an improved outlook for renewable power pricing based on recent developments in government policy, utility purchasing activity and long-term contracts.

The following table presents the net operating income of our hydroelectric operations:

	2011				2010			
	Production	Realized	Operating	Net	Production	Realized	Operating	Net
YEARS ENDED DECEMBER 31 (GIGAWATT HOURS AND \$ MILLIONS)	(GWh)	Revenues	Costs	Operating Income	(GWh)	Revenues	Costs	Operating Income
United States.....	7,150	\$ 480	\$ 168	\$ 312	6,688	\$ 525	\$ 158	\$ 367
Canada.....	4,056	216	85	131	3,557	254	90	164
Brazil.....	3,307	337	111	226	3,143	278	101	177
Total.....	14,513	\$ 1,033	\$ 364	\$ 669	13,388	\$ 1,057	\$ 349	\$ 708
Per Megawatt hour (MWh).....		\$ 71	\$ 25	\$ 46		\$ 79	\$ 26	\$ 53

- Realized prices per MWh decreased to \$71 per megawatt hour, reflecting larger proportions of power being generated in lower priced markets such as New York.
- Operating costs decreased on a per unit basis as our costs, which are primarily fixed, were spread over a higher base of generation.
- Increased revenues in Brazil reflect assets acquired in 2011, development projects completed in 2010 and currency appreciation.

The following table presents our generation results:

YEARS ENDED DECEMBER 31 (GIGAWATT HOURS)	Actual Production		Long-Term Average		Variance of Results		
					Actual vs. Long-term	Actual vs.	
	2011	2010	2011	2010	Average	Prior Year	
Hydroelectric generation							
United States	7,150	6,688	6,812	7,070	338	(382)	462
Canada	4,056	3,557	5,061	5,077	(1,005)	(1,520)	499
Brazil	3,307	3,143	3,307	3,105	—	38	164
Total hydroelectric operations	14,513	13,388	15,180	15,252	(667)	(1,864)	1,125
Wind energy.....	662	499	710	506	(48)	(7)	163
Co-generation.....	702	567	406	372	296	195	135
Total generation.....	15,877	14,454	16,296	16,130	(419)	(1,676)	1,423
% Variance.....					(3)%	(10)%	10%

- Overall generation was 1,423 gigawatt hours higher than 2010, representing a 10% increase.
- Hydroelectric generation from existing capacity was 8% higher than 2010 generation levels but 4% below long-term averages.
- Generation was well ahead of plan in Louisiana, New York and British Columbia, but fell behind in Ontario and Quebec due to very dry weather conditions.
- We have hedged 83% and 73% of our long-term average generation for 2012 and 2013, respectively. Approximately 70% of the expected generation is hedged with long-term contracts that have an average term of 14.5 years, while 13% of our revenue for 2012 is hedged with shorter-term financial contracts.

Almost all of Brookfield Renewable's generation in Brazil is sold under long-term power sales agreements, as is all of the wind energy in North America. Our wholly-owned energy marketing group has entered into purchase agreements and price guarantees with Brookfield Renewable that lock in the price for its remaining North American generation that is not already sold under a long-term contract. The majority of these arrangements are offset by us with long-term contracts such as our 20-year power sales agreement with the Ontario Power Authority, which has the full credit support of the Ontario provincial government. Our primary exposure to price fluctuations relates to approximately 5,000 gigawatt hours of annual generation that we have committed to purchase at an

average price of \$73 per megawatt hour for which we have no offsetting long-term sales agreements. We estimate that a \$10 per megawatt negative variance results in an approximate \$16 million decrease in FFO based on our current 68% ownership of BREP, because we recover our proportionate share of any negative variance through our ownership interest. On the other hand, we will record annual FFO increases of \$50 million for every \$10 per megawatt hour of positive variance from the contracted price, which we believe will add significant value over the longer term as demand and prices for renewable hydroelectric generation increase.

The following table profiles our contracts over the next five years for generation from our existing facilities, assuming long-term average hydrology:

YEARS ENDED DECEMBER 31	2012	2013	2014	2015	2016
Generation (GWh)					
Contracted					
Power sales agreements					
Hydro.....	9,989	9,910	9,226	8,695	8,465
Wind.....	1,671	1,747	1,747	1,747	1,747
Gas and other.....	521	398	134	—	—
	12,181	12,055	11,107	10,442	10,212
Financial contracts.....	2,333	964	—	—	—
Total contracted.....	14,514	13,019	11,107	10,442	10,212
Uncontracted.....	2,962	4,746	6,349	6,883	7,110
Long-term average generation.....	17,476	17,765	17,456	17,325	17,322
Contracted generation — as at December 31, 2011					
% of total generation.....	83%	73%	64%	60%	59%
Price (per MWh).....	\$ 89	\$ 89	\$ 90	\$ 90	\$ 91

The average contracted price fluctuates from period to period as existing contracts expire and we enter into new contracts, and as a result of changes in currency exchange rates for contracts in Brazil and Canada.

The amount of annual generation contracted under long-term power sales decreases by 1,739 gigawatt hours prior to 2015, due primarily to the expiry of contracts in Brazil. Given the continued economic expansion in that country and the increasing need for generation capacity, we are confident that we will be able to sell our power at increasing rates and secure long-term contracts on favourable terms.

We have reduced the amount of power sold under financial contracts, which primarily relate to generation in the Quebec and New York markets, relative to previous years, as we believe the current low spot price environment provides more upside potential than downside risk. In the meantime, we continue to pursue opportunities to secure long-term contracts at pricing that reflects the favourable renewable characteristics of our energy production in North America.

The following table illustrates the stability of our power generating revenues by presenting our results for the past five years with the revenues for our hydroelectric and wind power operations adjusted to reflect long-term generation profiles and 2011 exchange rates, thereby eliminating currency and hydrology fluctuations.

YEARS ENDED DECEMBER 31	2007	2008	2009	2010	2011
Revenues (MILLIONS)					
Long-term.....	\$ 419	\$ 514	\$ 534	\$ 839	\$ 952
Short-term.....	432	496	427	285	189
Ancillary.....	54	69	75	58	59
	\$ 905	\$ 1,079	\$ 1,036	\$ 1,182	\$ 1,200
Expected generation (GWh).....	12,649	13,729	14,335	14,866	15,225
Average realized price (per MWh).....	\$ 72	\$ 79	\$ 72	\$ 80	\$ 79
Long-term revenues					
% of total hydro and wind revenues.....	46%	48%	52%	71%	79%
Average price (per MWh).....	\$ 68	\$ 72	\$ 75	\$ 86	\$ 96

The procurement of major long-term revenue contracts in recent years has increased the volume and price of long-term contracted power generating revenues to 79% in 2011, and an average price of \$96 per megawatt hour.

Furthermore, a 10% variance in our short-term energy revenues and ancillaries represents less than 4% of the revenues from these operations. Given the current low price environment and our expectation that demand for renewable energy will continue to increase, we believe there is much more potential for substantial increases in our overall revenues.

Outlook and Growth Initiatives

We continue to make progress on three hydroelectric facilities and two wind facilities in North America and Brazil, including the start of construction on wind farms in California. We secured a 20-year government backed financing for our New Hampshire wind facility with a 3.75% interest rate. We expect our wind facilities that are currently under construction to be completed and commissioned in the first quarter of 2012, on scope and on budget. The wind facilities are designed to have installed capacity of 201 MW, expected annual generation of 535 GWh and total project costs of approximately \$480 million. The remaining facilities are expected to be commissioned in 2013 and 2014.

In addition to projects currently underway, we have a further development pipeline of 2,000 megawatts of installed capacity for hydroelectric, wind and pumped storage projects, and we are also actively pursuing a number of small and large acquisition opportunities.

Notwithstanding the current low price environment for electricity prices in our North American markets, we believe electricity prices will increase strongly over the long-term due to the challenges facing many forms of generation technologies, including environmental concerns and possible carbon pricing, desires for energy independence and security and other potential legislative and market driven factors. In the short term, most of our revenues are secured through long-term contracts although the uncontrolled power is being sold at the low prices that prevail in the current market. In the long term, we are well positioned to benefit from increasing electricity prices.

INFRASTRUCTURE

Overview

We own a number of global infrastructure businesses through several managed investment vehicles, including our two flagship entities: Brookfield Infrastructure Partners LP (“Brookfield Infrastructure” or “BIP”), which is publicly listed; and our Americas Infrastructure Fund, which is privately held with institutional investors. We also operate a number of smaller funds with specialized investment strategies. We consolidate all of our managed entities and most of the underlying operating businesses, although some of our operations are equity accounted in our results.

In November 2010, we completed a merger with partially owned Prime Infrastructure, through which we held a number of our Utilities, Transport and Energy businesses, (the “Prime merger”) which increased our ownership interest in these assets and led to the consolidation of a number of the underlying business units. Accordingly, while the balance sheet presentation is generally consistent year over year, the operating results for a number of our operations were presented on a different basis for most of 2010.

Assets Under Management and Invested Capital

AS AT DECEMBER 31 (MILLIONS)	Utilities		Transport and Energy		Timber		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets under management.....	\$10,162	\$ 9,205	\$ 4,140	\$ 2,884	\$ 4,956	\$ 4,545	\$19,258	\$ 16,634
Operating assets.....	3,549	3,296	2,666	1,865	3,896	3,494	10,111	8,655
Unconsolidated operations.....	931	754	696	446	69	71	1,696	1,271
Accounts receivable and other.....	460	2,094	559	530	706	714	1,725	3,338
	4,940	6,144	3,921	2,841	4,671	4,279	13,532	13,264
Property-specific borrowings.....	2,336	2,125	962	867	1,504	1,489	4,802	4,463
Subsidiary borrowings.....	—	—	—	—	—	—	114	148
Accounts payable and other.....	623	2,139	591	402	733	641	1,947	3,182
Non-controlling interests.....	1,162	1,324	1,706	1,139	1,451	1,325	4,319	3,691
	819	556	662	433	983	824	2,350	1,780
Incremental values.....	—	—	—	—	—	—	250	125
Net invested capital.....	\$ 819	\$ 556	\$ 662	\$ 433	\$ 983	\$ 824	\$ 2,600	\$ 1,905

Consolidated assets and net invested capital held within our operations were relatively unchanged during the year. Non-controlling interests principally reflect direct interests of others in our timber operations, as well the other shareholders of Brookfield Infrastructure, through which a large portion of these businesses is held. We issued approximately \$660 million of equity from Brookfield Infrastructure in October 2011, of which Brookfield purchased \$200 million and co-investors acquired \$460 million. Proceeds were used to fund our rail expansion, repayment of bank debt and the purchase of a toll road in Chile. This, together with total return achieved during the year, gave rise to an increase in non-controlling interests as well as our net invested capital.

The carrying values of most of our infrastructure businesses are represented by physical assets that are revalued annually for financial statement purposes, similar to our renewable power business. In addition, we also have regulatory and other contractual arrangements that are recorded as intangible assets and typically not revalued. Our timber assets are revalued through net income on a quarterly basis and the intangible assets associated with regulated rate-base arrangements are required to be carried at amortized cost under IFRS.

During the year we issued \$2.7 billion of debt with an average term of nine years. Approximately \$1.6 billion of this total was used to refinance maturing debt, and the remaining \$1.1 billion was incremental debt raised to fund growth capital expenditure projects. As of December 31, 2011, Brookfield Infrastructure had \$500 million of uncommitted cash at the corporate level and its operating companies, and also has a \$700 million corporate credit facility that is currently undrawn and approximately \$1.3 billion of additional capacity under credit facilities at our operating units to fund capital expansion and acquisitions.

Total Return

YEARS ENDED DECEMBER 31 (MILLIONS)	Utilities		Transport and Energy		Timber		Total ¹	
	2011	2010	2011	2010	2011	2010	2011	2010
Net operating income.....	\$ 366	\$ 38	\$ 193	\$ 70	\$ 197	\$ 112	\$ 756	\$ 220
Unconsolidated operations.....	117	137	70	60	6	7	193	204
Investment and other income.....	11	—	2	2	3	4	16	6
	494	175	265	132	206	123	965	430
Interest expense.....	(144)	(28)	(82)	(28)	(88)	(85)	(340)	(141)
Other operating costs.....	—	—	—	—	—	—	(49)	(27)
Current income taxes.....	(3)	(1)	1	(1)	(2)	(1)	(4)	(3)
Non-controlling interests ²	(232)	(50)	(137)	(66)	(63)	(13)	(378)	(129)
Funds from operations	115	96	47	37	53	24	194	130
Valuation gains								
Included in IFRS statements								
Fair value changes.....	(15)	134	356	281	324	(29)	665	386
Depreciation and amortization.....	(81)	(12)	(62)	(16)	(4)	(5)	(147)	(33)
Non-controlling interests.....	131	(100)	(199)	(89)	(179)	(37)	(247)	(226)
Not included in IFRS statements								
Incremental values.....	—	—	—	—	—	—	125	25
Total valuation gains	35	22	95	176	141	(71)	396	152
Total Return	\$ 150	\$ 118	\$ 142	\$ 213	\$ 194	\$ (47)	\$ 590	\$ 282

1. Totals include unallocated amounts relating to investment and other income, interest expenses, and non-controlling interests

2. Includes non-controlling interest on corporate costs

Funds from operations increased to \$194 million from \$130 million in 2010, with the largest increases occurring in our Utilities and Timber operations. Valuation gains totalled \$396 million. We recorded fair value gains of \$665 million in our financial statements on the revaluation of many of the operating assets and standing timber, offset by \$147 million of depreciation recorded during the year. Our share of these items after non-controlling interests was \$271 million. We recorded incremental fair value gains of \$125 million on assets that are not otherwise revalued under IFRS.

Utilities

The increase in FFO from our utilities operations reflects improved operating results and increased ownership levels.

These businesses typically earn a pre-determined return based on their asset base, invested capital or capacity and the applicable regulatory frameworks and long-term contracts. Accordingly, the returns are highly predictable and not impacted to any great degree by short-term volume or price fluctuations.

The following table illustrates this stability by presenting funds from operations prior to interest expense and co-investor interests on a constant exchange rate, using the average exchange rate during the current year for the preceding years as well. We have also presented the comparative results using the same basis of accounting employed following the Prime merger to enhance comparability.

