

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Our Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess our results of operations and financial condition for the fiscal year ended December 31, 2013. This MD&A should be read in conjunction with our 2013 annual consolidated financial statements and related notes and is dated March 28, 2014. Unless the context indicates otherwise, references in this Report to the "Corporation" refer to Brookfield Asset Management Inc., and references to "Brookfield," "us," "we," "our" or "the company" refer to the Corporation and its direct and indirect subsidiaries and consolidated entities. All amounts are in U.S. dollars, and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board unless otherwise noted.

Additional information about the company, including our 2013 Annual Information Form, is available free of charge on our website at www.brookfield.com, on the Canadian Securities Administrators' website at www.sedar.com and on the EDGAR section of the U.S. Securities and Exchange Commission's ("SEC") website at www.sec.gov.

Organization of the MD&A

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Part 1 provides an overview of our business, including a discussion of our strategy, and the economic environment and outlook at the time of writing. This section also contains information on the basis of presentation of financial information contained in the MD&A and key financial measures.

Part 2 provides an overview of our annual and fourth quarter financial results utilizing key financial measures contained in our Consolidated Statements of Operations, Other Comprehensive Income and Consolidated Balance Sheets over the past three years including a discussion of variances between the periods.

Part 3 is a discussion of the results of our various operating segments based on key financial measures, including certain non-IFRS measures such as Funds from Operations and Net Operating Income. We also utilize key operating metrics in the discussion.

Part 4 reviews our capitalization and liquidity profile.

Part 5 discusses our operating capabilities and a number of key risks associated with our business and our issued securities. Further information on risks is contained in our Annual Information Form.

Part 6 contains additional information on our accounting policies, internal control environment and related party transactions.

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND USE OF NON-IFRS MEASURES

This Report to Shareholders 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. We may make such statements in the Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications. See "Cautionary Statement Regarding Forward-Looking Statements and Information" on page 146.

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with IFRS. We utilize these measures in managing the business, including performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to this most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this MD&A.

Information contained in or otherwise accessible through the websites mentioned does not form part of this Report. All references in this Report to websites are inactive textual references and are not incorporated by reference.

PART 1 – OVERVIEW AND OUTLOOK

OUR BUSINESS

Brookfield is a global alternative asset manager with over \$175 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 energy, infrastructure and private equity.

We manage a wide range of investment funds and other entities that enable institutional and retail clients to invest alongside us in these assets. As at December 31, 2013, our managed funds and entities represented approximately \$80 billion of invested and committed fee bearing capital, of which \$26 billion was from Brookfield. These products include publicly traded entities that are listed on major stock exchanges as well as private institutional partnerships that are available to accredited investors, typically pension funds, endowments and other institutional investors. We also manage public securities through a series of segregated accounts and mutual funds.

Our business model is simple: utilize our global reach to identify and acquire high-quality assets at favourable valuations, finance them on a long-term basis, enhance the cash flows and values of these assets through our operating platforms to earn reliable, attractive long-term total returns, and when opportunities arise realize capital from asset sales or refinancings.

Organization Structure

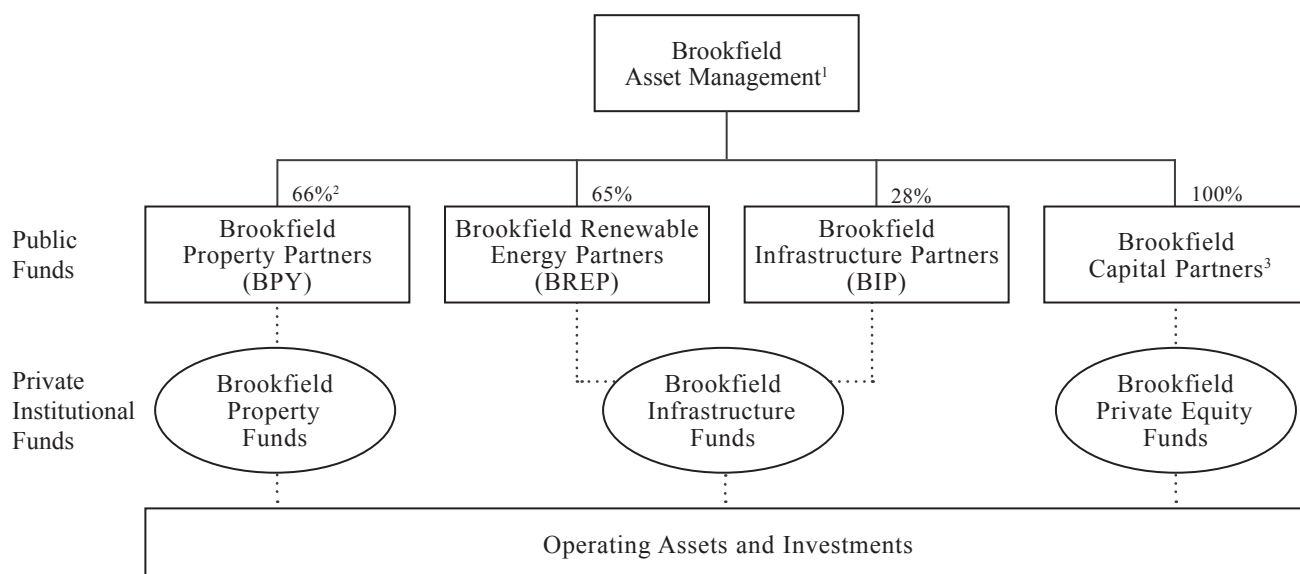
Our operations are organized into four principal groups (“operating platforms”): property, renewable energy, infrastructure and private equity. These platforms are responsible for operating the assets owned by our various funds and investee companies. The equity capital invested in these assets is provided by a series of listed and private funds managed by us that are in turn funded by capital from ourselves and our clients.

We have formed large capitalization listed entities in each of our property, renewable energy and infrastructure segments, which serve as the primary vehicles through which we will invest in each respective segment. As well as owning assets directly, these entities serve as the cornerstone investors in our institutional private funds, alongside capital committed by institutional investors. For example, within our infrastructure operations, we have established Brookfield Infrastructure Partners L.P. (“BIP” or “Brookfield Infrastructure Partners”), a publicly listed entity that currently has a \$8.2 billion market capitalization. In addition to owning and operating a portfolio of infrastructure assets, BIP is also the cornerstone investor in our Brookfield Infrastructure Fund II, a private investment partnership with \$7.0 billion of committed capital. This approach enables us to attract a broad range of public and private investment capital and the ability to match our various investment strategies with the most appropriate form of capital.

Our private equity business is conducted primarily through private funds with capital provided by institutions and ourselves. We do not currently envisage the formation of a listed entity within these operations as we do not believe these investments would be properly valued in the capital markets on a standalone basis.

Our balance sheet capital is invested primarily in our three flagship listed issuers, our private equity funds, and in several directly held investments and businesses.

The following chart is a condensed version of our organizational structure.



1. Includes asset management and corporate activities

2. Proforma to the merger of BPY with Brookfield Office Properties Inc. which is expected to be completed in 2014; December 31, 2013 economic interest in BPY was 89%

3. Privately held, includes private equity, residential development and service activities

STRATEGY AND VALUE CREATION

Our business is centred around the ownership and operation of real assets, which we define as long-lived, hard assets that form the critical backbone of economic activity, including property, renewable energy and infrastructure facilities. Whether they provide high-quality office or retail space in major urban markets, generate reliable clean electricity, or transport goods and resources between key locations, these assets play an essential role within the global economy. Additionally, these assets typically benefit from some form of barrier to entry, regulatory regime or other competitive advantage that provide for relatively stable cash flow streams, strong operating margins and value appreciation over the longer term.

We currently own and manage one of the world's largest portfolios of real assets. We have established a variety of investment products through which our clients can invest in these assets, including both listed entities and private funds. We actively invest our own capital alongside our clients, ensuring a meaningful alignment of interests.

We are active managers of capital. We strive to add value by judiciously and opportunistically reallocating capital among our businesses to continuously increase returns. Our operating platforms include over 28,000 employees worldwide who are instrumental in maximizing the value and cash flows from our assets. As Real Asset operations tend to be industry-specific and often driven by complex regulations, we believe operational experience is necessary in order to maximize efficiency and productivity. Our track record shows that we can add meaningful value and cash flow through "hands-on" operational expertise, whether through the negotiation of property leases, energy contracts or regulatory agreements, or through a focus on optimizing asset development, operations or other activities.

We finance our operations on a long-term, investment-grade basis, typically employing stand-alone asset-by-asset financing with minimal recourse to other parts of the organization. We also strive to maintain excess liquidity at all times in order to respond to opportunities as they arise. This provides us with considerable stability and enables our management teams to focus on operations and other growth initiatives. It also improves our ability to withstand financial downturns and provides the strength and flexibility to capitalize upon attractive opportunities.

We prefer to invest when capital is less available to a specific market or industry and in situations that tend to require a broader range of expertise and be more challenging to execute. We believe these situations provide much more attractive valuations than competitive auctions and we have considerable experience in this specialized field.

We maintain development and capital expansion capabilities and a large pipeline of attractive opportunities. This provides flexibility in deploying growth capital, as we can invest in both acquisitions and organic developments, depending on the relative attractiveness of returns.

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

- We offer attractive investment opportunities to our clients through our managed funds and entities that will, in turn, enable us to earn base management fees based on the amount of capital that we manage, 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 asset values.
- We invest significant amounts of our own capital, alongside our clients in the same assets. This differentiates us from many of our competitors, creates a strong alignment of interest with our clients and enables us to create value by directly participating in the cash flows and value increases generated by these assets, 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 our specialized Real Asset experience can help to ensure that an investment's full value creation potential is realized. We believe this is one of our most important competitive advantages as an asset manager.
- We aim to finance assets effectively, using a prudent amount of leverage. We believe the majority of our assets are well suited to support an appropriate level of investment-grade secured debt with long-dated maturities 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. 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.
- 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.

ECONOMIC AND MARKET REVIEW AND OUTLOOK

(As at January 31, 2014)

Overview and Outlook

The global investment landscape was shaped by several key trends during 2013, as the positive catalyst of a generally improving economic environment was offset by concerns over rising interest rates. In particular, the U.S. economy gained further strength over the course of the year, driven by an improving labour market, an expansion in household net worth and continued recovery of both the residential and commercial property markets. This positive momentum led the U.S. Federal Reserve to begin tapering its asset purchase program late in the year, in a move that had been widely discussed and debated in the marketplace for months. Indeed, anticipation of a tapering announcement weighed on investor sentiment for much of the year, leading to rising interest rates and capital market volatility. Fortunately, the Federal Reserve reiterated its commitment to maintaining a low interest rate environment for the foreseeable future and to providing sufficient support as needed. As a result, we believe implementation of tapering activity will serve to reduce uncertainty surrounding U.S. monetary policy and provide a meaningful vote of confidence in U.S. economic growth.

Over the course of the year, developed markets outperformed emerging markets, as developed markets tended to benefit from ongoing economic recovery and strong capital flows while emerging markets faced the challenges of elevated inflation, falling currency values and the overhang from reduced monetary stimulus in the U.S., in addition to uncertainty surrounding China's transition away from an investment-led economy. Although we expect short-term volatility to persist within emerging markets, we believe recent performance may lead to attractive investment opportunities over the medium term.

Looking ahead, we anticipate a period of normalizing interest rates and economic growth. Importantly, we expect accommodative monetary policy to continue in the U.S. and across many developed markets, providing further support for the global economic recovery. While the performance of yield-oriented asset classes may be challenged in a rising interest rate environment, we believe demand for assets offering current income and upside growth potential will continue to accelerate. In particular, real assets, such as property, renewable energy and infrastructure, should benefit from an improving economy and the eventual return of inflation, resulting in growing revenues and cash flow streams. Accordingly, we believe that real assets are well-positioned to benefit from a recovering global economy while offering attractive current income and capital preservation to guard against future market volatility.

United States

Following an upward revision of U.S. real GDP growth to 4.1% in the third quarter, growth slowed in the fourth quarter to 3.2%, due in part to the effect of the federal government shutdown in early October as well as to inclement weather in December. However, real GDP growth should rebound in 2014 as consumer confidence improves, private spending continues to increase and the effect of government spending cuts and tax increases diminish further. Many economists are now forecasting U.S. real GDP growth to exceed 3% over the next several years, which would mark the most robust pace of U.S. economic expansion since before the 2008/9 recession. Business confidence continues to strengthen and the ISM Manufacturing Index is pointing to a strong expansion, which should bode well for U.S. industrial production. Furthermore, capacity utilization is high across almost all sectors and corporate profits are strong, indicating that capital investment is poised to increase.

In terms of construction, a key driver of the U.S. economic recovery, housing starts exceeded one million units on an annual basis in November and December for the first time since the recession. We continue to expect a positive trend given the strength in homebuilders' confidence, further improvements in household balance sheets and the low level of unsold housing stock.

As the U.S. economy improved during 2013, the labour market continued to heal as well. The year as a whole produced average monthly job gains of 182,000, leading the unemployment rate to fall from 7.9% in December 2012 to 6.7% in December 2013. Importantly, this figure is nearing the 6.5% target rate set by the U.S. Federal Reserve as a key threshold of its forward monetary policy guidance. However, inflation remains low, averaging 1.1% during the first two months of the fourth quarter, down from 1.6% in the previous quarter. The lack of underlying inflationary pressure in this early stage of economic recovery suggests that short-term interest rates will remain low even as the Federal Reserve winds down its quantitative easing program. As a result, we expect relatively robust U.S. economic growth during 2014, as private consumption and investment advance further.

Canada

Canadian economic growth continues to moderate as household debt deleveraging has led to softer housing and labour market activity. Residential building activity slowed during 2013, with housing starts averaging 188,000 units, or 12.7% below the level recorded in 2012. Job growth slowed in 2013 as well, with employment increasing by approximately 100,000 jobs in the year, down from the 300,000 jobs created during 2012. The unemployment rate was essentially unchanged in 2013, ending the year at 7.2%. Given the general slowing of the overall economy, the inflation rate remained well below the Bank of Canada's target of 2.0%, suggesting that the central bank will maintain a low interest rate environment for the foreseeable future. Importantly, as the U.S. economy continues to gather momentum, Canada should benefit from increased exports, particularly given the recent depreciation of the Canadian dollar. We expect this implicit economic stimulus to provide support for modest economic growth near 2.0% in 2014.

United Kingdom

Economic growth in the UK continued to advance in the fourth quarter, with real GDP expanding by 2.8%. During a year in which growth was largely supported by consumption, retail sales surged 5.3% in December relative to the same period in 2012. This robust end to the year helped to generate full year 2013 economic growth of 1.8%. While consumption is expected to remain supportive of growth in the year ahead, we believe investment and exports are likely to become the main drivers of the UK economy. Although industrial production remains nearly 9% below pre-recession levels, recent business confidence surveys and PMI data indicate that activity is poised to accelerate. Moreover, the labour market ended the year with an increase of 280,000 jobs in the three months to November, the largest increase on record, with almost all of the increase in permanent, full-time employment. As a result, the unemployment rate fell to just 7.1%, only slightly above the 7.0% target adopted by the Bank of England under its forward guidance policy. The improving labour market is likely to place additional pressure on the central bank to revisit its current low interest rate policy, although Bank of England officials have not provided any indication that rate hikes are on the horizon and inflation has eased back to the official target. Overall, it is likely that monetary policy will remain accommodative in 2014 and we expect the UK economy to generate growth of 2.5% during the course of the year.

Europe

Positive economic developments in the Eurozone continued in the fourth quarter, with real GDP growth of 0.4% on a year-over-year basis. Growth has improved in Germany and France to 1.4% and 0.5%, respectively, while the pace of decline continues to moderate in Italy, Spain and Greece. Additionally, the Eurozone trade balance is near record highs, as Germany continues to run a large trade surplus while peripheral countries have reduced their trade deficits. A stronger external environment should provide additional support for Eurozone economies in 2014, although debt levels remain high in many member states and a roadmap to deleveraging remains elusive. Eurozone inflation continues to trend below 1.0%, as the rate of price growth slows or declines in many countries. This weakness raises the possibility of deflation, although the European Central Bank appears determined to avoid such a situation. Looking ahead, we believe European policymakers will need to make further progress on reforms during 2014 while carefully managing the dual risks of debt deleveraging and potential deflation.

Brazil

Near-term growth in Brazil weakened during the fourth quarter to approximately 2.0% year-over-year, as rising interest rates and currency volatility continued to challenge the economy. Although the rate of inflation has fallen from a peak of 6.7% in July to 5.9% in December, the rate remains near the upper end of the target range set by Brazil's central bank. Moderating food prices have helped to lower overall inflation and recent agricultural commodity price declines suggest that food inflation may slow further, but energy and transport prices may become sources of inflationary pressure going forward. In an attempt to curb rising price levels, the Brazilian central bank increased the benchmark interest rate by 275 basis points in 2013 and an additional 50 basis points in January 2014, to a level of 10.5%. Despite this tightening of monetary policy, the Brazilian Real depreciated by 15.0% over the course of the year, as investors reduced holdings of emerging market currencies. Importantly, the decline in the exchange rate should help to offset the drag that net exports have recently placed on Brazilian growth. In a further positive sign, the share of GDP growth from investment has been increasing in recent quarters and currently stands near 20.0%, as the economy strives to meet the demands of a growing middle class. Although we anticipate that current challenges are likely to persist, we believe that recent levels of growth are well below Brazil's long-term potential. Accordingly, we continue to expect that subdued growth in the short term will give way to longer-term growth in the range of 3.0% to 4.0%.

China

Real GDP growth in China slowed slightly to 7.7% during the fourth quarter but remained firmly within the central government's target range. Although nominal GDP growth remains near 10.0%, economic indicators are suggesting a modest level of deceleration. Additionally, optimism surrounding market reforms is softening, as fixed asset investment grew by nearly 20% in 2013 and supplied approximately 45% of total nominal GDP. Although retail sales increased 11.5% over the same time period, private consumption only contributed 36% to total nominal GDP, suggesting the transition from an investment-based economy to a consumption-based economy will be a long-term process. The Chinese central bank remains concerned over the pace of credit growth and has been selective in efforts to ease interbank liquidity, resulting in sporadic volatility within the lending market. Moving forward, slower credit expansion is likely, which may weigh on overall growth. Nonetheless, we view recent policy decisions intended to accelerate the transition away from an investment-led economy as positive developments and expect that growth in the services sector within China will be meaningful over the coming years.

Australia

On a relative basis, the Australian economy continues to produce solid results, with annualized real GDP growth of 2.3% in the third quarter. However, this result marks the fourth consecutive quarter of growth below historical averages, as the pace of mining investment has begun to decelerate. A key driver of recent economic growth, mining investment has plateaued and will subside over the next few years as capital intensive mega projects commence production. We expect the Australian economy to revert to trend-line growth of 3.0% by 2015, with increases in residential construction and government infrastructure investment expected to help mitigate the effects of declining mining investment. Importantly, the Australian economy continues to be supported by accommodative monetary policy, with the base rate currently at a historical low of 2.5%. This environment has led to strong

house price gains, new dwelling approvals and retail spending. The labour market has also remained healthy, with unemployment ending the year at 5.8%. However, we are monitoring early indicators of potential weakness that may lead to an increase in the unemployment rate in the year ahead, including low levels of advertised jobs and a decrease in full-time employment during 2013. The Australian dollar has steadily declined over the past three months, dropping by over 6.5% since last October, driven largely by increased expectations of U.S. dollar outperformance as the U.S. economic outlook improves and the U.S. Federal Reserve reduces monetary stimulus. Going forward, we believe recent lifts in consumer and business confidence will endure and the lower Australian dollar will benefit many sectors through improved international competitiveness. When combined with low interest rates, these factors should encourage business activity and provide an offset to slowing mining investment.

BASIS OF PRESENTATION AND USE OF NON-IFRS MEASURES

Basis of Accounting

We are a Canadian corporation and, as such, we prepare our consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board. We are listed on the Toronto Stock Exchange, New York Stock Exchange and Euronext and recognize that IFRS may not be the generally used accounting methodology for all readers of this report. The following discussion contains a summary of two key features of IFRS that we believe are particularly relevant to users of our financial statements. Our significant accounting policies are described in Note 2 to our consolidated financial statements, which also contains a summary of critical judgments and estimates.

Use of Fair Value Accounting

We account for a number of our assets at fair value including our commercial properties, renewable energy assets, and certain of our infrastructure and financial assets. Property, plant and equipment and inventory included within our private equity operations are recorded at amortized historic cost or the lower of cost and net realizable value. Public service concessions within our infrastructure operations are considered intangible assets and are amortized over the life of the concession. Other intangible assets and goodwill are recorded at amortized cost or cost. Equity accounted investments follow the same accounting principles as our consolidated operations and accordingly, include amounts recorded at fair value and amounts recorded on another basis depending on the nature of the underlying assets.

We classify the vast majority of our commercial property assets, including our office and retail property portfolios, as investment properties. Investment properties are revalued on a quarterly basis and changes in value are recorded as fair value changes within net income. Standing timber and agricultural assets are classified as sustainable resources and accounted for in a similar manner as investment properties. Depreciation is not recorded on investment properties or sustainable resources that are fair valued.

Our renewable energy facilities and certain of our infrastructure assets are classified as property, plant and equipment and we have elected to record these assets at fair value using the revaluation method. Unlike investment properties, these assets are revalued on an annual basis and changes in value are recorded as revaluation surplus within other comprehensive income and accumulated within common equity. Depreciation is recorded on the revalued carrying values at the beginning of each year and recorded in net income. If a revaluation results in the fair value declining below the depreciated cost of the asset, then an impairment is charged to net income. Impairments of this nature may be subsequently reversed through increases in value. We also record a relatively small amount of property, plant and equipment within our property operations using the revaluation method.

A significant amount of the carrying value of our infrastructure operations is recorded as intangible assets and reflect the fair value of the regulatory rate base or other characteristics at acquisition. Intangible assets are carried at cost, subject to impairment tests, and are amortized over their useful lives unless they are determined to have an indefinite life, in which case amortization is not recorded.

Financial assets, financial contracts and other contractual arrangements that are treated as derivatives are recorded at fair value in our financial statements and changes in their value are recorded in net income or other comprehensive income, depending on their nature and business purpose (i.e., whether a security is held for trading, is available-for-sale, or whether a financial contract qualifies for hedge accounting or not). The more significant and more common financial contracts and contractual arrangements employed in our business that are fair valued include: interest rate contracts, foreign exchange contracts, and agreements for the sale of electricity.

Consolidated Financial Information

We consolidate a number of entities even though we hold only a minority economic interest. This is the result of our exercising control, as determined under IFRS, over the affairs of these entities due to contractual arrangements and our significant economic interest in these entities. As a result, we include 100% of the revenues and expenses of consolidated entities in our consolidated statement of operations, even though a substantial portion of the net income of the entity is attributable to non-controlling interests. On the other hand, revenues and expenses between consolidated entities, such as asset management fees, are eliminated in our consolidated statement of operations; however these items impact the allocation of net income between shareholders and non-controlling interest.