YEARS ENDED DECEMBER 31
(MILLIONS)

	2011	2010	2009
Net operating income.....	\$ 366	\$ 314	\$ 268
Unconsolidated operations.....	117	101	100
Comparable basis.....	483	415	368
Prior basis of accounting ¹	—	(206)	(196)
Currency variance	—	(34)	(62)
Investment income	11	—	—
Reported basis.....	<u>\$ 494</u>	<u>\$ 175</u>	<u>\$ 110</u>

1. To restate results on an equity accounted basis for businesses that were not consolidated prior to the Prime merger

Net operating income from consolidated and unconsolidated utilities operations increased by \$68 million.

- Our Australian coal terminal benefitted from the contribution of growth capital expenditures and the implementation of a regulatory review that resulted in a higher regulated rate of return. The increased contribution to net operating income was \$25 million.
- Our South American transmission operations contributed a further \$9 million as a result of revenue indexation and growth capital expenditures.
- Our UK connections businesses continue to benefit from increased levels of developer contributions which are upfront payments on the installation of new connections of residential customers to gas and electricity distribution. The increased contribution was \$20 million of additional FFO during the year.

We recorded valuation gains of \$35 million during 2011, compared to \$22 million in the prior year. The gains recorded in our IFRS statements in the current period relate primarily to valuation increases and capital expansions in our South American transmission operations, which more than offset the depreciation and amortization recorded during the year. We also recorded an increase in the value of our Australian coal terminal based on valuations of comparable facilities.

Transport and Energy

These businesses operate, in most cases, under long-term contracts or regulatory frameworks that govern prices, but not volumes. As a result, financial performance may fluctuate due to changes in activity levels or short-term price variances; however, these are usually within a narrow band of fluctuation.

The following table presents funds from operations prior to interest expense and co-investor interests on a constant exchange rate, using the average exchange rate during the current year for the comparative years as well. We have also presented the comparative periods reflecting the same basis of accounting used following the Prime merger to enhance comparability.

YEARS ENDED DECEMBER 31
(MILLIONS)

	2011	2010	2009
Net operating income.....	\$ 193	\$ 184	\$ 193
Unconsolidated operations.....	70	89	102
Comparable basis.....	263	273	295
Prior basis of accounting ¹	—	(125)	(249)
Currency variance	—	(18)	(31)
Investment income	2	2	—
Reported basis.....	<u>\$ 265</u>	<u>\$ 132</u>	<u>\$ 15</u>

1. To restate results to an equity accounted basis for businesses that were not consolidated prior to the Prime merger

Variances in net operating income include the following:

- North American gas transmission results decreased due to the implementation of a rate settlement in July 2010 and softening natural gas markets, which negatively impacted the contribution from ancillary products by \$21 million.
- Our Australian railroad reported lower cash flows year over year, as a result of lower grain volumes attributable to last year's drought in Western Australia, decreasing their contribution by \$10 million. However, these operations are expected to generate substantial increases in cash flows commencing in 2012 due to recent improvements in grain harvest and, more importantly, our expansion of these operations and the procurement of a number of long-term take-or-pay contracts.

Valuation gains relating to our transport and energy operations totalled \$95 million and relate primarily to the increase in expected cash flows within our Australian rail operations following the procurement of long-term contracts and other approvals that enabled us to commence a major expansion of these operations during the year.

Timber

Our timber operations continue to benefit from a significant increase in demand from Asia, particularly for Douglas-fir and whitewood species. This enabled us to increase volumes and pricing by 29% and 16%, respectively, from the prior period. As a result, net operating income increased by 71% from \$119 million to \$203 million and funds from operations increased to \$53 million from \$24 million.

We exported 42% of our harvest, and we will continue to utilize the flexibility inherent in our operations to adjust both harvest levels and markets to maximize the value of our timberlands. Overall export volumes to Asia were up 29%, as meaningful demand in China increased volumes by 50% from the prior year.

We recorded valuation gains of \$141 million based on increases in expected cash flows reflecting improved log prices and increased harvest levels. The carrying values are based on external appraisals that are completed annually. Key valuation assumptions include a weighted average discount and terminal capitalization rate of 6.6% (2010 – 6.6%) and an average terminal valuation date of 75 years. Timber prices were based on a combination of forward prices available in the market and the price forecasts of each appraisal firm.

Outlook and Growth Initiatives

We purchased a majority interest in two toll roads in Santiago, Chile from a European company in the fourth quarter of 2011 for \$760 million, with the equity component of \$340 million being funded through our Americas Infrastructure Fund. We continue to pursue opportunities to purchase infrastructure assets from European and other investors seeking to deleverage their balance sheets.

The expansion of our Australian railroad is anticipated to have a total project cost of approximately A\$600 million predominantly invested over the next two years. The growth plan is comprised of six customer initiated projects, which we anticipate will account for 24 million tonnes per annum of additional volume on our railroad by early 2014, representing a 44% increase. We have now signed long-term contracts for approximately 95% of the planned volume. These take-or-pay contracts have a weighted average term of approximately 15 years, and are expected to result in approximately 60% of our revenues in this business being covered by take-or-pay arrangements. We anticipate generating very attractive returns on this incremental capital, reflecting the significant historical investment that has been made in our rail system.

We continue to advance a number of other growth initiatives. In our utility segment, the capital backlog as of year end stands at approximately \$360 million, split between our transmission business and our UK connections business. We are continuing to expand our UK port operations with modest capital and are actively pursuing a major expansion of our Australian coal terminal.

Our timber operations are expected to benefit from continued demand from Asia; however we are awaiting a recovery of North American markets to achieve optimal pricing and increase our harvest levels. In the short-term, we expect market conditions to remain comparable; however market supply may increase in 2012 which could lead to lower prices.

PRIVATE EQUITY

Assets Under Management and Net Invested Capital

AS AT DECEMBER 31 (MILLIONS)	Special Situations		Residential Development		Agricultural Development		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Assets under management.....	\$17,004	\$ 18,681	\$ 7,869	\$ 7,734	\$ 470	\$ 433	\$25,343	\$ 26,848
Operating assets.....	2,917	2,737	5,573	5,480	455	419	8,945	8,636
Accounts receivable and other.....	1,932	1,999	2,143	2,033	15	14	4,090	4,046
	4,849	4,736	7,716	7,513	470	433	13,035	12,682
Property-specific borrowings.....	716	242	2,458	2,045	—	—	3,174	2,287
Corporate capitalization.....	1,074	955	197	277	2	1	1,273	1,233
Accounts payable and other.....	1,263	1,241	2,061	2,048	9	1	3,333	3,290
	1,796	2,298	3,000	3,143	459	431	5,255	5,872
Non-controlling interests.....	799	967	1,295	1,509	31	—	2,125	2,476
	997	1,331	1,705	1,634	428	431	3,130	3,396
Incremental values.....	525	450	875	875	—	—	1,400	1,325
Net invested capital.....	\$ 1,522	\$ 1,781	\$ 2,580	\$ 2,509	\$ 428	\$ 431	\$ 4,530	\$ 4,721

Total Return

YEARS ENDED DECEMBER 31 (MILLIONS)	Special Situations		Residential Development		Agricultural Development		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Net operating income.....	\$ 261	\$ 269	\$ 297	\$ 326	\$ 6	\$ 11	\$ 564	\$ 606
Disposition gains.....	83	121	—	—	—	—	83	121
Investment and other income.....	(3)	24	38	7	1	2	36	33
	341	414	335	333	7	13	683	760
Interest expense.....	(102)	(85)	(135)	(84)	—	—	(237)	(169)
Current income taxes.....	(8)	(5)	(37)	(39)	—	—	(45)	(44)
Non-controlling interests.....	(54)	(160)	(85)	(110)	2	—	(137)	(270)
Funds from operations.....	177	164	78	100	9	13	264	277
Valuation gains								
Included in IFRS statements								
Fair value changes.....	(53)	143	(37)	(21)	25	19	(65)	141
Depreciation and amortization.....	(215)	(189)	(11)	(6)	(1)	(2)	(227)	(197)
Other items.....	(22)	—	—	—	—	—	(22)	—
Non-controlling interests.....	99	61	35	(3)	(12)	—	122	58
Not included in IFRS statements								
Incremental values.....	75	50	—	125	—	—	75	175
Other gains.....	(61)	(85)	—	—	—	—	(61)	(85)
Total valuation gains.....	(177)	(20)	(13)	95	12	17	(178)	92
Total Return.....	\$ —	\$ 144	\$ 65	\$ 195	\$ 21	\$ 30	\$ 86	\$ 369

Special Situations

Our special situations operations are focused on restructuring, operational turnarounds and other special situations where Brookfield's operating capabilities can be utilized to create value.

We operate six institutional private equity funds with total invested capital of \$1.1 billion and uninvested capital commitments from clients of \$1.7 billion. We also directly own a number of investments that are outside the mandates of our private equity funds or other operating entities. Our share of the total invested capital is \$1.0 billion at IFRS values or \$1.5 billion after including an amount for incremental values that are not recorded under IFRS.

The private equity fund portfolios include 16 investments in a diverse range of industries. Our average investment is \$36 million and our largest single exposure is \$254 million on an IFRS basis and \$68 million and \$371 million, respectively, at fair value. We concentrate our investing activities on businesses with tangible assets and cash flow streams in order to better protect our capital.

Our largest direct investment is a 63% fully diluted interest in Norbord Inc. ("Norbord"), which is one of the world's largest producers of oriented strand board. The market value of our investment in Norbord at December 31, 2011 was approximately \$200 million based on stock market prices, which approximates our carrying value of \$207 million, despite its share price being at a cyclical low.

Our share of the funds from operations produced by these entities during 2011 was \$94 million, compared to \$43 million in 2010. The following table segregates the principal components of fund from operations in the past two years, that accrue to Brookfield net of the amounts accruing to other fund investors:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Net Invested Capital		Funds from Operations	
	2011	2010	2011	2010
Industrial and forest products.....	\$ 585	\$ 896	\$ 59	\$ —
Energy and related services.....	150	132	17	11
Business services.....	207	174	11	9
Property and other.....	2	68	—	3
Bridge lending.....	53	61	7	20
	997	1,331	94	43
Asset monetizations.....	—	—	83	121
Incremental values.....	525	450	—	—
	<u>\$ 1,522</u>	<u>\$ 1,781</u>	<u>\$ 177</u>	<u>\$ 164</u>

Our share of asset monetization gains, after deducting the interests of our fund partners, was \$83 million in the current year compared to \$121 million in 2010. The 2011 gains are related to the recapitalization of our investment in a U.S. containerboard manufacturer as well as the disposition of non-core assets held within our property and other investments, while the 2010 gain is related to the disposition of 8.7 million common shares of Norbord and the sale of a specialty tissue producer with operations in Canada and Europe. Overall, the portfolio is performing as expected. The contribution from our bridge lending activities declined from \$20 million to \$7 million due to lower advance levels in 2011 and higher financing fees earned during 2010.

Valuation items included in total return were a loss of \$177 million in 2011, compared to \$20 million in 2010. These consist primarily of depreciation recorded on plant and equipment employed within our portfolio investee companies that was not offset by valuation gains.

Based on comparable transactions and market prices, we have recorded incremental fair value gains of approximately \$525 million above IFRS carried costs, which in most cases reflect the excess of current valuations over distress acquisition prices.

Our performance in our special situations and other investments businesses is largely driven by disposition gains as opposed to operating earnings, as many of the assets are in a turnaround or restructuring process and consequently operating results are below stabilized levels. Accordingly, we view disposition gains as part of the normal activity for these businesses and include them in determining funds from operations.

Residential Development

Our residential operations are based primarily in Brazil and North America through two listed entities, with smaller directly held operations in Australia and the UK.

Our Brazilian business is one of the leading developers in Brazil's real estate industry. These operations include land acquisition and development, construction, and sales and marketing of a broad range of "for sale" residential and commercial office units, with a primary focus on middle income residential. The operations are conducted in Brazil's main metropolitan areas, including São Paulo, Rio de Janeiro, the Brasília Federal District, and the five other markets that collectively account for the majority of the Brazilian real estate market. The business, named Brookfield Incorporações, is listed on the principal stock exchange in Brazil.

Our North American business is conducted through Brookfield Residential Properties Inc., which we founded in 2011 with the merger of our U.S. business and the Canadian residential operations of Brookfield Office Properties. We hold approximately 73% of Brookfield Residential which is listed on the New York and Toronto stock exchanges. We are active in 10 principal markets located primarily in Alberta, California and Washington D.C. Area, and control over 100,000 lots in these markets. Our major focus is on entitling and developing land for building homes or for the sale of lots to other builders.

The following table sets out a financial profile of our development businesses:

AS AT DECEMBER 31 (MILLIONS)	Brazil		North America		Australia/UK		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Inventory.....	\$ 1,986	\$ 1,909	\$ 1,437	\$ 1,382	\$ 162	\$ 138	\$ 3,585	\$ 3,429
Development land.....	856	775	844	799	288	477	1,988	2,051
Accounts receivable and other.....	2,021	1,800	94	189	28	44	2,143	2,033
	4,863	4,484	2,375	2,370	478	659	7,716	7,513
Debt.....	1,863	1,348	599	661	193	313	2,655	2,322
Accounts payable and other.....	1,752	1,780	273	231	36	37	2,061	2,048
Co-investor interests.....	785	887	510	622	—	—	1,295	1,509
	<u>\$ 463</u>	<u>\$ 469</u>	<u>\$ 993</u>	<u>\$ 856</u>	<u>\$ 249</u>	<u>\$ 309</u>	<u>1,705</u>	<u>1,634</u>
Incremental values.....							875	875
Net invested capital.....							<u>\$ 2,580</u>	<u>\$ 2,509</u>

Our development businesses are carried primarily at historical cost, or the lower of cost and market, notwithstanding the length of time that some of our assets have been held and the value created through the development process. Accordingly, we look to metrics such as stock market valuations and financing appraisals to determine a more current value for these businesses and reflect any excess value as incremental values not otherwise recorded under IFRS.

Invested capital was relatively unchanged since the end of 2010. Our Brazilian operations continue to experience strong growth, although the amount of capital invested in the business declined as a result of lower currency exchange rates. We sold a large portion of our development land in Australia as we continue to scale back our operations in this market, and we have largely completed our withdrawal from the UK market in order to concentrate our activities in Brazil and North America where we have the strongest competitive advantages and scale.