Interests in entities over which we exercise significant influence, but where we do not exercise control, are accounted for as equity accounted investments. We record our proportionate share of their comprehensive income on a “one-line” basis as equity accounted income within net income and as equity accounted investments within other comprehensive income. As a result, our share of items such as fair value changes, that would be included with other fair value changes if the entity was consolidated, are instead included within equity accounted income.

Certain of our consolidated subsidiaries and equity accounted investments do not utilize IFRS for their own statutory reporting purposes. The comprehensive income utilized by us is determined using IFRS and may differ significantly from the comprehensive income pursuant to the accounting principles reported by the investee. For example, IFRS provides a reporting issuer a policy election to fair value its investment properties such as office and retail properties, as described above, whereas other accounting principles such as U.S. GAAP may not. Accordingly, their stand-alone statutory financial statements, which may be publicly available, may differ from those which we consolidate.

Foreign Currency Translation

Changes in the rate of exchange between the U.S. dollar and the currencies in which we conduct our non-U.S. operations will typically impact our operating results and our financial position. As a general rule, changes in the average annual rate of exchange will impact the value at which the results of non-U.S. operations are included in consolidated net income, whereas changes in the spot rates will impact the values at which non-U.S. assets and liabilities are included in our consolidated balance sheet. Please refer to note 2(d) of our consolidated financial statements (Significant Accounting Policies – Foreign Currency Translation).

The relevant exchange rates that impact our business are shown in the following table:

	Year-end Spot Rate			Change		Average Annual Rate			Change	
	2013	2012	2011	vs. 2012	vs. 2011	2013	2012	2011	vs. 2012	vs. 2011
Australian dollar.....	0.8918	1.0395	1.0205	(14)%	2%	0.9682	1.0357	1.0329	(7)%	—
Brazilian real.....	2.3635	2.0435	1.8758	(16)%	(9)%	1.9552	1.9546	1.8000	—	(9)%
Canadian dollar.....	0.9414	1.0079	0.9787	(7)%	3%	0.9713	1.0004	1.0109	(3)%	(1)%

Use of Non-IFRS Measures

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with IFRS. These measures are used primarily in Part 3 of the MD&A. We utilize these non-IFRS measures in managing the business, including performance measurement, capital allocation and valuation and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within Part 3 of this MD&A and elsewhere as appropriate.

PART 2 – FINANCIAL PERFORMANCE REVIEW

SELECTED ANNUAL FINANCIAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2013	2012	2011	Change	
				2013 vs 2012	2012 vs 2011
CONDENSED STATEMENT OF OPERATIONS					
Total revenues and other gains.....	\$ 20,830	\$ 18,766	\$ 15,988	\$ 2,064	\$ 2,778
Direct costs.....	(13,928)	(13,961)	(11,957)	33	(2,004)
Other income.....	525	—	—	525	—
Equity accounted income.....	759	1,237	2,199	(478)	(962)
Expenses					
Interest.....	(2,553)	(2,500)	(2,355)	(53)	(145)
Corporate costs.....	(152)	(158)	(168)	6	10
Fair value changes.....	663	1,153	1,395	(490)	(242)
Depreciation and amortization.....	(1,455)	(1,263)	(905)	(192)	(358)
Income taxes.....	(845)	(519)	(515)	(326)	(4)
Net income.....	3,844	2,755	3,682	1,089	(927)
Non-controlling interests.....	(1,724)	(1,375)	(1,725)	(349)	350
Net income attributable to shareholders....	\$ 2,120	\$ 1,380	\$ 1,957	\$ 740	\$ (577)
Net income per share.....	\$ 3.12	\$ 1.97	\$ 2.89		
CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME					
Fair value changes and other.....	\$ 1,508	\$ 1,618	\$ 1,919	\$ (110)	\$ (301)
Foreign currency translation.....	(2,429)	(110)	(834)	(2,319)	724
Taxes on above items.....	(280)	(432)	(147)	152	(285)
Other comprehensive income.....	(1,201)	1,076	938	(2,277)	138
Non-controlling interests.....	406	(563)	(143)	969	(420)
Other comprehensive income attributable to shareholders.....	(795)	513	795	(1,308)	(282)
Comprehensive income attributable to shareholders.....	\$ 1,325	\$ 1,893	\$ 2,752	\$ (568)	\$ (859)
BALANCE SHEET INFORMATION					
AS AT DECEMBER 31 (MILLIONS)					
Consolidated assets.....	\$ 112,745	\$ 108,862	\$ 91,236	\$ 3,883	\$ 17,626
Borrowings and other non-current financial liabilities.....	53,061	51,887	42,383	1,136	9,504
Equity.....	47,526	44,338	37,489	3,188	6,849

Dividends declared for each class of issued securities for the three most recently completed years are presented on page 33.

ANNUAL FINANCIAL PERFORMANCE

The following section contains a discussion and analysis of line items presented within our consolidated financial statements. We have disaggregated several of the line items into the amounts that are attributable to our eight operating segments in order to facilitate the review of variances.

The financial data in this section has been prepared in accordance with IFRS for each of the three most recently completed financial years. The 2012 and 2011 consolidated IFRS results have been adjusted to reflect changes in the company's accounting policies on a retroactive basis, as noted in Part 6 of this MD&A and Note 2 of the December 31, 2013 consolidated financial statements.

Overview

2013 vs. 2012

Net income attributable to shareholders of \$2.12 billion increased \$740 million or 54% from a year ago. On a per share basis, net income was \$3.12 and \$1.97 in the current and prior year, respectively.

The increase in net income reflects improved operating performance in almost all of our operations. Of particular note, we earned \$566 million of carried interests within our asset management activities and a \$664 million gain on the sale of an investment within our private equity operations (\$261 million attributable to shareholders), both of which are included in total revenue and other gains in our Consolidated Statement of Operations. We also recorded \$525 million of other income on the settlement of long-dated interest rate swaps. Direct costs were virtually unchanged as the addition of costs within recently acquired or expanded operations were offset by the removal of costs associated with operations sold during the past two years.

We recorded a lower level of fair value gains on consolidated investment property assets as well as those held through equity accounted investments, resulting in a decrease of \$478 million in equity accounted income and a decrease of \$490 million in fair value changes. Our provision for income taxes increased by \$326 million, while the net income attributable to non-controlling interests increased by \$349 million, reflecting the higher level of earnings.

2012 vs. 2011

In 2012, net income attributable to shareholders of \$1.38 billion decreased by \$577 million or 29% from 2011. Net income per share for was \$1.97 for 2012 and \$2.89 in 2011.

The most significant contributor to the decrease in net income in 2012, compared to 2011, was the amount of fair value changes recorded in 2011, including our proportionate share of fair value gains recorded by equity accounted investments. The largest single factor was a decrease of \$422 million in the equity accounted income from General Growth Properties ("GGP") in 2012 compared to 2011, almost all of which was attributable to shareholders. The decrease reflects our share of the reduced amount of fair value gains recorded on GGP's investment properties in 2012 relative to 2011. We also recorded a lower level of fair value gains in equity accounted commercial office properties relative to 2011 in part due to the consolidation of our U.S. Office Fund part way through that year.

Statement of Operations

Total Revenues and Other Gains and Direct Costs

The following tables present consolidated total revenues and other gains and direct costs, which we have disaggregated into our operating segments, consistent with Note 3 to our consolidated financial statements, in order to facilitate a review of year-over-year variances. Segmented revenue is presented in the following table and reconciled to consolidated revenues.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Change				
	2013	2012	2011	2013 vs 2012	2012 vs 2011
Total revenues and other gains					
Asset management.....	\$ 1,183	\$ 450	\$ 331	\$ 733	\$ 119
Property.....	4,569	3,982	2,760	587	1,222
Renewable energy.....	1,620	1,179	1,140	441	39
Infrastructure.....	2,388	2,178	1,792	210	386
Private equity.....	4,804	4,424	3,912	380	512
Residential development.....	2,521	2,476	2,850	45	(374)
Service activities.....	3,817	4,140	3,204	(323)	936
Corporate activities.....	347	260	228	87	32
Eliminations and adjustments ¹	(419)	(323)	(229)	(96)	(94)
Total consolidated revenues.....	<u>\$ 20,830</u>	<u>\$ 18,766</u>	<u>\$ 15,988</u>	<u>\$ 2,064</u>	<u>\$ 2,778</u>

1. Adjustment to eliminate base management fees and interest income earned from entities that we consolidate. See Note 3 to our Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012	2011	Change	
				2013 vs 2012	2012 vs 2011
Direct costs					
Asset management.....	\$ 318	\$ 260	\$ 226	\$ 58	\$ 34
Property.....	2,333	1,812	1,077	521	735
Renewable energy.....	550	475	379	75	96
Infrastructure.....	1,125	1,190	959	(65)	231
Private equity.....	3,391	3,826	3,592	(435)	234
Residential development.....	2,297	2,279	2,537	18	(258)
Service activities.....	3,687	3,911	3,054	(224)	857
Corporate activities.....	66	114	46	(48)	68
Eliminations and adjustments ¹	161	94	87	67	7
	<u>\$ 13,928</u>	<u>\$ 13,961</u>	<u>\$ 11,957</u>	<u>\$ (33)</u>	<u>\$ 2,004</u>

1. Adjustment to reallocate unallocated segment costs

2013 vs. 2012

Total revenues and other gains increased by \$2.06 billion or 11% from last year and direct costs decreased by \$33 million or 0.2%.

Asset management: Revenues increased by \$733 million to \$1,183 million with carried interests contributing \$549 million of the increase. We realized \$566 million of carried interests upon crystallizing client investment gains in 2013, including \$558 million on our consortium investment in General Growth Properties. Base management fees increased by \$150 million to \$502 million due to a 32% increase in fee bearing capital following the formation of Brookfield Property Partners and increases in capital committed to property and infrastructure funds. The increase in direct costs reflects the higher level of fee bearing capital, which in turn gave rise to an increased level of investment activity and professional resources. We reallocated costs from our corporate activities segment to our asset management segment following the formation of Brookfield Property Partners to match them with the associated fee revenues. The increase in performance based fees within our public securities operations resulted in increased performance based compensation awards.

Property: Revenues and direct costs increased by \$587 million and \$521 million, respectively, primarily due to the inclusion of a full year of results of a large hotel resort property that was acquired in April 2012 and the revenues and costs of industrial and logistics businesses acquired in 2013 and during the latter part of 2012.

Renewable energy: Generation revenues were \$441 million higher than the prior year. Revenue from facilities owned throughout both years increased by \$209 million from a return to near normal hydrology conditions in North America, compared to very dry conditions in 2012, which resulted in generation that was 12% below long-term averages. Newly acquired or commissioned assets contributed an additional \$218 million of revenues. Direct costs are largely fixed and increased by \$75 million over the prior year reflecting the costs incurred by new assets.

Infrastructure: Revenues increased \$210 million compared to prior year due to additional revenues from recently completed capital expansions initiatives, including our Australian rail expansion, and acquisitions of a utility business in the United Kingdom and toll roads in South America. This was partially offset by lower timber revenues following the sale of our Pacific Northwest timberlands during the third quarter of the year. Direct costs decreased by \$65 million during the year, following the sale of Pacific Northwest timberlands which was partially offset by costs incurred within recently acquired or expanded businesses.

Private equity: Total revenues and other gains increased by \$380 million and direct costs decreased by \$435 million, primarily as a result of the sale of a paper and packaging business midway through 2013 on which we recorded a gain of \$664 million. Excluding the gain, revenues decreased following the elimination of revenues generated by disposed assets. This decrease was partially offset by the impact of higher prices and increased volumes within our wood-based panel production and forestry operations. U.S. housing starts, the largest driver of the North American panelboard demand, improved 18% in 2013, resulting in oriented strand board prices reaching the highest level in nine years. Average realized prices during 2013 for lumber and logs were higher by 8% and 21%, respectively, over last year in our forest products business.

Residential development: The increase in residential revenues of \$45 million is due to increased volumes of home closings combined with an increase in average home selling price resulting in higher housing margins. The increase in revenues from home closings was offset by decreased land sales revenue for the year ended December 31, 2013. We completed a larger volume of lots and multifamily acre parcel sales in 2012. Direct costs increased by \$18 million reflecting the costs incurred in respect of increased home sales.

Service activities: Revenues decreased by \$323 million, the majority of which reflects the absence of revenues and costs following the partial sale of an Australian property services business in early 2013 and the majority sale of a large U.S. property brokerage business in late 2012 which resulted in both of these operations being deconsolidated. These decreases were partially offset by higher construction revenues relating to increases in the number and scale of projects under construction.

Corporate activities: Revenues increased, primarily from stronger capital market performance within our cash and financial asset portfolio.

2012 vs. 2011

Total revenues and other gains increased by \$2.78 billion or 17% in 2012 and direct costs increased by \$2.00 billion or 17%.

Asset management: Revenues and direct costs increased by \$119 million and \$34 million over the prior year, respectively. Base management fees increased by \$83 million to \$352 million, due to a higher level of fee bearing capital during the year and also included a full year of base management fees from Brookfield Renewable Energy Partners, which was launched in late 2011. Direct costs in our asset management business were consistent between 2011 and 2012. Although we increased the number of funds we manage and our overall fee bearing capital, the operating resources and related costs were largely in place in 2011.

Property: Revenues and direct costs increased by \$1.2 billion and \$735 million, respectively. The consolidation of our U.S. Office Fund and Brookfield Place New York in the second half of 2011 meant that we included their results in revenues and costs whereas before they were included in equity accounted income. Brookfield Place Perth was completed in May 2012 and began contributing to rental revenue at that time. The two large resort properties acquired in March 2011 and April 2012, contributed increases in revenues and costs over the prior year of \$579 million and \$549 million, respectively, and have large operating costs relative to office and retail properties due to the nature of their business.

Renewable energy: Generation revenues were up marginally as the addition of revenues from acquired and commissioned facilities was offset by lower generation, reflecting unusually low water conditions during the second and third quarters of 2012. Direct costs within our renewable energy operations were not significantly impacted by the reduced generation as they are largely fixed in nature. The increase in costs largely reflects acquisitions and the impact of increased foreign exchange rates on our Brazilian operations.

Infrastructure: Revenues increased by \$386 million as a result of a number of acquisitions during the year, as well as the completion of expansion projects, offset by the impact of lower volumes and pricing on our timber revenues. The increase in direct costs of \$231 million reflects additional costs incurred within newly acquired or expanded businesses.

Private equity: The increase in revenues within our private equity group was \$512 million which primarily relates to significantly higher North American OSB prices and shipment volumes on our wood-based panel production operations benefitting from the U.S. housing recovery. Direct costs increased as a result of the increased volumes.

Residential development: Residential development revenues decreased by \$374 million as our Brazilian operations experienced lower levels of completed projects in comparison to the prior year. The 2011 results also included the one-time disposition of non-core residential assets. Direct costs decreased by \$258 million primarily reflecting the lower level of completed projects within our Brazilian residential operations.

Service activities: The increase in revenues within our service activities group was \$936 million of which approximately \$680 million relates to increases in construction revenues reflecting an increase in the number and scale of projects under construction, and approximately \$170 million relates to increases in property services revenue reflecting the acquisition of a large U.S. relocation and property brokerage business in late 2011. Direct costs increased proportionately.

Corporate activities: Both revenues and direct costs increased as a result of market performance.

Other Income

We recorded a \$525 million gain on the termination of a long-dated interest rate swap contract, which originated in 1990. In August 2013, we paid \$905 million to terminate the contract, which had accrued to a total liability of \$1,440 million in our consolidated financial statements at the time of settlement. The gain is equal to the difference between the accrued amount and termination payment, adjusted for associated transaction costs.

Equity Accounted Income

Equity accounted income represents our share of the components of net income recorded by investments over which we exercise significant influence and is reported as a single line item in our consolidated statement of operations.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Change				
	2013	2012	2011	2013 vs 2012	2012 vs 2011
General Growth Properties.....	\$ 426	\$ 979	\$ 1,401	\$ (553)	\$ (422)
U.S. Office Fund ¹	—	—	437	—	(437)
Other property operations.....	447	198	216	249	(18)
Infrastructure operations.....	(193)	9	109	(202)	(100)
Other.....	79	51	36	28	15
	<u>\$ 759</u>	<u>\$ 1,237</u>	<u>\$ 2,199</u>	<u>\$ (478)</u>	<u>\$ (962)</u>

1. Excludes income from equity accounted investments within the U.S. Office Fund

Equity accounted income from our investment in GGP decreased by \$553 million between 2012 and 2013 and by \$422 million between 2011 and 2012. GGP recorded particularly large fair value gains in both 2012 and 2011 due to increases in the cash flows generated by its portfolio of retail malls as well as increasing valuation metrics for that asset class. Our share of gains in 2012 and 2011 were \$707 million and \$1,170 million, respectively. GGP's fair value gains in 2013 were largely related to redevelopment activities progressing ahead of plan and increases in budgeted cash flows. In connection with the recognition of these gains, we reviewed the embedded goodwill within our investment and recorded a \$249 million impairment of the goodwill associated with GGP's redevelopment operations. Our share of GGP's net income excluding these items for 2013, 2012 and 2011 was \$283 million, \$272 million and \$231 million, respectively, and increased as a result of increases in occupancy and net rents per square foot and lower financing costs.

Equity accounted income from other property operations increased by \$249 million in 2013 compared to a \$18 million decrease in 2012. The increase was due to our share of higher fair value gains at in our North American office investments and our share of net income at Rouse Properties Inc. ("Rouse Properties").

Equity accounted income from infrastructure operations declined \$202 million compare to 2012. We recorded a valuation charge of \$87 million against the carrying value of our North American natural gas pipeline investment reflecting weak market fundamentals. This was partially offset by increased earnings associated with our increased ownership percentage at our Brazilian toll road investment. The decrease in equity accounted income between 2011 and 2012 was due to decline in the level of fair value gains within our transmission operations.

Interest Expense

The following table presents interest expense organized by the balance sheet classification of the associated liability:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Change				
	2013	2012	2011	2013 vs 2012	2012 vs 2011
Corporate borrowings.....	\$ 204	\$ 209	\$ 197	\$ (5)	\$ 12
Non-recourse borrowings					
Property-specific mortgages.....	1,837	1,808	1,724	29	84
Subsidiary borrowings.....	464	408	340	56	68
Capital securities.....	48	75	94	(27)	(19)
	<u>\$ 2,553</u>	<u>\$ 2,500</u>	<u>\$ 2,355</u>	<u>\$ 53</u>	<u>\$ 145</u>

The majority of our borrowings are fixed rate long-term financings. Accordingly, changes in interest rates are generally limited to the impact of refinancing activities or changes in the level of debt as a result of acquisitions and dispositions.

Interest expense from corporate borrowings decreased from 2012 as a result of lower cost and lower borrowing levels, following the refinancing of higher coupon debt at lower rates. Interest expense increased in 2012 compared to 2011 due to higher average levels of borrowings, as well as slightly higher exchange rates on Canadian dollar borrowings.

Interest expense on property-specific and subsidiary corporate borrowings increased over the prior year and is primarily attributable to borrowings associated with acquisitions and capital projects in our Property, Renewable Energy and Infrastructure operations, including the use of subsidiary revolving facilities to finance acquisitions until long-term financings are put into place. This was partially offset by the termination of a long-dated high coupon interest rate swap which was previously included within subsidiary borrowings and refinanced with corporate borrowings at lower rates. The increase in interest expense between 2011 and 2012 primarily relates to consolidation of our U.S. Office Fund in 2011, resulting in our recording its interest expenses in our consolidated results, whereas previously it was presented on a net basis within equity accounted results.

Interest expense includes dividends declared on our capital securities, which are treated as liabilities under IFRS even though they are preferred shares, because they may be redeemed at the holder's option after a specific date for a variable number of Class A Limited Voting Shares ("Class A shares"), or when issued by a subsidiary, a variable number of the subsidiary's shares. We redeemed C\$350 million of capital securities during the year and C\$500 million in 2012, reducing the associated carrying charges in both 2013 and 2012.

Fair Value Changes

As noted under "Use of Fair Value Accounting" on page 16, we utilize fair value accounting for our commercial properties, standing timber and agricultural assets, and certain financial instruments and power sales agreements that do not qualify as hedges. Changes in the values of these items are recorded as "fair value changes" in our consolidated statement of operations.

FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012	2011	Change	
				2013 vs 2012	2012 vs 2011
Investment property.....	\$ 1,031	\$ 1,276	\$ 1,477	\$ (245)	\$ (201)
Power contracts.....	(134)	9	54	(143)	(45)
Interest rate and inflation contracts.....	10	(81)	(64)	91	(17)
Private equity and residential development.....	(127)	(119)	(74)	(8)	(45)
Sustainable resources.....	19	135	301	(116)	(166)
Redeemable units.....	(20)	(11)	(376)	(9)	365
Other.....	(116)	(56)	77	(60)	(133)
	<u>\$ 663</u>	<u>\$ 1,153</u>	<u>\$ 1,395</u>	<u>\$ (490)</u>	<u>\$ (242)</u>

Investment Properties

Fair value gains from changes in investment property values totalled \$1.0 billion in 2013 compared to \$1.3 billion in 2012 and \$1.5 billion in 2011. In each year the gains related primarily to our office properties. Values benefitted from continued declines in discount rates and terminal capitalization rates, each of which declined by approximately 10 basis points on average, reflecting a continued favorable investment climate for high quality commercial office properties. Gains also reflected improvements in projected cash flows based on tenant profile and local market conditions at each year end, based on improvements in local economic conditions, tenant leasing profiles, and rental markets. The decline in rates contributed approximately 53% of the gains, while improvements in projected cash flows contributed approximately 47% of the gains.

Fair value gains were larger in 2012 due to larger declines in discount rates and terminal capitalization rates. Average discount rates declined in each of our principal regions by 20 to 30 basis points, while terminal capitalization rates decreased in Australia and Canada by 40 basis points and 50 basis points, respectively. The changes in rates contributed approximately 70% of the gains, while increases in projected cash flows contributed the remainder.

The 2011 fair value gains reflected larger declines in average discount rates (60 basis points) and terminal capitalization rates (40 basis points) within our U.S. portfolio than in 2012 or 2011, with smaller declines in Australia and Canada. However the declines in U.S. rates gave rise to a higher level of fair value gains in 2011 because our U.S. portfolio is significantly larger than our Australia and Canadian portfolios.

Power Contracts

Certain of our long-term power contracts are accounted for as derivatives with changes in fair value recorded in net income. These contracts generally relate to the future sale of electricity at fixed prices and therefore increase in value when prices decline, and vice versa. We recorded a mark-to-market loss of \$134 million in the current year on these contracts because the projections for future electricity prices increased, compared to \$9 million and \$54 million of gains in 2012 and 2011, respectively.

Private Equity and Residential Development

Private equity fair value changes reflect lower reserves at investee companies in the energy sector, due to competitive drainage, reductions in well performance and reduced pricing, resulting in a \$94 million change in 2013. We also recorded valuation charges within our Brazilian residential development operations as a result of higher costs and project overruns.

Sustainable Resources

We sold most of our North American timberlands in 2012 and 2013, with the result that the amount of sustainable resource assets subject to fair value changes was significantly lower during 2013. We recorded fair value gains on our timberlands and agricultural lands during 2011 and 2012, due in large part to declines in interest rates as well as improvements in projected cash flows.