The following table sets out the segmented operating results for the years ended:

	Brazil		North America		Australia/UK		Total	
YEARS ENDED DECEMBER 31 (MILLIONS)	2011	2010	2011	2010	2011	2010	2011	2010
Revenues.....	\$1,781	\$ 1,111	\$ 819	\$ 904	\$ 258	\$ 341	\$2,858	\$ 2,356
Direct expenses.....	1,565	931	692	747	266	345	2,523	2,023
Net operating income.....	216	180	127	157	(8)	(4)	335	333
Interest expense.....	90	63	34	—	11	21	135	84
Current income taxes.....	18	43	19	(3)	—	(1)	37	39
Non-controlling interests.....	62	44	23	66	—	—	85	110
Funds from operations.....	\$ 46	\$ 30	\$ 51	\$ 94	\$ (19)	\$ (24)	\$ 78	\$ 100

Our Brazilian operations continue to experience strong growth reflecting continued economic expansion within the country. Contracted sales and new project launches continued to exceed average results for the last 12 months as shown in the following table, which represents the operating results for the last three years in Brazilian currency.

YEARS ENDED DECEMBER 31 (R\$ MILLIONS)	2011	2010	2009
Project completions.....	\$ 1,952	\$ 922	\$ 654
Contracted sales.....	4,387	3,621	2,260
Project launches.....	3,930	2,981	2,675

Accounting profits for most of our projects are not recorded until substantial completion, which typically does not occur until 24 to 30 months after project launch, and 12 to 18 months after contracting sales. Accordingly, reported revenues under IFRS in the current period of R\$2,889 million reflect lower activity levels prior to 2010, and results are highly dependent on how many condominium and office projects reach substantial completion in a particular period. We estimate that cash flow would be \$59 million higher on a percentage-of-completion basis for the year end; \$38 million higher in 2010.

The decline in North American cash flows reflects lower sales volumes. We closed 1,295 homes and 2,301 lots during the year, compared to 1,600 and 2,548, respectively, during 2010 and continued to experience low levels of U.S. activity.

The 2011 results for Australia and the UK include the bulk sale of residential holdings in Perth while the 2010 results reflect the completion of a large project in London.

Agricultural Development

We have operated in the agri-business in Brazil for close to 30 years and are continuing to capitalize on this experience by building our operations to take advantage of Brazil's position as an agricultural super power. We conduct these activities privately, and more recent investments are being made through an institutional fund which we raised in 2011. Our operations encompass approximately 400,000 acres of agricultural land in the States of São Paulo, Mato Grosso, Mato Grosso do Sul, Minas Gerais and Tocantins. These lands are predominantly used for cattle, and for the planting of soya and sugar cane.

Our R\$620 million Brookfield Brazil Agriland Fund is currently 15% invested. Our total investment, including our historical business as well as new investments through the Fund, is approximately \$428 million, and is carried at fair value under IFRS and revalued in the normal quarterly process.

Our business model is to acquire lands in areas where cattle production is the prevailing use, and make substantial investment into the lands to convert them to crop use. In our initial stages of conversion, we usually plant soya, but when further infrastructure can be attracted to the region, sugar cane is planted, and in most cases is the highest and best use for these lands as this forms the feedstock for the ethanol industry in Brazil. This conversion process has in the past generated a significant increase in value of the underlying lands and, as a result, excellent returns on investment. We believe this should continue in the future as the industry grows to serve increasing global demand for food and fuel.

Outlook and Growth Initiatives

We are continuing to observe improving business conditions for most of our investees within our special situation portfolios, which should lead to improved operating cash flow and, together with favourable capital markets may facilitate their sale, consistent with our strategy.

The continued economic expansion within Brazil, combined with favourable demographics and supportive government policies have all contributed to increased sales and are expected to continue. We have focused our operations on major markets, and have established a “top-three” presence in the core markets that represent over 60% of the country’s GDP, which positions us to continue to participate in this growth.

We believe our North American operations will continue to benefit from our strong market share within the energy-focused Alberta market, which will provide us with a strong source of cash flow and a wide variety of attractive investment opportunities and growth. In addition, we believe are very well positioned to benefit from the eventual recovery in U.S. markets. At the end of 2011, the North American backlog of homes sold but not delivered was 659, with a sales value of \$264 million, compared to 377 homes with a value of \$151 million at the same time last year.

We remain confident that we can achieve attractive returns within our Brazilian agricultural operations based on the country’s strong competitive position as a leading agricultural producer and will endeavour to deploy additional capital on behalf of ourselves and our clients. We have an active pipeline for investments in 39 properties with an approximate total value of R\$1.7 billion. We are in the process of concluding investments which will require total capital of approximately \$100 million which has been recently called from our Brazil Agriland Fund in regards to these investments.

CASH AND FINANCIAL ASSETS

We continue to maintain elevated liquidity levels because we continue to pursue a number of attractive investment opportunities. As at December 31, 2011, our consolidated core liquidity was approximately \$3.9 billion, consisting of \$2.4 billion at the corporate level and \$1.5 billion within our principal operating subsidiaries. Core liquidity consists of cash, financial assets and undrawn committed credit facilities. In addition to our core liquidity, we have \$5.4 billion of uninvested capital allocations from our investment partners that are available to fund qualifying investments.

	Net Invested Capital		Investment and Other Income	
	2011	2010	2011	2010
AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)				
Financial assets				
Government bonds	\$ 485	\$ 628		
Corporate bonds	193	194		
Other fixed income	66	66		
High-yield bonds	190	98		
Preferred shares	289	267		
Common shares	493	328		
Loans receivable/deposits	218	212		
Total financial assets	1,934	1,793	\$ 169	\$ 375
Cash and cash equivalents	41	57	—	—
Deposits and other liabilities	(514)	(307)	(43)	(64)
Net invested capital	\$ 1,461	\$ 1,543	\$ 126	\$ 311

Government and corporate bonds include short duration securities for liquidity purposes and longer dated securities that match insurance liabilities.

In addition to the carrying values of financial assets, we hold credit default swaps with a notional value of \$830 million pursuant to which we have purchased protection against the reference debt instrument and \$140 million of notional value where we have sold protection. The carrying value of these derivative instruments reflected in our financial statements at December 31, 2011 was negligible. Deposits and other liabilities include broker deposits, a small number of borrowed securities that have been sold short and other associated short-term liabilities of \$225 million.

Investment and Other Income

Funds from operations includes disposition gains and realized and unrealized gains or losses on other capital markets positions, including fixed income and equity securities, credit investments, foreign currency and interest rates.

Due to the capital market volatility during the year, we recorded mark-to-market losses on investment positions totalling approximately \$62 million during the year. This compared with 2010 which included mark-to-market and disposition gains of approximately \$177 million.

SUSTAINING CAPITAL EXPENDITURES

The following table shows our estimated proportionate share of annualized sustaining capital expenditures based on our operating base at each of those dates for the years ended December 31, 2011 and 2010:

YEARS ENDED DECEMBER 31 (MILLIONS)	2011	2010
Property.....	\$ 40	\$ 20
Renewable power.....	55	50
Infrastructure.....	30	20
Private equity.....	40	40
Asset management, investment income and other.....	—	—
Total.....	<u>\$ 165</u>	<u>\$ 130</u>

We estimate that our operating base as at December 31, 2011 requires annual expenditures of \$165 million to maintain their existing economic capacity, compared to \$130 million in the prior year. Sustaining capital expenditures in our property operations increased on an annualized basis from costs incurred in our North American retail operations, which was acquired in late 2010.

PART 4 — CAPITALIZATION

FINANCING STRATEGY

The strength of our capital structure and the liquidity that we maintain enable us to achieve a low cost of capital for our shareholders and, at the same time, provide us with the flexibility to react quickly to potential investment opportunities and adverse changes in economic circumstances.

The following are the key elements of our capital strategy:

- Co-invest with partners through listed and unlisted funds to broaden sources of equity capital;
- Match fund our long-life assets with long-duration mortgage financings with a diversified maturity schedule;
- Provide recourse only to the specific assets being financed, with limited cross collateralization or parental guarantees;
- Limit borrowings to investment-grade levels based on anticipated performance throughout a business cycle;
- Structure our affairs to facilitate access to a broad range of capital and liquidity at multiple levels of the organization; and
- Maintain access to a diverse range of financing markets.

Our strategy is to have two flagship entities within each platform, one listed and one unlisted, through which capital will be invested by us and our partners. For example, within our infrastructure operations, we have established Brookfield Infrastructure Partners, a publicly listed entity that has a \$5.1 billion market capitalization, and the Brookfield Americas Infrastructure Fund, a private investment partnership with \$2.7 billion of committed capital from institutional investors. These two entities are supplemented from time-to-time with additional listed and unlisted niche entities, such as our Latin American country-specific funds and timber funds. This provides us with access to both listed and private equity capital. This year we established Brookfield Renewable Energy Partners as a \$7.2 billion market capitalization publicly listed pure-play renewable energy company.

Most of our borrowings are in the form of long-term, property-specific financings such as mortgages or project financings secured only by the specific assets. The diversification of our maturity schedule means that financing requirements in any given year are manageable. Limiting recourse to specific assets or business units ensures that weak performance by one asset or business unit does not compromise our ability to finance the balance of the operations.

Our focus on structuring financings with investment-grade characteristics ensures that debt levels on any particular asset or business can typically be maintained throughout a business cycle, and also enables us to limit covenants and other performance requirements, thereby reducing the risk of early payment requirements or restrictions on the distribution of cash from the assets being financed. Furthermore, our ability to finance at the parent, operating unit, and asset level on a private or public basis means that we are not overly dependent on any particular segment of the capital markets or the performance of any particular unit.

To enable us to react to attractive investment opportunities and deal with contingencies when they arise, we typically maintain a high level of liquidity at the corporate level and within our key operating platforms. Our primary sources of liquidity, which we refer to as “core liquidity,” consist of our cash and financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

We generate substantial liquidity within our operations on an ongoing basis through our operating cash flow, as well as from the turnover of assets with shorter investment horizons and periodic monetization of our longer-dated assets through sales, refinancings or co-investor participations. Accordingly, we believe we have the necessary liquidity to manage our financial commitments and to capitalize on opportunities to invest capital at attractive returns.

LIABILITY REVIEW

Borrowings

Corporate Borrowings

AS AT DECEMBER 31, 2011 (MILLIONS)	Average Term	Maturity				Total
		2012	2013	2014	2015 & After	
Commercial paper and bank borrowings.....	4	\$ —	\$ —	\$ —	\$ 1,042	\$ 1,042
Term debt.....	8	425	75	519	1,640	2,659
	7	\$ 425	\$ 75	\$ 519	\$ 2,682	\$ 3,701

Commercial paper and bank borrowings represent shorter-term borrowings pursuant to, or backed by, \$2.2 billion of committed revolving term credit facilities of which \$300 million have a 364-day term, \$1.6 billion have a four-year term and \$300 million have a five-year term. As at December 31, 2011, approximately \$204 million (December 31, 2010 – \$174 million) of the facilities were utilized for letters of credit issued to support various business initiatives.

Term debt consists of public bonds and private placements, all of which are fixed rate and have maturities ranging from 2012 until 2035. These financings provide an important source of long-term capital and an appropriate match to our long-term asset profile.

Our corporate borrowings have an average term of seven years (December 31, 2010 – eight years). The average interest rate on our corporate borrowings was 5.2% at December 31, 2011 (December 31, 2010 – 5.5%).

Property-Specific Borrowings

As part of our financing strategy, the majority of our debt capital is in the form of property-specific mortgages that have recourse only to the assets being financed and have no recourse to the Corporation.

AS AT DECEMBER 31 (MILLIONS)	Average Term	Proportionate		Consolidated	
		2011	2010	2011	2010
Property.....					
Office.....	4	\$ 5,954	\$ 6,402	\$ 11,398	\$ 8,450
Retail.....	5	4,383	2,297	1,371	1,718
Opportunity, finance and development.....	3	1,436	1,151	2,927	2,572
Renewable power.....	10	3,016	2,818	4,197	3,834
Infrastructure.....	7	2,126	1,995	4,802	4,463
Private equity.....	2	1,622	1,163	3,174	2,287
Other.....	2	546	130	546	130
Total.....	5	\$ 19,083	\$ 15,956	\$ 28,415	\$ 23,454

Our proportionate share of property-specific borrowings in commercial properties increased during 2011 due to our increased ownership of General Growth Properties. This did not impact consolidated liabilities as the investment is equity accounted. Consolidated borrowings increased due to the consolidation of our U.S. Office Fund, which was previously equity accounted, and accordingly had little impact on our proportionate levels.

Subsidiary Borrowings

We capitalize our subsidiary entities to enable continuous access to the debt capital markets, usually on an investment-grade basis, thereby reducing the demand for capital from the Corporation and sharing the cost of financing equally among other equity holders in partially owned subsidiaries.

AS AT DECEMBER 31
(MILLIONS)

Subsidiary borrowings

	Average Term	Proportionate		Consolidated	
		2011	2010	2011	2010
Property.....	3	\$ 939	\$ 757	\$ 743	\$ 579
Renewable power.....	8	965	1,152	1,323	1,152
Infrastructure.....	2	32	40	114	148
Private equity.....	3	754	766	1,273	1,233
Other.....	2	1	37	—	37
Contingent swap accruals ¹	4	988	858	988	858
Total.....	4	\$ 3,679	\$ 3,610	\$ 4,441	\$ 4,007

1. Guaranteed by the Corporation

Subsidiary borrowings have no recourse to the Corporation with only a limited number of exceptions. As at December 31, 2011, subsidiary borrowings included \$988 million (December 31, 2010 – \$858 million) of contingent swap accruals that are guaranteed by the Corporation.

– Contingent Swap Accruals

We entered into interest rate swap arrangements with AIG Financial Products (“AIG-FP”) in 1990, which include a zero coupon swap that was originally intended to mature in 2015. Our financial statements include an accrual of \$988 million in respect of these contracts, which represents the compounding of amounts based on interest rates from the inception of the contracts. We have also recorded \$274 million in accounts payable and other liabilities which represents the difference between the present value of any future payments under the swaps and the current accrual. We believe that the financial collapse of American International Group (“AIG”) and AIG-FP triggered a default under the swap agreements, thereby terminating the contracts with the effect that we are not required to make any further payments under the agreements, including the amounts which might, depending on various events and interest rates, otherwise be payable in 2015. AIG disputes our assertions and therefore we have commenced legal proceedings seeking a declaration from the court confirming our position. We recognize this may not be determined for a considerable period of time, and therefore will continue to account for the contracts as we have in prior years until we receive clarification.

Accounts Payable and Other

AS AT DECEMBER 31
(MILLIONS)

	Corporate		Consolidated	
	2011	2010	2011	2010
Accounts payable.....	\$ 249	\$ 163	\$ 5,342	\$ 4,581
Other liabilities.....	1,263	1,393	3,924	5,753
	\$ 1,512	\$ 1,556	\$ 9,266	\$ 10,334

Other liabilities decreased on a consolidated basis following the successful sale of held-for-sale operations which we had acquired as part of a larger transaction, resulting in the removal of \$1.9 billion of the associated liabilities.

Capital Securities

Capital securities are preferred shares that are mostly denominated in Canadian dollars and are classified as liabilities because the holders of the preferred shares have the right, after a fixed date, to convert the shares into common equity based on the market price of our Class A Limited Voting Shares at that time unless previously redeemed by us. The dividends paid on these securities are recorded in interest expense.

The average distribution yield on the capital securities at December 31, 2011 was 5.5% (December 31, 2010 – 5.5%) and the average term to the holders’ conversion date was three years as at December 31, 2011 (December 31, 2010 – three years).

AS AT DECEMBER 31 (MILLIONS)	Average Term to Conversion	Deconsolidated		Proportionate		Consolidated	
		2011	2010	2011	2010	2011	2010
Issued by the Corporation.....	2	\$ 656	\$ 669	\$ 656	\$ 669	\$ 656	\$ 669
Issued by Brookfield Office Properties.....	3	—	—	497	519	994	1,038
	3	\$ 656	\$ 669	\$ 1,153	\$ 1,188	\$ 1,650	\$ 1,707

Interest Expense

The following table illustrates interest expenses incurred during 2011 and 2010 by category and segment.

YEARS ENDED DECEMBER 31 (MILLIONS)	Corporate		Consolidated	
	2011	2010	2011	2010
Corporate.....	\$ 197	\$ 178	\$ 197	\$ 178
Property-specific.....	—	—	1,724	1,266
Subsidiary.....	111	99	337	291
Capital securities.....	37	36	94	94
	\$ 345	\$ 313	\$ 2,352	\$ 1,829

Interest expense from corporate borrowings increased by approximately \$20 million due to higher average borrowing levels over the course of the year, as well as slightly higher exchange rates on Canadian dollar borrowings.

The following table presents property-specific and subsidiary borrowings expense by operating segment.

YEARS ENDED DECEMBER 31 (MILLIONS)	Property Specific		Subsidiary	
	2011	2010	2011	2010
Property.....	\$ 930	\$ 730	\$ 27	\$ 24
Renewable power.....	330	298	64	77
Infrastructure.....	318	134	22	7
Private equity.....	124	87	113	82
Other.....	22	17	111	101
	\$ 1,724	\$ 1,266	\$ 337	\$ 291

The consolidation of our U.S. Office Fund in 2011, and a number of our infrastructure operations in late 2010, resulted in us recording the interest expense incurred by these units in our consolidated results, whereas previously it was presented on a net basis within equity accounted results. These two events gave rise to increases in property-specific and subsidiary borrowing expenses.

The majority of our borrowings are fixed rate long-term financings. Accordingly, changes in interest rates have minimal short-term impact on our cash flows. We do not record changes in the value of our long-term financings in determining net asset value or operating results, with very limited exceptions.

As at December 31, 2011, our net floating rate liability position on a proportionate basis was \$4.7 billion (December 31, 2010 – \$4.1 billion). As a result, a 10 basis-point increase in interest rates would decrease funds from operations by \$5 million. Notwithstanding our practice of match funding long-term assets with long-term debt, we do believe that the values and cash flows of certain assets are more appropriately matched with floating rate liabilities. We utilize interest rate contracts to manage our overall interest rate profile so as to achieve an appropriate floating rate exposure while preserving a long-term maturity profile.

The impact of a 10 basis-point increase in long-term interest rates on financial instruments recorded at market value is estimated to increase net income by \$2 million on an annualized basis before tax, based on our positions at December 31, 2011.

We have been active in taking advantage of low long-term rates to fix the coupons on floating rate debt and near-term maturities. This has resulted in an increase in our current borrowing expense but we believe this will result in lower costs in the long term. We have entered into \$2.8 billion notional amount of interest rate contracts (\$1.8 billion net to the Corporation) to lock in the risk free component of interest rates for debt refinancings over the next four years at an average risk free rate of 2.79%. The effective rate will be approximately 3.76% at the time of issuance which reflects the premium relating to the projected steepness of the yield curve during this period. This represents approximately 50% of expected issuance into the North American markets. The value of these contracts is correlated with changes in the reference interest rate, typically the U.S. 10-year government bond such that a 10 basis-point change in the interest rate would result in a \$31 million change in mark-to-market (\$21 million net to Brookfield) being recorded in other comprehensive income.

SHAREHOLDER EQUITY

Preferred Equity

Preferred equity is comprised of perpetual preferred shares and therefore represents permanent non-participating equity that provides attractive low-cost leverage to our common equity. The shares are categorized by their principal characteristics in the following table:

AS AT DECEMBER 31 (MILLIONS)	Average	2011	2010
	Rate		
Floating rate.....	2.12%	\$ 480	\$ 480
Fixed rate.....	4.75%	355	355
Fixed rate-reset.....	5.28%	1,305	823
	4.42%	\$ 2,140	\$ 1,658

We issued C\$235 million of 4.6% perpetual rate-reset preferred shares in February 2011 and C\$250 million of 4.8% perpetual rate-reset preferred shares in October 2011. Fixed rate-reset preferred shares have an initial rate that is fixed for an initial five to seven year period and is then reset after that time at a pre-determined to spread to the government bond yield.

Non-controlling Interests in Net Assets

Interests of co-investors in net assets are comprised of three components: participating equity interests, participating interests held by other investors in funds that are treated as liabilities for accounting purposes, and non-participating preferred equity issued by subsidiaries.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Book Value		Funds From Operations ²		Valuation Gains	
	2011	2010	2011	2010	2011	2010
Participating equity interests						
Properties						
Brookfield Office Properties.....	\$ 5,784	\$ 4,730	\$ 309	\$ 278	\$ 732	\$ 489
Property funds and other.....	2,785	2,354 ¹	132	185	191	(42)
Renewable power						
Brookfield Renewable Energy Partners....	1,726	—	118	—	423	—
Projects and funds.....	533	260	27	111	—	180
Infrastructure						
Utilities.....	1,162	1,227	178	50	(131)	100
Transport and energy.....	1,706	1,139	137	66	199	89
Timber.....	1,214	1,118	63	13	179	37
Private equity, development and corporate						
Brookfield Incorporações S.A.....	784	887	62	43	(31)	(30)
Brookfield Residential Properties Inc.....	510	639 ¹	23	67	1	—
Other.....	839	1,094	52	160	(92)	(50)
	17,043	13,448	1,101	973	1,471	773
Interest of others in funds.....	333	1,562	—	—	—	—
	17,376	15,010	1,101	973	1,471	773
Non-participating interests						
Brookfield Office Properties.....	816	562	51	15	—	—
Brookfield Renewable Power Fund.....	245	253	13	10	—	—
Brookfield Australia.....	412	476	38	33	—	—
	1,473	1,291	102	58	—	—
	\$ 18,849	\$ 16,301	\$ 1,203	\$ 1,031	\$ 1,471	\$ 773

1. Restated to reflect the merger and spin out of our Canadian residential operations in early 2011

2. Excludes disposition gains of \$100 million and \$59 million for the years ended December 31, 2011 and 2010, respectively, related to non-controlling interests and included in total FFO

We began consolidating the U.S. Office Fund during the third quarter of 2011 and the increase in non-controlling interests in Property Funds primarily relates to our co-investors' share of the Fund.

We formed Brookfield Renewable Energy Partners in November 2011 which includes the operations of our predecessor Canadian renewable power fund as well as our U.S. and Brazil facilities. The minority interests in units of BREP are recorded as equity interests whereas the units of the predecessor fund were recorded as liabilities, resulting in a reduction in "interests of others in funds" and the establishment of participating equity interests for BREP. The non-controlling interests in BREP are based on the carrying value of that entity and do not include our directly-held energy marketing operations.

We issued C\$250 million of non-participating preferred shares from our 50% owned subsidiary, Brookfield Office Properties, in the third quarter of 2011.

Common Equity

We repurchased 6.1 million Class A Limited Voting Shares during 2011 at an average price of \$30.27 per share and issued 45.1 million Class A Limited Voting Shares for proceeds of \$1.5 billion in connection with the additional investment in General Growth Properties.

The company holds 3.2 million Class A Limited Voting Shares for management long-term share ownership programs, which have been deducted from the total amount of shares outstanding.

Issued and Outstanding Shares

Changes in the number of issued and outstanding Class A Limited Voting Shares for the past two years are as follows:

YEARS ENDED DECEMBER 31 (MILLIONS)	2011	2010
Outstanding at beginning of year.....	577.7	572.9
Issued (repurchased)		
Share issuances.....	45.1	—
Repurchases.....	(6.1)	—
Management share option plan.....	2.5	4.7
Dividend reinvestment plan.....	0.1	0.1
Outstanding at end of year.....	619.3	577.7
Unexercised options.....	37.9	38.4
Total diluted shares at end of year.....	657.2	616.1

In calculating our book value per share, the cash value of our unexercised options of \$840 million (December 31, 2010 – \$813 million) is added to the book value of our common equity of \$16,751 million (December 31, 2010 – \$12,795 million) prior to dividing by the total diluted shares presented above.

As of March 14, 2012, the Corporation had outstanding 617,706,215 Class A Limited Voting Shares and 85,120 Class B Limited Voting Shares.

Basic and Diluted Earnings Per Share

The components of basic and diluted earnings per share are summarized in the following table:

YEARS ENDED DECEMBER 31 (MILLIONS)	Funds From Operations		Net Income	
	2011	2010	2011	2010
Funds from operations/net income.....	\$ 1,052	\$ 1,106	\$ 1,957	\$ 1,454
Preferred share dividends.....	(106)	(75)	(106)	(75)
	946	1,031	1,851	1,379
Capital securities dividends ¹	—	—	38	36
Funds from operations/net income available for shareholders.....	\$ 946	\$ 1,031	\$ 1,889	\$ 1,415
Weighted average shares.....	616.2	574.9	616.2	574.9
Dilutive effect of the conversion of options using treasury stock method.....	10.8	9.6	10.8	9.6
Dilutive effect of the conversion of capital securities ^{1,2}	—	—	26.0	23.0
Shares and share equivalents.....	627.0	584.5	653.0	607.5

1. Subject to the approval of the Toronto Stock Exchange, the Series 10,11,12 and 21 shares, unless redeemed by the company for cash, are convertible into Class A Limited Voting shares at a price equal to the greater of 95% at the market price at the time of conversion and C\$2.00, at the option of either the company or the holder
2. The number of shares is based on 95% of the quoted market price at period-end

Foreign Currencies

As at December 31, 2011, our net tangible asset value of \$21.8 billion was invested in the following currencies, prior to the impact of any financial contracts: United States – 46%; Australia – 18%; Brazil – 19%; Canada – 12%; and other – 5%. From time to time, we utilize financial contracts to adjust these exposures.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET ARRANGEMENTS

Contractual Obligations

The following table presents the contractual obligations of the company by payment periods:

AS AT DECEMBER 31 (MILLIONS)	Payments Due By Period				
	Total	Less than 1 Year	2–3 Years	4–5 Years	After 5 Years
Corporate borrowings	3,701	425	593	1,336	1,347
Non-recourse borrowings					
Property-specific mortgages	28,415	3,292	10,735	4,172	10,216
Other debt of subsidiaries	4,441	499	1,312	1,587	1,043
Capital securities	1,650	395	638	454	163
Lease obligations ¹	93	21	31	13	28
Commitments	1,363	1,363	—	—	—
Interest expense ²					
Long-term debt	9,479	2,124	3,237	1,999	2,119
Capital securities	234	74	99	49	12
Interest rate swaps	547	97	145	113	192

1. Included in accounts payable and other

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

Commitments of \$1.4 billion (2010 – \$1.4 billion) represent various contractual obligations of the company and its subsidiaries assumed in the normal course of business, including commitments to provide bridge financing, and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations, of which \$300 million (2010 – \$147 million) is included within “accounts payable and other” in the consolidated balance sheets. All other balances, with the exception of interest expense incurred in future periods, are included in our consolidated balance sheet.

In addition, the company and its consolidated subsidiaries execute agreements that provide for indemnifications and guarantees to third parties in transactions or dealings such as business dispositions, business acquisitions, sales of assets, provision of services, securitization agreements, and underwriting and agency agreements. The company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the company from making a reasonable estimate of the maximum potential amount the company could be required to pay third parties, as in most cases the agreements do not 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. Neither the company nor its consolidated subsidiaries have made significant payments in the past, nor do they expect at this time to make any significant payments under such indemnification agreements in the future.

Our wholly-owned energy marketing group has also committed to purchase power and other wind generation received by 68% owned Brookfield Renewable Energy Partners as further described on page 50.

The company periodically enters into joint venture, consortium or other arrangements that have contingent liquidity rights in favour of the company or its counterparties. These include buy-sell arrangements, registration rights and other customary arrangements. These agreements generally have embedded protective terms that mitigate the risk to us. The amount, timing and likelihood of any payments by the company under these arrangements is, in most cases, dependent on either future contingent events or circumstances applicable to the counterparty and therefore cannot be determined at this time.