Redeemable Units

Fair value changes on redeemable units contributed a valuation charge of \$363 million in 2011 that related primarily to increases in the stock market price of units held by others in our listed renewable energy entity, which we were required to record as a liability and mark to market. Following the reorganization of this entity into Brookfield Renewable Energy Partners L.P. ("BREP" or "Brookfield Renewable Energy Partners") in late 2011, the successor units are now treated as non-controlling interests and no longer marked to market, giving rise to a lower amount of redeemable units issued by consolidated entities and therefore lower levels of fair value changes.

Depreciation and Amortization

Depreciation and amortization includes the depreciation of property, plant and equipment as well as the amortization of intangible assets. Two of the largest contributions to depreciation and amortization are our renewable energy and infrastructure facilities, which are revalued annually in other comprehensive income (“OCI”); but which are depreciated in net income. Depreciation of these assets is based on their fair value at the beginning of each year. We do not record depreciation on assets that are classified as investment properties (i.e., commercial office and retail properties) or biological assets (for example our timberlands and agricultural assets). The amount of depreciation and amortization is generally consistent year-over-year with large changes typically due to the addition or removal of depreciable assets and revaluation of their carrying values.

Depreciation and amortization is summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Change				
	2013	2012	2011	2013 vs 2012	2012 vs 2011
Renewable energy.....	\$ 553	\$ 499	\$ 455	\$ 54	\$ 44
Infrastructure.....	346	248	148	98	100
Private equity.....	275	282	260	(7)	22
Property.....	256	225	33	31	192
Other.....	25	9	9	16	—
	<u>\$ 1,455</u>	<u>\$ 1,263</u>	<u>\$ 905</u>	<u>\$ 192</u>	<u>\$ 358</u>

Depreciation and amortization on our renewable energy facilities increased by \$54 million in 2013, which follows a \$44 million increase in the preceding year. We recorded increases in the value of our power facilities at the end of 2011 and 2012, which increased the amount of depreciation during the ensuing years. Acquisitions and commissioning of new assets also contributed to increases in depreciation in each year.

Infrastructure depreciation and amortization increased by approximately \$98 million between 2013 and 2012, following a similar increase between 2012 and 2011, due to depreciation recorded in respect of increased asset valuations, acquisitions and the developments coming on line.

Although most of our property assets are considered investment properties and are not depreciated under IFRS, we acquired hotel operations in 2011 and 2012, which are considered property, plant and equipment and utilize the revaluation method. The increase in depreciation in 2013 and 2012 over 2011 is a result of depreciation and amortization recorded on tangible and intangible assets within these operations.

Income Taxes

Our effective tax rate in 2013 was 18% (2012 – 16%; 2011 – 13%), while our Canadian domestic statutory income tax rate for 2013 was 26% (2012 – 26%; 2011 – 28%). The differences are primarily attributable to our role as a global asset manager.

As an asset manager, many of our operations and the associated net income occur within partially owned, “flow through” entities such as partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated net income includes income attributable to non-controlling ownership interest in these entities, our consolidated tax provision includes only our proportionate share of the tax provision of these entities. In other words, we are consolidating all of their net income, but only our share of their tax provision. This gave rise to a 7% difference between the effective and statutory tax rate in 2013.

In addition, as a global company, we operate in countries with different tax rates, most of which vary from our domestic statutory rate and we also benefit from tax incentives introduced in various countries to encourage economic activity. Differences in global tax rates gave rise to a 3% reduction in our effective tax rate compared to a 9% deduction in 2012. The difference will vary from year to year depending on the relative proportion of income in each country.

The tax provision includes both a current and deferred tax provision. The current tax provision represents the portion of the provision that gives rise to a current tax liability. The deferred tax provision arises from income that is subject to tax in future periods (commonly referred to as “timing differences”) and the utilization of existing tax assets such as accumulated tax losses.

In our case, the deferred tax provision relate principally to fair value gains, which are not taxable until the assets are sold, and therefore do not give rise to a current tax liability, as well as the depreciation of assets which are depreciated for tax purposes at rates that differ from the rates used in our financial statements.

Our income tax provision does not include a number of non-income taxes paid that are recorded elsewhere in our financial statements. For example, a number of our operations in Brazil are required to pay non-recoverable taxes on revenue, which are included in direct costs as opposed to income taxes. In addition, we pay considerable property, payroll and other taxes that represent an important component of the tax base in the jurisdictions in which we operate.

2013 vs. 2012 vs. 2011

The provision of income taxes for 2013 was \$845 million (2012 – \$519 million; 2011 – \$508 million). The increase from 2012 to 2013 is due in large part to a higher level of net income; in particular the deferred tax expense associated with a \$525 million gain recorded as other income. We also recorded a deferred tax expense of \$178 million in connection with the formation of Brookfield Property Partners, although this transaction did not impact pre-tax net income, while the 2012 period included a \$132 million charge in respect of an internal reorganization within our property operations, which similarly did not impact pre-tax net income. The 2011 provision included a \$71 million expense reflecting the impact of a reduction in the Canadian corporate income tax rate on the carrying value of Canadian deferred tax assets.

Our effective tax rate in 2013 was 8% lower (2012 – 10% lower; 2011 – 15% lower) than our domestic statutory rate.

In 2013, a difference of 7% was due to the inclusion of income attributable to non-controlling interests that is taxed in the hands of the investors as discussed above. Differences in international tax rates gave rise to a reduction of 3% in 2013 (2012 – 9%; 2011 – 11%). The differences in each year reflect changes in the proportion of income that was taxable at lower international rates. In 2011, we recorded a 6% reduction in respect of income that was recorded for financial statement purposes, but was not subject to tax.

In 2013, the tax provision includes current income taxes of \$159 million (2012 – \$135 million; 2011 – \$97 million) and a deferred tax provision of \$686 million (2012 – \$384 million; 2011 – \$411 million) that was associated primarily with non-taxable fair value gains and depreciation at higher tax rates, or was offset by existing tax assets such as accumulated tax losses. The level of current income tax increased during each year, which is mainly due to expanding infrastructure and power operations in South America where a higher level of current taxes are paid relative to prior years.

Non-controlling Interests

Non-controlling interests represent the portion of net income of consolidated entities that is attributable to other investors. Non-controlling interests totalled \$1.7 billion in 2013 compared to \$1.4 billion in 2012 and \$1.7 billion in 2011, representing 45%, 50% and 47% of consolidated net income, respectively, in each of these years. The variances between these three years reflect the overall change in consolidated net income.

Other Comprehensive Income (“OCI”)

Fair Value Changes and Other

Fair value changes and other items recorded in OCI include revaluations of property, plant and equipment, such as our power generating facilities and certain infrastructure assets, as well as changes in the values of financial contracts and power sale agreements that qualify for hedge treatment, changes in the value of available-for-sale securities and the revaluation of pension assets and liabilities, as well as our share of similar items recorded by equity accounted investments.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Change				
	2013	2012	2011	2013 vs 2012	2012 vs 2011
Revaluations of property, plant and equipment					
Renewable energy.....	\$ (150)	\$ 825	\$ 2,292	\$ (975)	\$ (1,467)
Infrastructure.....	781	611	357	170	254
Property.....	195	55	—	140	55
	<u>826</u>	<u>1,491</u>	<u>2,649</u>	<u>(665)</u>	<u>(1,158)</u>
Financial contracts and power sale agreements.....	442	(17)	(855)	459	838
Equity accounted investments.....	239	145	194	94	(49)
Other.....	1	(1)	(69)	2	68
	<u>\$ 1,508</u>	<u>\$ 1,618</u>	<u>\$ 1,919</u>	<u>\$ (110)</u>	<u>\$ (301)</u>

2013 vs. 2012

Fair value changes within our infrastructure operations totalled \$781 million (2012 – \$611 million). The 2013 fair value gains reflect increases in the value of our Western Australian rail lines following the completion of a major expansion and securing long-term take-or-pay contracts, and increased volumes, expansion backlog and margins within transmission and distribution businesses. We also recorded \$195 million of fair value gains in our property segment based on improved valuations from our resort properties. These gains were partially offset by a \$150 million decrease in the valuation of our renewable power facilities, reflecting the impact of higher discount rates on these assets.

We recorded \$442 million of gains on our financial contracts and power sale agreements compared to a loss of \$17 million in 2012. The current year benefitted from gains recorded on interest rate contracts that “lock-in” the benchmark interest rate on new financings which increased in value as a result of increases in interest rates during the year.

2012 vs. 2011

Fair value changes and other in OCI during 2012 included a \$825 million increase in the valuation of our renewable energy facilities reflecting the positive impact of lower discount rates offset in part by the impact of lower price forecasts on projected cash flows. The 2011 results included a \$2.3 billion gain, which reflected a larger decrease in discount rates than in 2012.

We recorded an approximate \$350 million increase in the valuation of our Western Australian rail project following a \$276 million gain in 2011. The revaluation of property, plant and equipment in other infrastructure units resulted in a further \$200 million of fair value gains in 2012, reflecting capital improvements, lower discount rates and improved cash flows.

Foreign Currency Translation

We record the impact of changes in foreign currencies on the carrying value of our net investments in non-U.S. operations in other comprehensive income. As at December 31, 2013, our IFRS net equity of \$17.8 billion was invested in the following currencies, principally in the form of net investments which are revalued through other comprehensive income: United States – 51%; Australia – 14%; Brazil – 15%; Great Britain – 10%; Canada – 5%; and other – 5%. From time to time, we utilize financial contracts to adjust these exposures. Changes in the value of currency contracts that qualify as hedges are included in foreign currency translation. During 2013, the value of our principal non-U.S. currencies (Australia, Brazil and Canada) all declined against the U.S. dollar (see table on page 17), giving rise to a total decrease of \$2.4 billion after the mitigating impact of hedges, or \$1.2 billion after non-controlling interests. During 2012, the value of the Brazilian real declined by 9% compared to the U.S. dollar, which resulted in a loss of \$110 million after considering the impact of other currency movements and hedging activities.

FINANCIAL PROFILE

Consolidated Assets

The following table presents our consolidated assets at the end of the past years:

AS AT DECEMBER 31 (MILLIONS)	Total Consolidated Assets		
	2013	2012	2011
Investment properties.....	\$ 38,336	\$ 33,161	\$ 28,366
Property, plant and equipment.....	31,019	31,148	22,865
Sustainable resources.....	502	3,516	3,381
Investments.....	13,277	11,618	9,332
Cash and cash equivalents.....	3,663	2,850	2,031
Financial assets.....	4,947	3,111	3,773
Accounts receivable and other.....	6,666	6,952	6,732
Inventory.....	6,291	6,581	6,062
Intangible assets.....	5,044	5,770	3,974
Goodwill.....	1,588	2,490	2,607
Deferred income tax asset.....	1,412	1,665	2,113
	<u>\$ 112,745</u>	<u>\$ 108,862</u>	<u>\$ 91,236</u>

Consolidated balance sheet assets increased to \$112.7 billion at the end of 2013. This represents an increase of \$3.9 billion over the 2012 year end, which followed a \$17.6 billion increase between 2011 and 2012. Acquisition and development initiatives increased the carrying value of our investment properties, property, plant and equipment, and investments as well as positive fair value changes. We sold \$6.0 billion of non-core assets during 2013, including Pacific Northwest timberlands within our sustainable resources operations, a pulp and paper company within our private equity operations and numerous non-core investment properties within our property operations. A higher U.S. dollar resulted in a decrease the translated value of assets denominated in non-U.S. dollar currencies, which further offset the impact of acquisition and development initiatives in 2013 and had a smaller impact in 2012.