Off Balance Sheet Arrangements

We conduct our operations primarily through entities that are fully or proportionately consolidated in our financial statements. We do hold non-controlling interests in entities which are accounted for on an equity basis, as are interests in some of our funds; however we do not guarantee any financial obligations of these entities other than our contractual commitments to provide capital to funds, which are limited to predetermined amounts. Our equity accounted investments are included as Investments in our consolidated financial statements and our proportionate share of their debt is included in the table on page 119.

We utilize various financial instruments in our business to manage risk and make better use of our capital. The fair values of these instruments that are reflected on our balance sheets are disclosed in Note 4 to our consolidated financial statements and under Financial and Liquidity Risks beginning on page 82.

ADDITIONAL FINANCIAL INFORMATION

Consolidated Statements of Cash Flows

The following table summarizes the company's cash flows on a consolidated basis:

YEARS ENDED DECEMBER 31 (MILLIONS)	2011	2010
Operating activities.....	\$ 676	\$ 1,420
Financing activities.....	2,650	854
Investing activities.....	(2,977)	(1,904)
Increase in cash and cash equivalents.....	<u>\$ 349</u>	<u>\$ 370</u>

Operating Activities

Cash flow from operating activities consists of net income, including the amount attributable to co-investors, less non-cash items such as equity accounted income, fair value changes, depreciation and deferred income taxes, partially offset by capital invested in our residential inventories, and adjusted for changes in non-cash working capital.

Financing Activities

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2011	2010
Per IFRS financial statements.....	\$ 2,650	\$ 854
Add: equity issued not reflected in the financial statements.....	907	1,074
	<u>\$ 3,557</u>	<u>\$ 1,928</u>

Financing activities generated \$3.6 billion of net proceeds in 2011 compared to \$1.9 billion in 2010. The company issued \$1.5 billion of Class A Limited Voting Shares and \$468 million of preferred equity, the proceeds of which were primarily used to fund our incremental ownership interest in General Growth Properties, of which \$0.9 billion of common shares were issued directly in exchange for General Growth Properties shares and, accordingly, neither the issue or investment is included in the statement of cash flows. We also repurchased \$106 million of our Class A Limited Voting Shares at a discount to our intrinsic value. Our office property subsidiary issued \$247 million of preferred shares and our publicly listed infrastructure partnership issued \$460 million of limited partnership units, the proceeds of which were used to further expand their business.

Net proceeds from debt issuances were \$1.7 billion during 2011, the proceeds of which were used to fund the acquisition and development of property, power and infrastructure assets.

Financing activities in the prior year included \$1.3 billion of corporate and subsidiary preferred share issuances. We issued \$1.1 billion of limited partnership units from our Infrastructure partnership as part of a merger transaction that was not reflected in the statements of cash flows because it was a share exchange.

Investing Activities

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)

	2011	2010
Per IFRS financial statements.....	\$ (2,977)	\$ (1,904)
Add: equity issued not reflected in the financial statements.....	(907)	(1,074)
	<u>\$ (3,884)</u>	<u>\$ (2,978)</u>

We invested \$3.9 billion in our operations in 2011, compared to \$3.0 billion in 2010. We acquired an incremental \$1.7 billion investment in General Growth Properties, primarily funded through the issuance of \$1.5 billion of Class A Limited Voting Shares and preferred equity. We invested \$0.9 billion in our Renewable Power operations, completing the development of our Ontario Wind project and we acquired two late stage wind development projects in the U.S. as well as two hydro projects in Brazil. Our infrastructure operations continued to invest in the expansion of our Australian railroad and coal terminal.

In 2010, we completed the merger of Brookfield Infrastructure with Prime Infrastructure, in addition to a number of acquisitions and development initiatives across our operating platforms.

Quarterly Results

Total revenues, net income for the eight most recent quarters are as follows:

THREE MONTHS ENDED (MILLIONS)	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues.....	\$ 4,122	\$ 4,423	\$ 3,963	\$ 3,413	\$ 3,666	\$ 3,550	\$ 3,376	\$ 3,031
Asset management and other services..	98	119	95	76	126	90	78	71
Revenues less direct operating costs								
Property.....	495	418	421	344	364	447	359	325
Renewable power.....	146	188	220	186	188	157	164	239
Infrastructure.....	182	186	200	188	76	40	58	47
Private equity.....	206	98	131	103	135	166	227	100
Equity accounted income.....	159	167	173	177	132	126	121	115
Investment and other income.....	73	51	71	133	73	183	107	140
	<u>1,359</u>	<u>1,227</u>	<u>1,311</u>	<u>1,207</u>	<u>1,094</u>	<u>1,209</u>	<u>1,114</u>	<u>1,037</u>
Expenses								
Interest.....	620	622	564	546	513	452	437	427
Operating costs.....	129	119	118	115	121	94	109	93
Current income taxes.....	17	26	21	33	13	38	25	21
Non-controlling interests in net income before the following.....	340	224	360	285	286	271	318	215
Income prior to other items.....	<u>253</u>	<u>236</u>	<u>248</u>	<u>228</u>	<u>161</u>	<u>354</u>	<u>225</u>	<u>281</u>
Fair value changes ¹	835	544	1,154	282	1,849	(54)	(1)	128
Depreciation and amortization.....	(228)	(224)	(231)	(221)	(215)	(193)	(208)	(179)
Future income taxes.....	(240)	(64)	(103)	(4)	(10)	(36)	39	(36)
Non-controlling interests in the foregoing items.....	(32)	(239)	(230)	(7)	(696)	41	34	(30)
Net income.....	<u>\$ 588</u>	<u>\$ 253</u>	<u>\$ 838</u>	<u>\$ 278</u>	<u>\$ 1,089</u>	<u>\$ 112</u>	<u>\$ 89</u>	<u>\$ 164</u>

1. Includes fair value changes included within equity accounted investments

Funds from operations for the eight most recent quarters are as follows:

AS AT AND FOR THE THREE MONTHS ENDED (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Income prior to other items	\$ 253	\$ 236	\$ 248	\$ 228	\$ 161	\$ 354	\$ 225	\$ 281
Disposition gains ¹	18	5	61	3	—	—	—	85
Funds from operations and gains.....	271	241	309	231	161	354	225	366
Preferred share dividends.....	29	26	26	25	22	18	19	16
Funds from operations to Brookfield common equity.....	<u><u>\$ 242</u></u>	<u><u>\$ 215</u></u>	<u><u>\$ 283</u></u>	<u><u>\$ 206</u></u>	<u><u>\$ 139</u></u>	<u><u>\$ 336</u></u>	<u><u>\$ 206</u></u>	<u><u>\$ 350</u></u>
Common equity – book value.....	\$ 16,751	\$ 14,507	\$ 15,765	\$ 14,691	\$ 12,795	\$ 12,164	\$ 11,637	\$ 11,997
Shares outstanding.....	619.3	619.2	621.5	621.1	577.7	576.1	574.9	574.0
Per share								
Funds from operations.....	\$ 0.38	\$ 0.35	\$ 0.45	\$ 0.33	\$ 0.24	\$ 0.57	\$ 0.35	\$ 0.60
Net income.....	0.86	0.36	1.26	0.41	1.80	0.16	0.12	0.25
Dividends.....	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
IFRS Book value ²	26.77	23.33	25.22	23.60	22.09	21.06	20.19	20.84
Market trading price (NYSE).....	<u><u>27.48</u></u>	<u><u>27.55</u></u>	<u><u>33.17</u></u>	<u><u>32.46</u></u>	<u><u>33.29</u></u>	<u><u>28.37</u></u>	<u><u>22.62</u></u>	<u><u>25.42</u></u>

1. Represents gains that are not recorded in net income for IFRS purposes

2. Excludes dilution from capital securities which the company intends to redeem prior to conversion

Funds from operations and net income on a quarterly basis are impacted by seasonality from certain of the company's operating platforms, mark-to-market adjustments of the company's property and timber assets, as well as financial assets which are recorded at fair value. The quarterly variances in our operating platforms, including variances between the fourth quarter of 2011 and 2010, reflect the following:

Our property operations, which consist of office, retail and opportunity, finance and development assets, generate consistent results due to the long-term nature of the contractual lease arrangements subject to the intermittent recognition of disposition and lease termination gains. Net operating income increased in the third and fourth quarter of 2011 as a result of the consolidation of our U.S. Office Fund, which was previously included in equity accounted income. Funds from operations in the fourth quarter of 2011 include \$48 million of disposition gains, our share of which was \$17 million, on the sale of three Brazilian malls.

The company's renewable power operations are impacted by seasonal water inflows and pricing. During the fall rainy season and spring thaw, water inflows tend to be the highest leading to higher generation; however prices tend not to be as strong as the summer and winter seasons due to the more moderate weather conditions during the fall and spring and associated reductions in demand for electricity. Net operating income decreased by \$42 million in the fourth quarter of 2011 compared to the same period in 2010 as a result of lower hydrology and lower realized pricing on our merchant power sales.

Infrastructure revenues include the net operating income from our Utilities, Transport and Energy, and Timber operations. Our Utilities, Transport and Energy operations increased over the prior year as a result of our increased ownership of a global portfolio of infrastructure businesses in the fourth quarter of 2010.

The company's private equity operations includes our Brazilian and North American residential developers, which tend to be seasonal in nature, with the fourth quarter typically the strongest as most of the construction is completed and homes are delivered. The company's residential operations recognize revenue at the time of delivery, as opposed to over the life of the project, and as a result, operating income varies depending on the number of projects completed in a particular quarter. This can have a noticeable impact on the results from our Brazilian operations which involve the development of multi-unit condominium buildings as opposed to single-family dwellings. The higher amount of income in the fourth quarter of 2011 in comparison to the same period in the prior year is a result of the higher amount of sales and deliveries in the company's Canadian and Brazilian residential operations. Also included within private equity is our special situations operations which tend to fluctuate on a quarterly basis as a result of certain of the underlying investments having seasonal operations as well as the timing of acquisitions and dispositions of operations.

Other variances on a quarterly basis include the company's, investment and other income, interest expense and fair value changes. Investment income varies on a quarterly basis depending on mark-to-market gains as well as the timing of recognition of certain disposition gains. The increase in interest expense in the third and fourth quarter of 2011 is a result of the consolidation our U.S. Office Fund, and we commenced consolidation of a number of infrastructure businesses in the fourth quarter of 2010. Fair value changes include the non-cash mark-to-market of the company's property, timber assets and power sales contracts, in addition to the fair value changes of certain of the company's other financial liabilities. Fair value adjustments in the current quarter include the following: \$771 million of revaluation gains on our office and retail properties in addition to \$120 million of fair value increases in our Infrastructure operations. Fair value changes in the fourth quarter of 2010 included valuation gains on our commercial property operations, a revaluation gain on the revaluation of the underlying assets on completion of the Prime Acquisition and a gain on the company's power contracts.

Corporate Dividends

The dividends paid by Brookfield on outstanding securities during the past three years are as follows:

	Distribution per Security		
	2011	2010	2009
Class A Limited Voting Shares.....	\$ 0.52	\$ 0.52	\$ 0.52
Class A Preferred Shares			
Series 2.....	0.53	0.43	0.39
Series 4 + Series 7.....	0.53	0.43	0.39
Series 8.....	0.76	0.61	0.56
Series 9.....	1.10	1.06	0.96
Series 10.....	1.45	1.39	1.26
Series 11.....	1.40	1.33	1.21
Series 12.....	1.36	1.31	1.19
Series 13.....	0.53	0.43	0.39
Series 14.....	1.91	1.52	1.47
Series 15.....	0.43	0.28	0.25
Series 17.....	1.20	1.15	1.04
Series 18.....	1.20	1.15	1.04
Series 21.....	1.27	1.21	1.10
Series 22 ¹	1.77	1.70	0.92
Series 24 ²	1.36	1.25	—
Series 26 ³	1.14	0.19	—
Series 28 ⁴	1.03	—	—
Series 30 ⁵	0.19	—	—

1. Issued June 4, 2009
2. Issued January 14, 2010
3. Issued October 29, 2010
4. Issued February 8, 2011
5. Issued November 2, 2011

Dividends on the Class A Limited Voting Shares are declared in U.S. dollars whereas Class A Preferred Share dividends are declared in Canadian dollars.

THREE YEAR FINANCIAL REVIEW

AS AT AND FOR THE YEARS ENDED DECEMBER 31
(MILLIONS, EXCEPT PER SHARE AMOUNTS; UNAUDITED)

	2011 IFRS	2010 IFRS	2009 CGAAP
Per Class A Limited Voting Share (fully diluted)			
Intrinsic value per share ¹	\$ 40.99	\$ 37.45	\$ 34.20
Total return.....	5.33	3.23	n/a
Net income.....	2.89	2.33	0.71
Market trading price – NYSE.....	27.48	33.29	22.18
Dividends paid.....	0.52	0.52	0.52
Class A and B Limited Voting Shares outstanding			
Basic.....	619.3	577.7	572.9
Diluted.....	657.2	616.1	607.8
Total (millions)			
Total assets under management ^{1,2}	\$ 151,720	\$ 121,558	\$ 108,342
Consolidated balance sheet assets.....	91,030	78,131	61,902
Corporate borrowings.....	3,701	2,905	2,593
Intrinsic value of common equity ¹	26,098	22,261	20,154
Revenues.....	15,921	13,623	12,082
Total return.....	3,345	2,054	n/a
Consolidated net income.....	3,674	3,195	673
– for Brookfield shareholders.....	1,957	1,454	454
Consolidated funds from operations ³	2,355	2,196	1,929
– for Brookfield shareholders ³	1,052	1,106	1,037

1. Reflects carrying values on a pre-tax basis prepared in accordance with procedures and assumptions utilized to prepare the company's IFRS financial statements, adjusted to reflect incremental values and asset management franchise value (see Management's Discussion and Analysis of Financial Results)

2. Assets under management for 2009 reflect the combination of fair values and Canadian GAAP carrying values

3. Excludes major disposition gains for 2009 to be consistent with 2010 and 2011 presentation

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Accounting Policies and Critical Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our 2011 Financial Statements contains a description of the company's accounting policies and the critical judgments and estimates utilized in the preparation of the consolidated financial statements.

In making critical judgments and estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. The estimates are impacted by, among other things, movements in interest rates and other factors, some of which are highly uncertain. For further reference on accounting policies and critical judgments and estimates, see our significant accounting policies contained in Note 2 to the December 31, 2011 consolidated financial statements.

Future Changes in Accounting Policies

I. Income Taxes

In December 2010, the IASB made amendments to IAS 12, *Income Taxes* ("IAS 12") that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40, *Investment Property*. The amendments introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The company has not yet determined the impact of the amendments to IAS 12 on its consolidated financial statements.

II. Consolidated Financial Statements, Joint Ventures and Disclosures

In May 2011, the IASB issued three standards: IFRS 10, *Consolidated Financial Statements* ("IFRS 10"), IFRS 11, *Joint Arrangements* ("IFRS 11"), IFRS 12, *Disclosure of Interests in Other Entities* ("IFRS 12"), and amended two standards: IAS 27, *Separate Financial Statements* ("IAS 27"), and IAS 28, *Investments in Associates and Joint Ventures* ("IAS 28"). Each of the new and amended standards has an effective date for annual periods beginning on or after January 1, 2013, with earlier application permitted if all the respective standards are simultaneously applied.

IFRS 10 replaces IAS 27 and SIC-12, *Consolidation-Special Purpose Entities* ("SIC-12"). The consolidation requirements previously included in IAS 27 have been included in IFRS 10, whereas the amended IAS 27 sets standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. An investor must possess the following three elements to conclude it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's returns. IFRS 10 requires continuous reassessment of changes in an investor's power over the investee and the investor's exposure or rights to variable returns. The company has not yet determined the impact of IFRS 10 and the amendments to IAS 27 on its consolidated financial statements.

IFRS 11 supersedes IAS 31, *Interest in Joint Ventures and SIC-13, Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRSs. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The company has not yet determined the impact of IFRS 11 and the amendments to IAS 28 on its consolidated financial statements.

IFRS 12 integrates the disclosure requirements of interests in other entities and requires a parent company to disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity, and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity's conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in IFRS 12 into their financial statements without early adopting of IFRS 12. The company has not yet determined the impact of IFRS 12 on its consolidated financial statements.

III. Fair Value Measurements

In May 2011, the IASB issued IFRS 13, *Fair Value Measurements* (“IFRS 13”). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information be provided in the financial statements that enables the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The company has not determined the impact of IFRS 13 on its consolidated financial statements.

IV. Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements*: (“IAS 1”). The amendments require that items of other comprehensive income are grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are required to be allocated on the same basis. The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The company does not expect the amendments to IAS 1 to have a material impact on the consolidated financial statements.

V. Financial Instruments

IFRS 9 *Financial Instruments* (“IFRS 9”) was issued by the International Accounting Standards Board (“IASB”) on November 12, 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

Internal Control Over Financial Reporting

No changes were made in our internal control over financial reporting during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Declarations Under the Dutch Act of Financial Supervision

The members of the Corporate Executive Board as required by section 5:25c, paragraph 2, under c of the Dutch Act of Financial Supervision confirm that to the best of their knowledge:

- The 2011 financial statements included in this Annual Report give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Corporation and the undertakings included in the consolidation taken as whole;
- The management report included in this Annual Report gives a true and fair view of the position of the Corporation and the undertakings included in the consolidation taken as a whole as of December 31, 2011, and of the development and performance of the business for the financial year then ended; and
- The management report includes a description of the principal risks and uncertainties that the Corporation faces.

PART 5 — OPERATING CAPABILITIES, ENVIRONMENT AND RISKS

In this section we discuss elements of our operating strategies as they relate to the execution of our business strategy, as well as performance measurements. This section also contains a review of certain aspects of the business environment and risks that could affect our performance.

Operating Capabilities

We believe that we have the necessary capabilities to execute our business strategy and achieve our performance targets. We focus on disciplined and active hands-on management of assets and capital. We strive for excellence and quality in each of our core operating platforms in the belief that this approach will produce superior returns over the long term.

We endeavour to operate as a value investor and follow a disciplined investment approach. Our management team has considerable capabilities in investment analysis, mergers and acquisitions, divestitures and corporate finance that enable us to acquire assets for value, finance them effectively, and to ultimately realize value created during our ownership.

Our operating platforms and depth of experience in managing these assets differentiate us from some competitors that have shorter investment horizons and more of a financial focus. These high quality operating platforms have been established over many years and are fully integrated into our organization. This has required considerable investment in building the management teams and the necessary resources; however, we believe these platforms enable us to optimize the cash returns and values of the assets that we manage.

We have established strong relationships with a number of leading institutions and believe we are well positioned to continue increasing capital managed for others on a fee bearing basis. We are investing in our distribution capabilities to encourage existing and potential clients to commit capital to our investment strategies. We are devoting expanded resources to these activities, and our efforts continue to be assisted by favourable investment performance.

The diversification within our operations allows us to offer a broad range of products and investment strategies to our clients. We believe this is of considerable value to investors with large amounts of capital to deploy. In addition, our commitment to transparency and governance as a well-capitalized public company listed on major North American and European stock exchanges positions us as a desirable long-term partner for our clients.

Finally, our commitment to invest a meaningful amount of capital alongside our investors creates a strong alignment of interest between us and our investment partners and also differentiates us from many of our competitors. Accordingly, our strategy calls for us to maintain considerable surplus financial resources. This capital also supports our ability to commit to investment opportunities on our own account when appropriate or in anticipation of future syndications.

Key Performance Factors

Our ability to increase our intrinsic value and funds from operations is impacted by our ability to generate attractive returns on the capital invested on behalf of ourselves and our clients, and our ability to increase the amount of the capital that we manage on behalf of our clients. These two criteria are linked, in that the quality of our investment returns will encourage clients to commit capital to us, and our access to this capital will enable us to pursue a broader range of investment opportunities.

Investment returns are influenced by a number of factors that are specific to each asset and industry segment. There are however, four key objectives that we focus on across the organization.

- Acquire assets “for value”: meaning that the projected cash flows and value appreciation of the asset represent an attractive risk-adjusted return to ourselves and our co-investors.
- Enhance the cash returns and value of the asset on an ongoing basis. In most cases, this is the responsibility of the appropriate operating platforms, and is evidenced by the return on asset metrics and operating margins.

- Finance assets effectively, using a prudent amount of leverage. We believe the majority of assets are well suited to support a relatively high level of investment-grade secured debt with long maturity dates given the predictability of the cash flows and tendency of these assets to retain substantial value throughout economic cycles. This is reflected in our return on net capital deployed, our overall return on capital and our cost of capital.
- Position our assets so that they can be easily monetized through a sale or refinancing. While we tend to hold our assets for extended periods of time, we endeavour to maximize our ability to realize the value and liquidity of our assets on short notice and without disrupting our operations.

Expanding our client relationships is impacted not only by our investment returns, as discussed above, but also by the quality of our distribution capabilities and by maintaining a high level of ongoing client service. This involves transparent and timely communication of results, ongoing engagement and responsiveness to client objectives and generation of attractive investment opportunities.

Key Performance Measures

Our key performance measure is total return, which is the increase in the intrinsic value of our common equity, together with dividends, on a per share basis. Our goal is to achieve total return on the average intrinsic value of our common equity exceeding 12% on a per share basis when measured over the long term. We will revisit this target periodically in light of the operating environment at that time to ensure it continues to be realistic and can be achieved without exposing the organization to inappropriate risk.

The amount of client capital under management is also an important measure as it is an objective indicator of our success in expanding our client base. Increasing the amount of capital committed to us by our clients provides us with additional capital to expand our business and the opportunity to increase asset management income.

We utilize funds from operations as a key operating metric as opposed to net income, principally because funds from operations does not include certain items such as fair value changes, depreciation and amortization expense, and future income tax expense which the company does not believe are representative of its operating performance.

For example, net income includes fair value changes in respect of our commercial office and retail properties, standing timber and financial assets but changes in fair value of renewable power and other infrastructure assets are recorded through equity. Depreciation as prescribed by IFRS, for example, implies these assets decline in value on a pre-determined basis over time, whereas we believe that the value of most of our assets, as long as regular sustaining capital expenditures are made, will typically increase over time. This increase in value will inevitably vary based on a number of market and other conditions that cannot be determined in advance, and may sometimes be negative in a particular period. Future income tax expense, in our case, is derived primarily from changes in the magnitude and quality of our tax losses and the differences between the tax values and book values of our assets, as opposed to current cash liabilities. Brookfield has access to significant tax shields as a result of the nature of our asset base, which substantially eliminates current cash taxes in most of our businesses' operating results in the near future.

Terminology

The following are definitions of the key metrics used in this MD&A to measure performance and assess our operating profile and financial position:

Total Return is derived from our consolidated financial statements, which are prepared in accordance with IFRS. We define total return as comprehensive income excluding deferred tax expenses and the impact of foreign currency fluctuations on the long-term capital invested in non-U.S. operations, and including incremental valuation adjustments for assets not otherwise revalued under IFRS, such as residential land inventories that are carried at the lower of cost or market value and investments that are carried at historical cost. We call these amounts "Incremental Values." Brookfield uses total return to assess the performance of the overall business as well as individual business units. We exclude the impact of foreign currency fluctuations on the value of our long-term investments in non-U.S. jurisdictions, as in our view, it distorts short-term performance. We do believe it is relevant as a measure of capital allocation over the long term and incorporate it in longer-term performance measurement. When total return is expressed

as a percentage, the numerator is total return and the denominator is the average intrinsic value over the reporting period. We reconcile total return to comprehensive income on pages 34 and 35.

Funds from Operations is a key measure of our financial performance and is defined as net income prior to fair value changes, depreciation and amortization, and future income taxes, and includes certain disposition gains that are not otherwise included in net income as determined under IFRS. When determining funds from operations, we include our proportionate share of funds from operations from equity accounted investments and exclude transaction costs incurred on business combinations, which are required to be expensed as incurred under IFRS. In addition, we exclude realization gains when determining funds from operations, as they represent a crystallization of the accrued gains in our assets or platforms which we typically hold for an extended period of time. Funds from operations does include gains that occur as a normal part of our business, such as gains within our private equity businesses and opportunistic property investments, as well as other non-core assets that we acquire and sell from time to time. Brookfield uses funds from operations to assess its operating results and the value of its business and believes that many of its shareholders and analysts also find this measure of value to them. The company does not use funds from operations as a measure of cash generated from our operations. We reconcile funds from operations to net income on pages 34 and 35.

Our definition of funds from operations may differ from the definition used by other organizations, as well as the definition of funds from operations used by the Real Property Association of Canada (“REALPAC”) and the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”), in part because the NAREIT definition is based on U.S. GAAP, as opposed to IFRS. When reconciling our definition of funds from operations to the determination of funds from operations by RealPac and/or NAREIT, key differences consist of the following: the inclusion of disposition gains or losses that occur as normal part of our business and cash taxes payable on those gains, if any; foreign exchange gains or losses on monetary items not forming part of our net investment in foreign operations; gains or losses on the sale of an investment in a foreign operation; and the results of discontinued operations.

Net Tangible Asset Values are prepared using the procedures and assumptions that we follow in preparing our financial statements under IFRS. They reflect most of our tangible assets at fair value with corresponding adjustments to non-controlling interests and shareholders’ equity and also include Incremental Values.

We utilize net tangible asset values on a pre-tax basis in assessing the tangible value of our business. We do this because the tax liabilities established under accounting guidelines are calculated on the basis that we were to liquidate the business based on the same underlying values at the balance sheet date, whereas we have no intention to do this. To the contrary, we expect to hold most of our assets for extended periods of time or otherwise defer this liability. We note that the deferred tax liability is similar in this sense to the float in an insurance company which is available for investment to the benefit of shareholders for an extended period of time or even indefinitely.

Intrinsic Value is equal to the sum of our Net Tangible Asset Value and the value of our asset management franchise and is used to assess the value of our business. We discuss intrinsic value in more detail on page 13.

Assets Under Management includes assets managed by us on behalf of our clients, as well as our own assets and is an indicator of the overall scale of our organization. We invest capital alongside our clients in many of our funds, and we continue to own a number of assets that we acquired prior to the formation of our asset management operations and are therefore not part of any fund. Assets under management are based on underlying values consistent with the balance of the MD&A values. Our calculation of assets under management may differ from that employed by other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers.

Client Capital represents the capital which our partners have committed or pledged to us and includes both called and uncalled amounts. Client capital is the basis for determining base management fees, when held in a fee bearing vehicle such as a private fund or listed entity. We derive client capital in a manner consistent with the determination of the contractual base management fees for fee bearing vehicles. Non-fee bearing amounts are prepared using the procedures and assumptions that we follow in preparing our net tangible asset values. The calculation of client capital may differ from that employed by other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers.

Uninvested Capital represents capital that has been committed or pledged to us to invest on behalf of the client. We typically, but not always, earn base management fees on this capital from the time that the commitment or pledge to the fund is effective, during the period of time until the capital is invested (commonly referred to as the investment period) until such time as the investments are monetized and the proceeds returned to the client. In certain cases, clients retain the right to approve individual investments before providing the capital to fund them. In these cases, we refer to the capital as “pledged” or “allocated.”

The Consolidated Financial Statements contain subtotals which are considered additional GAAP measures. The company uses additional GAAP measures to assist in the cross-reference between the Consolidated Financial Statements and MD&A as well as in the calculation of certain of the aforementioned key metrics, which are used in this MD&A.

BUSINESS ENVIRONMENT AND RISKS

The following is a review of certain risks that could adversely impact our financial condition, results of operations and the value of our common equity. Additional risks and uncertainties not previously known to the Corporation, or that the Corporation currently deems immaterial, may also impact our operations and financial results.

General Risks

We are exposed to the local, regional, national and international economic conditions and other events and occurrences that affect the markets in which we own assets and operate businesses. In general, a protracted decline in economic conditions will result in downward pressure on our operating margins and asset values as a result of lower demand for the services and products that we provide. We believe that the long-life nature of our assets and, in many cases, the long-term nature of revenue contracts mitigates this risk to some degree.

Each segment of our business is subject to competition in varying degrees. This can result in downward pressure on revenues which can, in turn, reduce operating margins and thereby reduce operating cash flows and investment returns. In addition, competition could result in scarcity of inputs which can impact certain of our businesses through higher costs. We believe that the high quality and low operating costs of many of our assets and businesses provide some measure of protection in this regard.