Investment Properties

The following table presents the major contributors to the year-over-year variances for our investment properties:

AS AT AND FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Balance, beginning of year.....	\$ 33,161	\$ 28,366
Acquisitions and additions.....	7,365	4,508
Dispositions.....	(1,908)	(1,136)
Fair value changes.....	1,031	1,276
Foreign currency translation.....	(1,313)	147
Net increase.....	5,175	4,795
Balance, end of year.....	\$ 38,336	\$ 33,161

Acquisitions and development activity increased our investment properties by \$7.4 billion. Acquisitions included logistics and distribution properties in the UK and the southwestern U.S. The company also purchased, together with fund partners, a large portfolio of office properties in Los Angeles. We sold 56 properties during the year, which decreased investment properties by \$1.9 billion and crystallized \$244 million of valuation gains. The prior year included \$107 million of losses on non-core asset sales.

Fair value changes increased carrying values by \$1,031 million (2012 – \$1,276 million), as discussed on page 23.

The fair value of investment properties is generally determined by discounting the expected future cash flows of the properties, generally over a term of 10 years using discount and terminal capitalization rates reflective of the characteristics, location and market of each property. The key valuation metrics of our investment properties are presented in the following table on a weighted average basis, disaggregated into the principal operations of our property segment for analysis purposes. The valuations are most sensitive to changes in discount rates and terminal capitalization rates. It is important to note that changes in cash flows and discount/terminal capitalization rates are usually inversely correlated as the circumstances that typically give rise to increased interest rates (i.e., strong economic growth, inflation) usually give rise to increased cash flows although timing may vary.

	Office		Retail		Multifamily, Industrial and Other		Weighted Average	
AS AT DECEMBER 31	2013	2012	2013	2012	2013	2012	2013	2012
Discount rate.....	7.4%	7.6%	9.2%	8.7%	8.6%	8.8%	7.7%	7.8%
Terminal capitalization rate.....	6.3%	6.5%	7.6%	7.5%	7.5%	8.1%	6.6%	6.8%
Investment horizon (years).....	11	11	10	10	10	10	11	11

Property, Plant and Equipment

The following table presents the major components of the year-over-year variances for our property, plant and equipment (“PP&E”), disaggregated by operating platform for analysis purposes:

	Renewable Energy		Infrastructure		Property		Other		Total	
AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Balance, beginning of year.....	\$16,532	\$14,727	\$ 8,736	\$ 4,702	\$ 2,968	\$ 640	\$ 2,912	\$ 2,796	\$31,148	\$22,865
Acquisitions and additions.....	1,606	1,530	533	3,472	153	2,490	656	469	2,948	7,961
Dispositions.....	(28)	(20)	(654)	(48)	(16)	—	(336)	(64)	(1,034)	(132)
Fair value changes.....	(150)	830	691	707	166	4	(94)	(58)	613	1,483
Depreciation.....	(551)	(489)	(286)	(201)	(130)	(166)	(217)	(283)	(1,184)	(1,139)
Foreign currency translation.....	(798)	(46)	(456)	104	(99)	—	(119)	52	(1,472)	110
Net increase (decrease).....	79	1,805	(172)	4,034	74	2,328	(110)	116	(129)	8,283
Balance, end of year.....	\$16,611	\$16,532	\$ 8,564	\$ 8,736	\$ 3,042	\$ 2,968	\$ 2,802	\$ 2,912	\$31,019	\$31,148

We carry PP&E in our renewable energy operations and a significant portion of the PP&E within our infrastructure operations at fair value and revalue these assets at the end of each fiscal year.

Renewable Energy

Renewable energy PP&E increased slightly to \$16.6 billion during 2013. Acquisition and development activity added \$1.6 billion of assets during the year (2012 – \$1.5 billion), which was offset by \$551 million of depreciation, a \$150 million fair value reduction and a decrease of \$798 million due to the impact of lower currency exchange rates on our Brazilian and Canadian operations.

We acquired additional hydroelectric facilities in Tennessee, New England and Brazil and completed the development of wind energy facilities in Brazil. We also acquired the remaining 50% of a joint venture and commenced consolidating the PP&E within the venture, which was previously included in investments.

In 2012 we acquired nearly 1,000 megawatts of renewable power facilities capacity through our institutional funds including two large-scale hydroelectric portfolios valued at \$1.4 billion.

We discuss fair value changes on pages 25 and 26.

The key valuation metrics of our hydro and wind generating facilities at the end of 2013 and 2012 are summarized below. The valuations are impacted primarily by the discount rate and long-term power prices. Discount rates are based on our after-tax cost of capital and are adjusted to reflect whether revenues are subject to long-term contracts or spot market pricing. Projected cash flows are based on in-place contracts and expected market prices for non-contracted power. Forward market prices are used for the first four years, during which time there is adequate liquidity to permit appropriate price discovery, and thereafter prices are determined using internal projections that reflect our view of future market capacity, cost of capital, costs of fuel for competing forms of generation and competitive attributes of renewable energy. 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 common equity by \$1.8 billion and \$0.5 billion, respectively.

	United States		Canada		Brazil	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Discount rate						
Contracted.....	5.8%	5.2%	5.1%	4.7%	9.1%	8.6%
Uncontracted.....	7.6%	7.0%	6.9%	6.5%	10.4%	9.9%
Terminal capitalization rate.....	7.1%	7.0%	6.4%	6.5%	n/a	n/a
Exit date.....	2033	2032	2033	2032	2029	2029

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.

Infrastructure

Infrastructure PP&E decreased slightly to \$8.6 billion during 2013. During the year we sold our Pacific Northwest timberlands and the associated production assets which reduced PP&E by \$654 million after having increased by \$3.4 billion during 2012. Fair value changes increased the carrying values by \$691 million during 2013 (2012 – \$707 million), as discussed on pages 25 and 26. During 2012 we completed the acquisition of a UK regulated distribution business and a Chilean toll road which contributed towards a \$3.5 billion increase in PP&E. The decline in the exchange rates for the Australian and Brazilian currency contributed to a \$456 million decrease due to foreign currency translation.

We revalue our infrastructure assets on an annual basis using discounted cash flow models, which includes estimates of forecasted revenues, operating costs, maintenance and other capital expenditures. Discount rates are selected for each asset giving consideration to the assets revenue streams and geography where they are located.

The key valuation metrics of our utilities, transport and energy operations are summarized below:

	Utilities		Transport		Energy	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Discount rate	8% – 13%	8% – 13%	11% – 12%	11% – 12%	15% – 16%	12% – 15%
Terminal capitalization multiples.....	10x – 16x	9x – 17x	7x – 11x	8x – 11x	8x – 12x	7x – 8x
Investment horizon (years).....	10 – 20	10 – 20	10 – 11	10 – 11	10 – 11	10 – 11

Property

Property PP&E primarily consists of hotel and resort operations, which increased by \$74 million. The largest change was the increase in the valuation of a resort operation which increased in value based on increased expected cash flows. We acquired a controlling interest in a large resort property in 2012 which gave rise to a \$2.5 billion increase in property PP&E in that year.

Key valuation assumptions for our hospitality operations included a weighted average discount rate of 10.5% (2012 – 9.9%), terminal capitalization rate of 7.6% (2012 – 7.5%), and investment horizon of 7 years (2012 – 5 years).

Sustainable Resources

Sustainable resources declined to \$0.5 billion at December 31, 2013. The \$3 billion reduction is due almost entirely to the sale of our Pacific Northwest and Western Canadian timber operations. We carry our sustainable resources assets at fair value, and revalue them quarterly with adjustments recorded as fair value changes in our statement of operations. We recorded modest fair value gains during each of 2013 and 2012. During 2012 our sustainable resource assets increased due to an increase in the valuation of these assets.

Our sustainable resources key valuation assumptions include a weighted average discount and terminal capitalization rate of 6.9% (2012 – 6.2%), and terminal valuation dates of 20 to 28 years (2012 – 20 to 90 years). Timber and agricultural asset prices were based on a combination of forward prices available in the market and the price forecasts. The decrease in terminal valuation dates was a result of the sale of our Pacific Northwest timber operations.

Investments

Our largest investment is a 28% interest in General Growth Properties (“GGP”) with a carrying value at December 31, 2013 of \$6.0 billion. Certain of our investee entities, including GGP, carry their assets at fair value, in which case we record our proportionate share of any fair value adjustments. Changes in the carrying values of equity accounted investments typically relate to the purchase or sale of shares and our share of their comprehensive income, including fair value changes, and are reduced by our share of any dividends or other distributions.

Investments increased by \$1.7 billion during 2013 and by \$2.3 billion during 2012. The majority of the increases in 2013 include our follow-on investment in GGP (\$995 million) and in our South American toll roads. These increases were partially offset by valuation charges against the carrying value of our natural gas pipeline investment and GGP, as well as lower foreign currency valuation.

Investments increased by \$2.3 billion in 2012, reflecting our share of their net income, in particular fair value changes, and we acquired several equity accounted investments within our infrastructure operations.

GGP owns a large U.S. retail mall portfolio which at year end was valued on a discounted cash flow basis using a discount rate of 7.6%, a terminal capitalization rate of 5.8%, and an investment horizon of 10 years.

Intangible Assets

Intangible assets relate primarily to concession arrangements within our infrastructure operations, in particular our Australian coal terminal (\$2.2 billion) and Chilean toll roads (\$1.3 billion). Intangible assets declined by \$726 million during 2013 due to amortization and the impact of lower exchange rates on intangible assets within non-U.S. operations. Intangibles increased by \$1.7 billion during 2012 as the acquisition of the Chilean toll roads during the year gave rise to \$1.4 billion of intangibles at the year end and amortization was offset by foreign currency appreciation.

Goodwill

Goodwill decreased by \$902 million from December 31, 2012 to \$1,588 million, primarily due to the elimination of \$591 million of goodwill within our Pacific Northwest timberlands, which were sold during 2012 and a reduction in non-U.S. dollar balances from negative currency revaluation. During 2012 goodwill decreased due to the impact of lower exchange rates on the translated value of goodwill in our Brazilian residential operations, and the sale of a property services business.

Borrowings and Other Non-Current Financial Liabilities

We present our consolidated balance sheets on a non-classified basis, meaning that we do not distinguish between current and long-term assets or liabilities. We believe this classification is appropriate given the nature of our business strategy. Liabilities are disaggregated into current and long-term components in the relevant notes to our consolidated financial statements.

AS AT DECEMBER 31
(MILLIONS)

	2013	2012	2011	2013 vs 2012	2012 vs 2011
Corporate borrowings.....	\$ 3,975	\$ 3,526	\$ 3,701	\$ 449	\$ (175)
Non-recourse borrowings					
Property-specific borrowings.....	35,495	33,720	28,487	1,775	5,233
Subsidiary borrowings.....	7,392	7,585	4,441	(193)	3,144
Non-current accounts payable and other liabilities ¹	4,322	5,440	3,771	(1,118)	1,669
Capital securities.....	791	1,191	1,650	(400)	(459)
Other non-current financial liabilities.....	1,086	425	333	661	92
	<u>\$ 53,061</u>	<u>\$ 51,887</u>	<u>\$ 42,383</u>	<u>\$ 1,174</u>	<u>\$ 9,504</u>

1. Excludes accounts payable and other liabilities that are due within one year. See Note 16 to our Consolidated Financial Statements for 2013 and 2012 balances

Corporate borrowings increased by \$449 million in part from financings completed to fund the settlement of the long-dated interest swap contract that was included in subsidiary borrowings, offset by proceeds received on asset sales.

The increase in property-specific borrowings of \$1.8 billion during 2013 (\$5.2 billion in 2012) is due primarily to borrowings incurred or assumed to fund acquisitions within our property and infrastructure operations. Borrowings are generally denominated in the same currencies as the assets they finance and therefore as the U.S. dollar appreciated during the 2013, our non-U.S. dollar denominated borrowings decreased in value.