A number of our long-life assets are interest rate sensitive: an increase in long-term interest rates will, absent all else, tend to decrease the value of the assets by reducing the present value of the cash flows expected to be produced by the asset. We mitigate this risk in part by financing assets with long-term fixed rate debt, which will typically decrease in value as rates increase. In addition, we believe that many conditions that lead to higher interest rates, such as inflation, can also give rise to higher revenues which will, absent all else, tend to increase asset values.

The trading price of our shares in the open market cannot be predicted. The trading price could fluctuate significantly in response to factors such as: variations in our quarterly or annual operating results and financial condition; changes in government regulations affecting our business; the announcement of significant events by our competitors; market conditions and events specific to the industries in which we operate; changes in general economic conditions; differences between our actual financial and operating results and those expected by investors and analysts; changes in analysts' recommendations or projections; the depth and liquidity of the market for our shares; dilution from the issuance of additional equity; investor perception of our business and industry; investment restrictions; our dividend policy; and the materialization of other risk described in this section. In addition, securities markets have experienced significant price and volume fluctuations in recent years that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations have, in the past, and may, in the future, adversely affect the trading price of our shares.

Execution of Strategy

Our strategy for building shareholder value is to acquire or develop high quality assets and businesses that generate sustainable and increasing cash flows on behalf of ourselves and our co-investors, with the objective of achieving higher returns on our invested capital and our asset management activities over the long term. Our diversified business base, liquidity and the sustainability of our cash flows provide important elements of strength.

We consider effective capital allocation to be one of the most important components to achieving long-term investment success. As a result, we apply a rigorous approach towards the allocation of capital among our operations, with a keen focus on the preservation of capital to protect our downside risk. Capital is invested only when the expected returns exceed pre-determined thresholds, taking into consideration both the degree and magnitude of the relative risks and upside potential and, if appropriate, strategic considerations in the establishment of new business activities.

The successful execution of a value investment strategy requires careful timing and business judgment, as well as the resources to complete asset purchases and restructure them as required, notwithstanding difficulties experienced in a particular industry.

We endeavour to maintain an appropriate level of liquidity in order to invest on a value basis when attractive opportunities arise. Our approach to business entails adding assets to our existing businesses when the competition for assets is lowest, either due to depressed economic conditions or when concerns exist relating to a particular industry. However, there is no certainty that we will be able to acquire or develop additional high quality assets at attractive prices to supplement our growth. Conversely, overly favourable economic conditions can limit the number of attractive investment opportunities and thereby restrict our ability to increase assets under management and the related benefits. Competition from other well-capitalized investors may significantly increase the purchase price or prevent us from completing an acquisition. We may be unable to finance acquisitions on favourable terms, or newly acquired assets and businesses may fail to perform as expected. We may underestimate the costs necessary to bring an acquisition up to standards established for its intended market position or may be unable to quickly and efficiently integrate new acquisitions into our existing operations.

We develop property, power generation and other infrastructure assets. In doing so, we must comply with extensive and complex municipal, state or provincial, national and international regulations affecting the development process. These regulations impose on us additional costs and delays, which may adversely affect our business and results of operations. In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. We must comply with local, state and federal laws and regulations concerning the protection of health and the environment, including laws and regulations with respect to hazardous or toxic substances. These environmental laws and regulations sometimes result in delays, which cause us to incur additional costs, or severely restrict development activity in environmentally sensitive regions or areas.

Our asset management business is also subject to regulatory compliance and oversight. The advisers of our private investment funds are registered as investment advisers with the U.S. Securities and Exchange Commission (the “SEC”). Registered investment advisers are subject to the requirements and regulations of the Investment Advisers Act of 1940 (the “Advisers Act”), including, among other things, fiduciary duties to clients, maintaining an effective compliance program, record-keeping, advertising and operating requirements, disclosure obligations and general anti-fraud prohibitions. A failure to comply with such obligations could result in investigations, sanctions and reputational damage.

Our ability to successfully expand our asset management activities is dependent on our reputation with our current and potential investment partners. We believe that our track record and recent investments, as well as adherence to operating principles that emphasize a constructive management culture, will enable us to continue to develop productive relationships with institutional investors. However, competition for institutional capital, particularly in the asset classes on which we focus, is intense. Although we seek to differentiate ourselves, there is no assurance that we will be successful in doing so and this competition may reduce the margins of our asset management business and may decrease the extent of institutional investor involvement in our activities.

The decline in market value of financial instruments and other investments during the financial crisis of 2008–2009 had an adverse effect on the investment portfolios of the insurance companies, pension funds, endowments, sovereign wealth funds and other institutional investors that we seek to partner with in our investments. Although this situation has improved, certain of these investors may still be managing issues that affect their ability to make new capital commitments. In the long run, we believe that investors will be increasingly attracted to our approach to asset management which focuses on high quality real return assets, conservative financing and an operations-based approach to creating value.

Our executive and other senior officers have a significant role in our success. Our ability to retain our management group or attract suitable replacements should any members of the management group leave is dependent on the competitive nature of the employment market. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets. The conduct of our business and the execution of our growth strategy rely heavily on teamwork. Co-operation amongst our operations and our team-oriented management structure, is essential to responding promptly to opportunities and challenges as they arise. We believe that our hiring and compensation practices encourage retention and teamwork and reward executives for performance over the long term in a manner that places an appropriate emphasis on risk management and encourages, and appropriately matches rewards with, long-term value creation.

We participate in joint ventures, partnerships, co-tenancies and funds affecting many of our assets and businesses. Investments in partnerships, joint ventures, co-tenancies or other entities may involve risks not present were a third-party not involved, including the possibility that our partners, co-tenants or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions. Additionally, our partners, co-venturers or co-tenants might at any time have different economic or other business interests or goals. In addition, we do not have sole control of certain major decisions relating to these assets and businesses, including: decisions relating to the sale of the assets and businesses; refinancing; timing and amount of distributions of cash from such entities to the Corporation; and capital expenditures.

Some of our management arrangements permit our partners to terminate the management agreement in limited circumstances relating to enforcement of the managers' obligations. Any such termination could adversely affect our revenue from management fees. In addition, the sale or transfer of interests in some of our assets or entities is subject to rights of first refusal or first offer and some agreements provide for buy-sell or similar arrangements. Although such provisions may at times work in our favour, such rights may also be triggered at a time when we may not want to sell but may also be forced to do so because we may not have the financial resources at that time to purchase the other party's interest. Such rights may also inhibit our ability to sell our interest in an entity within our desired time frame or on any other desired basis.

Financial and Liquidity Risks

We employ debt and other forms of leverage in the ordinary course of our business in order to enhance returns to shareholders and our co-investors. We attempt to match the profile of the leverage to the associated assets and accordingly typically fund shorter-duration floating rate assets with shorter-term floating rate debt and fund long-term fixed rate and equity-like assets with long-term fixed rate and equity capital. Most of the debt within our business has recourse only to the assets or subsidiary being financed and has no recourse to the Corporation.

Accordingly, we are subject to the risks associated with debt financing. These risks, including the following, may adversely affect our financial condition and results of operations: our cash flow may be insufficient to meet required payments of principal and interest; payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses; we may not be able to refinance indebtedness on our assets at maturity due to company and market factors including: the estimated cash flow of our assets, the value of our assets, liquidity in the debt markets, financial, competitive, business and other factors, including factors beyond our control; and if refinanced, the terms of a refinancing may not be as favourable as the original terms of the related indebtedness. We attempt to mitigate these risks through the use of long-term debt and by diversifying our maturities over an extended period of time. We also strive to maintain adequate liquidity to refinance obligations.

The terms of our various credit agreements and other financing documents require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios, insurance coverage and, in limited circumstances, rating levels. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance our indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or dispose of one or more of our assets on disadvantageous terms. Moreover, prevailing interest rates or other factors at the time of refinancing could increase our interest expense, and if we pledge

assets to secure payment of indebtedness and are unable to make required payments, the creditor could foreclose upon such asset or appoint a receiver to receive an assignment of the associated cash flows.

A large proportion of our capital is invested in physical assets which can be hard to sell, especially if local market conditions are poor. A lack of liquidity could limit our ability to vary our portfolio or assets promptly in response to changing economic or investment conditions. Additionally, financial or operating difficulties of other owners resulting in distress sales could depress asset values in the markets in which we operate in times of illiquidity. These restrictions could reduce our ability to respond to changes in the performance of our investments and market conditions and could adversely affect our financial condition and results of operations.

We periodically enter into agreements that commit us to acquire assets or securities. In some cases we may enter into such agreements with the expectation that we will syndicate or assign all or a portion of our commitment to other investors prior to, at the same time as, or subsequent to, the anticipated closing. We may be unable to complete this syndication or assignment which may increase the amount of capital that we are required to invest. These activities can have an adverse impact on our liquidity, which may reduce our ability to pursue further acquisitions or meet other financial commitments.

We periodically enter into joint venture, consortium or other arrangements that have contingent liquidity rights in our favour or in favour of our counterparties that may have implications for us. These include buy-sell arrangements, put and call rights, en-bloc sale rights, registration rights and other arrangements. A counterparty may seek to exercise these rights in response to their own liquidity considerations or other reasons internal to the counterparty. Our agreements generally have embedded protective terms that mitigate the risk to us. However, in some circumstances we may need to utilize some of our own liquidity in order to preserve value or protect our interests.

We enter into financing commitments in the normal course of business and, as a result, may be required to fund these commitments. Although we do not typically do so, from time-to-time we guarantee the obligations of funds or other entities that we manage and/or invest in. If we are unable to fulfill any of these commitments, this could result in damages being pursued against us or a loss of opportunity through default of contracts that are otherwise to our benefit.

Our business is impacted by changes in currency rates, interest rates, commodity prices and other financial exposures. We selectively utilize financial instruments to manage these exposures. The company's risk management and derivative financial instruments are more fully described in the notes to our consolidated financial statements.

We have pursued and intend to continue to pursue growth opportunities in international markets and often invest in countries where the U.S. dollar is not the notional currency. As a result, we are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant depreciation in the value of the foreign currency of one or more countries where we have a significant investment may have a material adverse effect on our results of operations and financial position.

We selectively utilize credit default swaps and other derivatives to hedge financial positions and may establish unhedged positions from time-to-time. These instruments are typically utilized as a hedge or an alternative to purchasing or selling the underlying security when they are more effective from a capital employment perspective. However, derivatives are also subject to their own unique set of risks, including counterparty risk with respect to the financial well-being of the party on the other side of these transactions.

Property

Our strategy is to invest in high quality commercial office properties as defined by the physical characteristics of the assets and, more importantly, the certainty of receiving rental payments from large corporate tenants which these properties attract. Nonetheless, we remain exposed to certain risks inherent in the commercial office property business.

Commercial office property investments are generally subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in markets in which we operate), the attractiveness of the properties to tenants, competition from other landlords and our ability to provide adequate maintenance at an economical cost.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made whether or not a property is producing sufficient income to service these expenses. Our commercial office properties are typically subject to mortgages which require substantial debt service payments. If we become unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. We believe the stability and long-term nature of our contractual revenues effectively mitigates these risks.

Our commercial office properties generate a relatively stable source of income from contractual tenant rent payments. We endeavour to stagger our lease expiry profile so that we are not faced with a disproportionate amount of space expiring in any one year. Continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. While we believe the long-term outlook for commercial office rents is positive, it is possible that rental rates could decline, tenant bankruptcies could increase or that renewals may not be achieved, particularly in the event of a protracted disruption in the economy such as the onset of a recession. We are, however, substantially protected against short-term market conditions, since most of our leases are long-term in nature.

Our commercial office portfolio is concentrated in large metropolitan areas, some of which have been or may be perceived to be subject to terrorist attacks. Furthermore, many of our properties consist of high-rise buildings, which may also be subject to this actual or perceived threat, which could be heightened in the event that the United States continues to engage in armed conflict. This could have an adverse effect on our ability to lease office space in our portfolio. Each of these factors could have an adverse impact on our operating results and cash flows. Our commercial office property operations have insurance covering certain acts of terrorism for up to \$2.5 billion of damage and business interruption costs for our U.S. commercial office properties and up to C\$1 billion for our Canadian commercial office properties. We continue to seek additional coverage equal to the full replacement cost of our North American assets; however, until this type of coverage becomes commercially available on a reasonably economic basis, any damage or business interruption costs as a result of uninsured acts of terrorism could result in a material cost to us.

Our retail property operations are subject to risks that affect the retail environment, including unemployment, weak income growth, lack of available consumer credit, industry slowdowns and plant closures, consumer confidence, increased consumer debt, poor housing market conditions, adverse weather conditions, natural disasters and the need to pay down existing obligations. All of these factors could negatively affect consumer spending, and adversely affect the sales of our retail tenants. This could have an unfavourable effect on our retail property operations and our ability to attract new retail tenants.

If the sales at certain stores operating in our regional malls do not improve sufficiently, existing tenants might be unable to pay their minimum rents or expense recovery charges and new tenants might be willing to pay lower minimum rents than they otherwise would. Significant expenditures associated with each equity investment, such as mortgage payments, real estate taxes and maintenance costs, are generally not reduced when there is a reduction in income from the investment, so our income and cash flow would be adversely affected by a decline in income from a retail property. In addition, our retail property leases generally do not contain provisions designed to ensure the creditworthiness of the tenant, and in recent years a number of companies in the retail industry have declared bankruptcy or voluntarily closed certain of their stores. We may be unable to re-lease space vacated by such events on favourable terms or at all. As a result, the bankruptcy or closure of a national tenant may adversely affect our revenues.

Some of our retail lease agreements include a co-tenancy provision which allows the mall tenant to pay a reduced rent amount and, in certain instances, terminate the lease, if we fail to maintain certain occupancy levels at the mall. In addition, certain of our tenants have the ability to terminate their leases prior to the lease expiration date if their sales do not meet agreed upon thresholds. Therefore, if occupancy, tenancy or sales fall below certain thresholds, rents we are entitled to receive from our retail tenants would be reduced and our ability to attract new tenants may be limited.

Our retail tenants face competition from retailers at other regional malls, outlet malls and other discount shopping centers, discount shopping clubs, catalogue companies, and through internet sales and telemarketing. Competition of these types could reduce the percentage rent payable by certain retail tenants and adversely affect our revenues and cash flows. Additionally, our retail tenants are dependent on perceptions by retailers and shoppers of the safety, convenience and attractiveness of our retail properties. If retailers and shoppers perceive competing properties and other retailing options such as the internet to be more convenient or of a higher quality, our retail property revenues may be adversely affected.

Renewable Power

Our power generating operations, which are primarily hydroelectric generating facilities, are subject to changes in hydrology and price, but also include risks related to equipment and dam failure, counterparty performance, water rental costs, changes in regulatory requirements and other material disruptions.

The revenues generated by our power facilities are correlated to the amount of electricity generated, which in turn is dependent upon available water flows. In the recent past we have experienced particularly low water levels at our North American power generating operations, which resulted in returns below expectations. Hydrology varies naturally from year to year and may also change permanently because of climate change or other factors, and a natural disaster could impact water flows within the watersheds in which we operate.

A significant portion of our power generating operation revenues are tied, either directly or indirectly, to the wholesale market price for electricity in the markets in which we operate. Wholesale market electricity prices are impacted by a number of external factors. As a result, we cannot accurately predict future electricity prices.

A significant portion of the power we generate is sold under long-term power purchase agreements, shorter-term financial instruments and physical electricity and natural gas contracts, some or all of which may be above market. These contracts are intended to mitigate the impact of fluctuations in wholesale electricity prices. If, however, for any reason any of the counterparties are unable or unwilling to fulfill their contractual obligations, we may not be able to replace the agreement with an agreement on equivalent terms and conditions.

There is a risk of equipment failure or dam failure due to wear and tear, latent defect, design error or operator error, among other things. The occurrence of such failures could result in a loss of generating capacity and repairing such failures could require the expenditure of significant amounts of capital and other resources. Such failures could also result in exposure to significant liability for damages due to harm to the environment, to the public or to third parties.

We are required to make rental payments and pay property taxes for water rights or pay similar fees for use of water. Significant increases in water rental costs or fees or changes in the way that governments regulate water supply could have a material adverse effect on our financial condition.

The operation of our generation assets is subject to extensive regulation by various government agencies at the municipal, provincial, state and federal level. As legal requirements frequently change and are subject to interpretation and discretion, we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. Any new law or regulation could require additional expenditure to achieve or maintain compliance. In addition, we may not be able to renew, maintain or obtain all necessary licenses, permits and governmental approvals required for the continued operation or further development of our projects.

Our power generation assets could be exposed to effects of significant events, such as severe weather conditions, natural disasters, major accidents, acts of malicious destruction, sabotage or terrorism, which could limit our ability to generate or sell power. In certain cases, some events may not excuse us from performing our obligations pursuant to agreements with third parties and we may be liable for damages or suffer further losses as a result. In addition, many of our generation assets are located in remote areas which makes access for repair of damage difficult.

Infrastructure

Our infrastructure operations include utilities, transport and energy, and timberlands operations in North and South America, Europe and Australasia. Our utilities operations include electricity transmission systems, coal terminal operations, and electricity and gas distribution companies. The principal risks facing the regulated and unregulated businesses comprising our infrastructure operations relate to government regulation, general economic conditions and other material disruptions, capital expenditure requirements, land use and counterparty performance.

Due to the essential nature of the services provided by our assets, and the fact that some of these services are provided on a monopoly or near monopoly basis, many of our infrastructure operations are subject to forms of economic regulation, including with respect to revenues. In addition, certain of these operations recover their investment in assets through tolls or regulated rates which are charged to third parties. Current tolls and regulated rates are reviewed by the applicable regulatory agency on a regular basis. If any of the respective regulators in the jurisdictions in which we operate decide to change the tolls or rates we are allowed to charge, or the amounts of the provisions we are allowed to collect, we may not be able to earn the rate of return on our businesses that we had planned or we may not be able to recover our initial investment cost.

Economic regulation can also involve ongoing commitments to economic regulators, safety regulators and other governmental agencies. Our timber operations are subject to provincial, state and federal government regulations relating to forestry practices and the export of logs, and several of our utilities and transport and energy operations are subject to government safety and reliability regulations that are specific to their industries. The risk that a government will repeal, amend, enact or promulgate a new law or regulation or that a regulator or other government agency will issue a new interpretation of the law or regulation can substantially affect our operating entities. In addition, a decision by a government or regulator to regulate previously unregulated assets may significantly change the economics of these businesses.

General domestic and global economic conditions affect international demand for the commodities handled by our transport and energy operations and demand for timber products. A downturn in the demand for these commodities may lead to bankruptcies or liquidations of one or more large customers, which could reduce our revenues, increase our bad debt expense, reduce our ability to make capital expenditures or have other adverse effects on us.

The financial performance of our timberland operations depends on strong demand in the wood products and pulp and paper industries. Decreases in the level of residential construction activity generally reduce demand for logs and wood products, resulting in lower revenues, profits and cash flows for our customers. Depressed commodity prices for lumber, pulp or paper, or market irregularities, may cause mill operators to temporarily or permanently shut down their mills if their product prices fall to a level where mill operation would be uneconomical. Moreover, these operators may be required to temporarily suspend operations at one or more of their mills to bring production in line with market demand or in response to market irregularities. Any of these circumstances could significantly reduce the prices that we realize for our timber as well as the volume of our timber that we may be able to sell. In addition to impacting our timber operations' sales, cash flows and earnings, weakness in the market prices of timber products will also have an effect on our ability to attract additional capital, the cost of that capital and the value of our timberland assets. We endeavour to keep our timberland harvest plans flexible so that we can reduce harvest levels when prices are low with the objective of deferring sales until prices recover; however there is no certainty that we will be successful in this regard.

We and our customers are also exposed to certain uncontrollable events, such as severe weather conditions, natural disasters, major accidents, acts of malicious destruction, sabotage and terrorism. Although we attempt to protect our revenue through the inclusion of take-or-pay or guaranteed minimum volume provisions into our contracts, such as at our rail operations, this is not always possible or fully effective.

Our utilities and transport and energy operations may require substantial capital expenditures in the future to maintain our asset base. Any failure to make necessary capital expenditures to maintain our operations in the future could impair our ability to serve existing customers or accommodate increased volumes. In addition, we may not be able to recover investments in capital expenditure based upon the rates our operations are able to charge.

Our operations require large areas of land on which to be constructed and operated. The rights to use the land can be obtained through freehold title, leases and other rights of use. Although we believe that we have valid rights to all easements, licences and rights of way necessary for our utilities operations, not all of our easements, licences and rights of way are registered against the lands to which they relate and may not bind subsequent owners.

Some of our infrastructure operations have customer contracts as well as concession agreements in place with public and private sector clients. There is a risk of default on those contractual arrangements by such clients. As well, our operations with customer contracts could be adversely affected by any material change in the assets, financial condition or results of operations of such customers.

Weather conditions, industry practices, timber growth cycles, access limitations and aboriginal claims may restrict our harvesting, road building and other activities on the timberlands owned by our timber operations, as may other factors, including damage by fire, insect infestation, wind, disease, prolonged drought and other natural and man-made disasters. Although management believes it follows best practices with regard to forest sustainability and general forest management, there can be no assurance that our forest management planning, including silviculture, will have the intended result of ensuring that our asset base appreciates in value over time. If management's estimates of merchantable inventory are incorrect, harvesting levels on our timberlands may result in depletion of our timber assets.

Private Equity

Our private equity operations involve debt and equity investments in a broad variety of businesses, focused on bridge lending and private equity investments in businesses supported by underlying tangible assets and in sectors where we have expertise or experience. The principal risks for the private equity business are potential loss of invested capital as well as insufficient investment or fee income to cover operating expenses and cost of capital. In addition, these investments are illiquid and may be difficult to monetize, limiting our flexibility to react to changing economic or investment conditions.

Unfavourable economic conditions could have a significant adverse impact on the ability of investee companies to repay debt and on the value of our equity investments and the level of investment income that they generate. Since most of our investee companies are in our areas of expertise and given that we strive to maintain adequate supplemental liquidity at all times, we believe we are well positioned to support our investee companies through a period of economic downturn. Even with such support, however, adverse economic or business conditions facing our investee companies may adversely impact the value of our investments.

These investments are also subject to the risks inherent in the underlying businesses. Our current portfolio includes businesses that operate in forest products, oil and gas production, mining and building materials sectors. A number of these businesses have been adversely impacted by the prolonged downturn in the U.S. housing market and other businesses have been adversely impacted by the decrease in the price of natural gas. These businesses are currently facing difficult business conditions and may continue to do so for the foreseeable future.

We have residential land development and homebuilding operations located in Canada, Brazil, United States and Australia. These operations are concentrated in areas which we believe have positive long-term demographic and economic characteristics. Despite this, 2011 was another challenging year for the U.S. housing industry, as the downturn in the housing market continued.

The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as consumer confidence, employment levels, availability of financing for homebuyers, interest rates, levels of new and existing homes for sale, demographic trends and housing demand. Competition from rental properties and resale homes, including homes held for sale by investors and foreclosed homes, may reduce our ability to sell new homes, depress prices and reduce margins for the sale of new homes. Homebuilders are also subject to risks related to availability and cost overruns. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. Our residential property operations may be particularly affected by changes in local market conditions in California, the Washington D.C. area, Alberta and Brazil, where we derive a large proportion of our residential property revenue.

Virtually all of our homebuilding customers finance their home acquisitions through lenders providing mortgage financing. Mortgage rates in North America have recently been at or near their lowest levels in many years. Despite this, and given the volatility experienced in the mortgage markets in the U.S. and by many lenders, fewer loan products and tighter loan qualification requirements have made it more difficult for borrowers to procure mortgages.

Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing, which in the U.S. has resulted in reduced demand for new homes. As a result, rising mortgage rates or reduced mortgage availability could adversely affect our ability to sell new homes and the price at which we can sell them.

Other Risks

As an owner and manager of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. These laws could hold us liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in our properties or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect our ability to sell our real estate or to borrow using real estate as collateral, and could potentially result in claims or other proceedings against us. We are not aware of any material non-compliance with environmental laws at any of our properties. We are also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with any of our properties or any material pending threatened claims relating to environmental conditions at our properties. We have made, and intend to continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on our business, financial condition or results of operation.

The ownership and operation of our assets carry varying degrees of inherent risk or liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and/or to contravention of health, safety and environmental laws, licenses, permits and other approvals, and potential civil liability. Compliance with health, safety and environmental laws (and any future laws or amendments enacted) and the requirements of licenses, permits and other approvals will remain material to our business. We have incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental laws and to obtain and comply with licenses, permits and other approvals and to assess and manage potential liability exposure. Nevertheless, from time-to-time it is possible that we may be unsuccessful in obtaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters. The occurrence of any of these events or any changes, additions to, or more rigorous enforcement of, health, safety and environmental laws, licenses, permits or other approvals could have a significant impact on operations and/or result in additional material expenditures. As a consequence, no assurance can be given that additional environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to our business and operations. We carry various insurance coverages that provide comprehensive protection for first-party and third-party losses to our properties. These coverages contain policy specifications, limits and deductibles customarily carried for similar properties. We also self-insure a portion of certain of these risks. We believe all of our properties are adequately insured; however, there are certain types of risks (generally of a catastrophic nature such as war or environmental contamination such as toxic mold) which are either uninsurable or not economically insurable. Should any uninsured or under insured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our assets or operations, and would continue to be obligated to repay any mortgage or other indebtedness on such properties to the extent the borrowers have recourse beyond the specific asset or operations being financed.

In the normal course of our operations, we become involved in various legal actions, including claims relating to personal injuries, property damage, property taxes, land rights and contract and other commercial disputes. We endeavour to maintain adequate provisions for outstanding or pending claims. The final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on our financial position or results of our operations in a particular quarter or fiscal year. We believe that we are not currently involved in any litigation, claims or proceedings in which an adverse outcome would have a material adverse effect on our consolidated financial position or results.

Ongoing changes to the physical climate in which we operate may have an impact on our business. In particular, changes in weather patterns may impact hydrology levels thereby influencing generation levels and power generation levels. Climate change may also give rise to changes in regulations and consumer sentiment that could impact other areas of our business.

The U.S. Investment Company Act of 1940 (the "Act") requires the registration of any company which holds itself out to the public as being engaged primarily in the business of investing, reinvesting or trading in securities. In addition, the Act may also require the registration of a company that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading

in securities and which owns or proposes to acquire investment securities with a value of more than 40% of the company's assets on an unconsolidated basis. We are not currently an investment company in accordance with the Act and we believe we can continue to arrange our business operations in ways so as to not become an investment company within the meaning of the Act. If we were required to register as an investment company under the Act, we would, among other things, be restricted from engaging in certain businesses and issuing certain securities. In addition, certain of our contracts may become void.

In June 2010, the SEC enacted a new rule under the Advisers Act addressing “pay to play” practices in the selection of investment advisers to manage the assets of U.S. state and local government entities. The rule effectively prohibits investment advisers who advise or seek to advise government entities, as well as certain personnel of such advisers, from making, or causing to be made, greater than de minimis political contributions to government officials with authority or influence over the hiring of investment advisers. Contributions made in violation of this rule will result in a two-year “time out” period following the contribution date, during which the investment adviser will not be permitted to receive compensation for providing advisory services to such government entity. Advisers are required to adopt policies and procedures reasonably designed to prevent a violation of the rule and to keep certain records in order to enable the SEC to determine compliance with the rule. In addition, there have been similar rules on a state level regarding “pay to play” practices by investment advisers. Although we believe that we have adequate compliance policies and procedures in place, any failure on our part to comply with these rules could expose us to significant penalties and reputational damage.

There are many other laws and governmental regulations that apply to us, our assets and businesses. Changes in these laws and governmental regulations, or their interpretation by agencies or the courts, could occur. Further, economic and political factors, including civil unrest, governmental changes and restrictions on the ability to transfer capital across borders in the United States, but primarily in the foreign countries in which we have invested, can have a major impact on us as a global company.

A portion of the workforce in our operations is unionized and if we are unable to negotiate acceptable contracts with any of our unions as existing agreements expire, we could experience a significant disruption of the affected operations, higher ongoing labour costs and restriction of our ability to maximize the efficiency of our operations, which could have an adverse effect on our operations and financial results.