The decrease in subsidiary borrowings of \$193 million during 2013 is attributable to the settlement of a long-dated interest rate swap contract which was carried at \$1.1 billion in the prior year. Offsetting this reduction is increased borrowings under subsidiary credit facilities to finance acquisitions, usually as bridge financing until long-term financing can be arranged, as well as the issuance of long-term corporate bonds by our managed listed issuers. The increase in subsidiary borrowings of \$3.1 billion during 2012 reflects acquisitions as well as the issuance of long-term corporate bonds.

Accounts payable and other liabilities with a maturity greater than one year decreased from year end, primarily a result of the timing of payments and the completion of construction in our Brazilian residential operations, partially offset by foreign currency translation. We also extinguished a \$213 million mark-to-market liability on settlement of the interest rate swap contract. The increase in 2012 was a result of long-term liabilities assumed on acquisitions within our property and infrastructure operations and continued expansion of our residential development operations.

In 2012 and 2013 we redeemed C\$500 million and C\$350 million of capital securities, respectively, with the proceeds from preferred shares issued at lower rates.

Equity

Consolidated equity increased by \$3.2 billion in 2013 following a \$6.8 billion increase during 2012. The 2013 increase primarily reflects \$3.8 billion of net income, and \$1.6 billion of net equity issuances, offset by \$1.5 billion of shareholder distributions and \$1.2 billion of negative revaluation from other comprehensive income, which included a \$2.4 billion reduction from foreign currency translation.

We paid a \$906 million special dividend of a 7.6% interest in Brookfield Property Partners L.P. (“BPY” or “Brookfield Property Partners”) resulting in a reduction in common equity and a corresponding increase in non-controlling interests. Non-controlling interests increased overall by \$3.4 billion due to the BPY special dividend, capital called in our private equity funds and the sale of units of Brookfield Renewable by us during the first quarter of 2013, offset by a \$1.2 billion negative foreign currency translation revaluation.

In 2012 non-controlling interests increased by \$4.7 billion which reflects the acquisition of consolidated businesses, particularly within our infrastructure operations, as well as undistributed comprehensive income and increases in revaluation surplus attributable to non-controlling interests, including fair value changes, which totalled \$1.9 billion. Common equity increased by \$1.4 billion in 2012, reflecting comprehensive income for shareholders and increases in revaluation surplus less shareholder distributions.

We provide a more detailed discussion of our capitalization in Part 4 of the MD&A.

QUARTERLY FINANCIAL PERFORMANCE

Our condensed statement of operations for the eight most recent quarters are as follows:

FOR THE THREE MONTHS ENDED (MILLIONS EXCEPT PER SHARE AMOUNTS)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenues and other gains...	\$ 5,537	\$ 5,176	\$ 5,166	\$ 4,951	\$ 5,641	\$ 4,661	\$ 4,425	\$ 4,039
Direct costs.....	(3,672)	(3,230)	(3,606)	(3,420)	(4,393)	(3,420)	(3,284)	(2,864)
Other income.....	—	525	—	—	—	—	—	—
Equity accounted income.....	75	194	224	266	338	254	257	388
Expenses								
Interest.....	(613)	(617)	(668)	(655)	(638)	(593)	(614)	(655)
Corporate costs.....	(36)	(36)	(36)	(44)	(40)	(41)	(35)	(42)
Fair value changes.....	33	104	465	61	415	495	(100)	343
Depreciation and amortization...	(360)	(357)	(373)	(365)	(352)	(327)	(287)	(297)
Income taxes.....	(114)	(264)	(370)	(97)	(192)	(154)	17	(190)
Net income	\$ 850	\$ 1,495	\$ 802	\$ 697	\$ 779	\$ 875	\$ 379	\$ 722
Net income for shareholders	\$ 717	\$ 813	\$ 230	\$ 360	\$ 492	\$ 334	\$ 138	\$ 416
Per share.....								
- diluted.....	\$ 1.08	\$ 1.23	\$ 0.31	\$ 0.51	\$ 0.72	\$ 0.48	\$ 0.17	\$ 0.60
- basic.....	\$ 1.11	\$ 1.26	\$ 0.31	\$ 0.52	\$ 0.74	\$ 0.49	\$ 0.17	\$ 0.63

Summary of Quarterly Results

The company's quarterly results vary primarily due to the impact of seasonality on our operations, fair value changes recognized on our consolidated assets as well as fair value changes recorded within equity accounted income, the impact of acquisitions or dispositions of assets or businesses, and fluctuations in foreign currency exchange rates on non-U.S. operations. The timing and amount of realized disposition gains and losses also impacts our consolidated results.

Fee revenues generated within our asset management operations are contractual in nature and have increased over the past eight quarters due to higher amounts of fee bearing capital. In the fourth quarter of 2013 we earned a carried interest distribution of \$558 million on the reorganization of the consortium that acquired our U.S. shopping mall business.

Our property operations generate consistent results on a quarterly basis due to the long-term nature of contractual lease arrangements subject to the intermittent recognition of disposition and lease termination gains.

Water flows and pricing within our renewable energy operations are seasonal in nature. 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 they are in the summer and winter seasons due to the more moderate weather conditions during the fall and spring and associated reductions in demand for electricity.

Our infrastructure operations are generally stable in nature, as a result of the long-term sales and volumes contracts with our clients.

Our private equity operations 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. We disposed of a pulp and paper business within our private equity operations during the third quarter of 2013 and recognized \$664 million of revenue on disposition.

Our residential development operations include our North American and Brazilian 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.

Our construction business line is seasonal in nature and revenues are typically higher in the third and fourth quarters compared to the first half of the year, as weather conditions are more favourable in the latter half of the year.

The third quarter of 2013 includes other income of \$525 million on the settlement of a swap agreement which more than offset the seasonal reduction in renewable energy revenues.

We generally finance our operations with long-dated fixed-rate borrowings which results in interest expense being relatively consistent on a quarterly basis.

The amount and timing of fair value changes vary on a quarterly basis depending on changes in the fair value of our assets which are recorded at fair value in net income. Most of these relate to our commercial office portfolios, which have benefitted

from declines in discount rates and increasing cash flows from leasing and redevelopment activity over the past eight quarters. Equity accounted income also includes fair value changes, most of which relate to our investment in General Growth Properties' commercial retail properties, which have benefitted from similar factors as our office portfolios.

Depreciation and amortization increased in 2013 as a result of completion of capital expansion projects and new acquisitions in our renewable energy and infrastructure operations, and increased in 2012 as a result of a higher valuation on our renewable energy assets and acquisitions in that year.

In the fourth quarter of 2012 we acquired and commenced consolidating a number of businesses within our property and infrastructure businesses resulting in increased revenues, direct costs and interest expense.

Fourth Quarter Results

We recognized \$850 million of net income in the fourth quarter of 2013, \$717 million of which was attributable to shareholders. Net income to shareholders in the prior year comparable period was \$492 million. The increase was primarily from \$558 million of carried interest earned in respect of our private funds. Our infrastructure operations benefitted from the contribution of newly acquired assets and completed development projects coming online and our renewable energy operations saw a return to near-average water levels. These amounts were offset by lower levels of equity accounted income, primarily a decrease in GGP's fair value changes, and increased depreciation on higher asset values and newly acquired assets.

CORPORATE DIVIDENDS

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

	Distribution per Security		
	2013	2012	2011
Class A and B* Shares.....	\$ 0.64	\$ 0.55	\$ 0.52
Special distribution to Class A and B Shares ¹	1.47	—	—
Class A Preferred Shares			
Series 2.....	0.51	0.52	0.53
Series 4 + Series 7.....	0.51	0.52	0.53
Series 8.....	0.73	0.75	0.76
Series 9.....	0.92	0.95	1.10
Series 10 ²	—	0.37	1.45
Series 11 ³	—	1.02	1.40
Series 12.....	1.31	1.35	1.36
Series 13.....	0.51	0.52	0.53
Series 14.....	1.83	1.88	1.91
Series 15.....	0.41	0.42	0.43
Series 17.....	1.15	1.19	1.20
Series 18.....	1.15	1.19	1.20
Series 21 ⁴	0.62	1.24	1.27
Series 22.....	1.70	1.75	1.77
Series 24 ³	1.31	1.35	1.36
Series 26 ⁴	1.09	1.12	1.14
Series 28 ⁵	1.12	1.15	1.03
Series 30 ⁶	1.17	1.20	0.19
Series 32 ⁷	1.09	0.89	—
Series 34 ⁸	1.02	0.32	—
Series 36 ⁹	1.29	—	—
Series 37 ¹⁰	0.64	—	—

1. Distribution of a 7.6% interest in Brookfield Property Partners based in IFRS values, paid April 15, 2013

2. Redeemed April 5, 2012

3. Redeemed October 1, 2012

4. Issued July 2, 2013

5. Issued February 8, 2011

6. Issued November 2, 2011

7. Issued March 13, 2012

8. Issued September 12, 2012

9. Initial distribution in 2013 includes \$0.11 for the period from November 27, 2012 to December 31, 2012

10. Initial distribution includes \$0.06 for the period from June 13, 2013 to June 30, 2013

* Class B Limited Voting Shares ("Class B Shares")

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

PART 3 – OPERATING SEGMENT RESULTS

BASIS OF PRESENTATION

How We Measure and Report Our Operating Segments

Our operations are organized into four operating platforms in addition to our corporate and asset management activities, which collectively represent eight operating segments. We measure performance primarily using the funds from operations generated by each operating segment and the amount of capital invested by the Corporation in each segment.

Our operating segments are described below:

- i. Asset management operations consist of managing our listed entities, private funds and public securities on behalf of our clients and ourselves. We generate contractual base management fees for these activities and we also are entitled to earn performance fees, including incentive distributions, performance fees and carried interests. We also provide transaction and advisory services.
- ii. Property operations include the ownership and operation of office properties, retail properties, industrial, multifamily, and other property investments located primarily in major North American, Australian, Brazilian and European cities.
- iii. Renewable energy operations include the ownership and operation of primarily hydroelectric power generating facilities on river systems in North America and Brazil, and wind power generating facilities in North America.
- iv. Infrastructure operations include the ownership and operation of utilities, transport, energy, and timberlands and agricultural operations located in Australia, North America, Europe and South America.
- v. Private equity operations include the investments and activities overseen by our private equity group. These include direct investments and investments in our private equity funds. Our private equity funds have a mandate to invest in a broad range of industries.
- vi. Residential development operations consist predominantly of homebuilding and land development in North America, and condominium development in Brazil.
- vii. Service activities include construction management and contracting, and property services operations which include global corporate relocation, facilities management and residential brokerage services.
- viii. Corporate activities include the investment of the company's cash and financial assets, as well as the management of our corporate capitalization, including corporate borrowings, capital securities and preferred equity which fund a portion of the capital invested in our other operations. Certain corporate costs such as technology and operations are incurred on behalf of all of our operating segments and allocated to each operating segment based on an internal pricing framework.

During the current year, we changed the internal organization and supervision of our operating businesses to align our structure more closely with the nature of the operations of our investments, which gave rise to changes in how we report information for management reporting and decision making purposes. We have restated the comparative information in this MD&A to conform with the new presentation.

Segment Financial Measures

The following section contains a description of key performance measures that we employ in discussing our segmented results and elsewhere in our MD&A on a selective basis. As noted below, these measures include non-IFRS financial measures. The non-IFRS measures are reconciled to the most comparable financial statement component in Note 3 to our consolidated financial statements beginning on page 97 of this report.

Funds from Operations ("FFO") is a key measure of our financial performance and we use FFO to assess operating results and our business.

FFO includes gains or losses arising from transactions during the reporting period adjusted to include fair value changes and revaluation surplus recorded in prior periods net of taxes payable or receivable, as well as amounts that are recorded directly in equity, such as ownership changes, as opposed to net income because they result from a change in ownership of a consolidated entity ("realized disposition gains"). We include realized disposition gains in FFO because we consider the purchase and sale of assets to be a normal part of the company's business. When determining funds from operations, we include our proportionate share of the FFO of equity accounted investments and exclude transaction costs incurred on business combinations.

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. The key differences between our definition of funds from operations and the determination of funds from operations by REALPAC and/or NAREIT, are that we include the following: realized 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; and gains or losses on the sale of an investment in a foreign operation.

We do not use FFO as a measure of cash generated from our operations. We derive funds from operations for each operating segment and reconcile total reportable segment FFO to net income in Note 3 of the consolidated financial statements and on page 37.

In assessing results, we identify the portion of FFO that represents realized disposition gains or losses, as well as the FFO and segment equity that relates to our primary listed entities: Brookfield Property Partners, Brookfield Renewable Energy Partners and Brookfield Infrastructure Partners. We believe that identifying the segment FFO and segment equity attributable to our listed entities enables investors to understand how the results of these public entities are integrated into our financial results and that identifying realized disposition gains is helpful in understanding variances between reporting periods.

Segment Operating Measures and Definitions

The following are non-IFRS operating measures and definitions of terms that we employ to describe and assess the performance on a segmented basis. The calculation of these measures may differ from others and as a result, may not be comparable to similar measures presented by other issuers.

Fee Bearing Capital represents the capital committed, pledged or invested in our listed issuers, private funds, and public securities that we manage which entitle us to earn fee revenues and/or carried interests. Fee bearing capital includes both called (“invested”) and uncalled (“pledged” or “committed”) amounts. We believe this measure is useful to investors as it provides additional insight into the capital base upon which we earn asset management fees and other forms of compensation.

Fee Revenues include base management fees, incentive distributions, performance fees and transaction and advisory fees presented within our asset management segment. Many of these items are not included in consolidated revenues because they are earned from consolidated entities and are eliminated on consolidation. Fee revenues exclude carried interest.

Fee Related Earnings is comprised of fee revenues less direct costs (other than costs related to carried interests). We use this measure to provide additional insight into the operating profitability of our asset management activities and believe that it is useful to investors for the same reason.

Base Management Fees are determined by contractual arrangements, are typically equal to a percentage of Fee Bearing Capital, are accrued quarterly, include base fees earned on fee bearing capital from both clients and ourselves and are typically earned on both called and uncalled amounts.

Incentive Distributions are determined by contractual arrangements and are paid to us by our three primary listed entities and represent a portion of distributions paid by a listed issuer above a pre-determined threshold. Incentive distributions are accrued when the associated distributions are declared by the board of directors of the entity.

Performance Fees are paid to us when we exceed pre-determined investment returns on certain portfolios managed in our public securities activities. Performance fees are typically determined on an annual basis and are not subject to “clawback.”

Carried Interests are contractual arrangements whereby we receive a fixed percentage of investment gains generated within a private fund provided that the investors receive a pre-determined minimum return. Carried interests are typically paid towards the end of the life of a fund after the capital has been returned to investors and may be subject to “clawback” until all investments have been monetized and minimum investment returns are sufficiently assured. We defer recognition of carried interests in our financial statements until they are no longer subject to adjustment based on future events. Unlike fees and incentive distributions, we only include carried interests earned in respect of third-party capital when determining our segment results.

Unrealized Carried Interests is a non-IFRS measure that represents the amount of carried interest that we would be entitled to if private funds were wound up on the last day of the reporting period, based on the estimated value of the underlying investments. We use this measure to gain additional insight into how investment performance is impacting our potential to earn carried interests in future periods and believe that it is useful to investors for the same reason.

Uninvested Capital (also referred to as “Dry Powder” or “Client Commitments”) represents capital that has been committed or pledged to private funds managed by us. We typically, but not always, earn base management fees on this capital from the time that the commitment or pledge to our private fund is effective. In certain cases, we earn fees only once the capital is invested or earn a higher fee on invested capital than committed capital. 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.”

Average in-place Net Rents are a measure of leasing performance within our property segment, and calculated 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 and excludes the impact of concessions such as straight-line rent escalations and free rent amortization.

Long-term Average Generation is compared to actual generation levels to assess the impact on revenues and FFO of hydrology and wind generation levels, in our renewable energy segment, which vary from one period to the next in the short term. Long-term average generation is determined based on assets in commercial operation during the year. For assets acquired or reaching commercial operation during the year, long-term generation is calculated from the acquisition or commercial operation date. In Brazil, assured generation levels are used as a proxy for long-term average.

Realized Disposition Gains/Losses include gains or losses arising from transactions during the reporting period together with any fair value changes and revaluation surplus recorded in prior periods and are represented net of taxes payable or receivable. Realized disposition gains include amounts that are recorded in net income, other comprehensive income and as ownership changes in our consolidated statement of equity and exclude amounts attributable to non-controlling interests unless otherwise noted. We use realized disposition gains/losses to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in prior periods and not otherwise reflected in current period FFO and believe it is useful to investors for similar reasons.

SUMMARY OF RESULTS BY OPERATING SEGMENT

The following table presents segment measures on a year-over-year basis for comparison purposes:

	Funds from Operations			Common Equity by Segment		
	2013	2012	Variance	2013	2012	Variance
AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)						
Asset management.....	\$ 865	\$ 194	\$ 671	\$ 216	\$ 245	\$ (29)
Property.....	554	537	17	13,339	12,958	381
Renewable energy.....	447	313	134	4,428	4,976	(548)
Infrastructure.....	472	224	248	2,171	2,571	(400)
Private equity.....	612	227	385	1,105	957	148
Residential development.....	46	34	12	1,435	1,617	(182)
Service activities.....	157	229	(72)	1,286	1,325	(39)
Corporate activities.....	223	(402)	625	(6,199)	(6,499)	300
	<u>\$ 3,376</u>	<u>\$ 1,356</u>	<u>\$ 2,020</u>	<u>\$ 17,781</u>	<u>\$ 18,150</u>	<u>\$ (369)</u>

Funds From Operations

FFO from asset management activities was \$865 million during 2013, and consisted of \$565 million (2012 – \$14 million) of carried interest and \$300 million (2012 – \$180 million) of fee related earnings. We recorded \$558 million of carried interest on the wind up of the consortium that acquired our U.S. shopping business, representing our share of the gains generated for our clients on this investment. Fee related earnings increased by \$120 million over 2012, primarily due to a higher level of fee bearing capital, which reflected additional capital committed to our private funds, capital issuances by our listed entities, including the formation of BPY, and increases in market values.

FFO from our property operations was \$554 million for the year, which increased by \$17 million over 2012 and included \$28 million of realized disposition gains, whereas the prior year included \$107 million of realized disposition losses. We distributed a 7.6% interest in BPY to shareholders in April 2013 and because we hold the majority of our property operations through BPY, this resulted in a reduced ownership of the underlying businesses and accordingly reduced the current year's FFO by \$31 million on a comparative basis. Segment results include \$36 million of asset management fees paid to Brookfield by BPY, which commenced upon the formation of BPY in April 2013, reducing 2013 FFO on a comparable basis. Our portfolios continue to perform well, with U.S. retail sales increasing 12% on a suite-to-suite basis. Our U.S. office occupancy decreased by 440 bps, largely due to a lease expiry in New York in the fourth quarter of 2013, which resulted in a \$19 million decrease to FFO.

Our renewable energy operations contributed \$447 million of FFO compared to \$313 million in the comparative period, which included a \$172 million increase in FFO from operating activities. Generation increased 39% or 6,280 gigawatt hours ("GWh") compared to 2012, due to increased generation from newly acquired and commissioned facilities and above average hydrology levels, whereas water flows in the prior year were significantly below average. Improved hydrology conditions increased FFO by \$122 million from facilities owned throughout 2013 and 2012. New facilities contributed an additional \$39 million of FFO. Increases in market prices for power not sold under long-term contract increased FFO by \$68 million. These positive variances were partially offset by a decreased ownership interest in Brookfield Renewable Energy Partners, following the sale of units by us in the first quarter of 2013, increased borrowing levels to fund growth, capital expenditures and negative foreign currency exchange rates.

Infrastructure FFO was \$472 million, an increase of \$248 million over the prior year. We recognized \$250 million of realized disposition gains in 2013, including the sale of our Pacific Northwest timber operations. The primary increase in FFO apart from the realized disposition gains was from the contribution from new assets and completed development projects, including \$23 million of FFO from the completion of our rail expansion program, and our South American toll roads contributed an additional \$22 million. These positive variances were partially offset by the elimination of FFO from assets disposed of during the year and challenging North American natural gas pricing, impacting our gas transmission business.

FFO from our private equity operations increased by \$385 million to \$612 million compared to \$227 million in the prior year and included \$316 million (2012 – \$15 million) of realized disposition gains. Excluding realized disposition gains, FFO for 2013 was \$296 million (2012 – \$212 million). The increase of \$84 million reflects improved pricing and volumes in businesses related to the U.S. housing market, particularly our panelboard manufacturing operations.

Our residential development operations contributed \$46 million of FFO (2012 – \$34 million). The contribution from our North American operations increased by \$53 million due to increased pricing and volumes within our U.S. operations. The contribution from our Brazil operations declined by \$25 million, as these operations continue to be challenged by increased construction costs and slower economic growth.

FFO from our services activities was \$157 million (2012 – \$229 million). The 2012 results included a \$70 million realization gain on the partial disposition of our U.S. brokerage operations. FFO excluding realized disposition gains was relatively unchanged. Our construction operations increased over the prior year, as we continue to manage an increased volume of work which was offset by a reduced ownership level in our property services operations.

FFO from corporate activities includes a \$525 million gain on the settlement of a long-dated interest rate swap, which also resulted in reduced levels of borrowings and a lower interest rates following the settlement. Capital markets performed strongly in 2013 and we benefitted from an additional \$61 million contribution from our financial asset portfolio, compared to the prior year.

Common Equity by Segment

Property segment common equity increased by \$0.4 billion during the year. We acquired an additional 51 million units of BPY for \$995 million in the fourth quarter, offsetting the impact of the spin-off of a 7.6% interest in BPY (\$906 million). The current year's FFO and \$851 million of fair value changes also increased property segment equity. Our renewable energy segment common equity decreased by \$548 million, which included a \$233 million sale of 8.1 million units of BREP in the first quarter of 2013, and the impact of lower foreign currency exchange rates and higher discount rates on asset valuations. We disposed our Pacific Northwest timberland operations in the third quarter of 2013, which reduced our infrastructure segment common equity by \$600 million.

Reconciliation of Non-IFRS Measures

The following table reconciles total operating segment FFO to net income:

YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Total operating segment FFO.....	\$ 3,376	\$ 1,356
Gains not recorded in net income.....	(434)	(183)
Non-controlling interest in FFO.....	2,465	1,498
Financial statement components not included in FFO		
Equity accounted fair value changes and other non-FFO items.....	(85)	578
Fair value changes.....	663	1,153
Depreciation and amortization.....	(1,455)	(1,263)
Deferred income taxes.....	(686)	(384)
Net income.....	\$ 3,844	\$ 2,755

ASSET MANAGEMENT

Overview

Our asset management operations consist of managing listed entities, private funds and public securities on behalf of ourselves and our clients. As at December 31, 2013, we managed approximately \$80 billion of fee bearing capital, of which approximately \$54 billion was from clients and the balance was from Brookfield. We also provide transaction and other advisory services. The following table disaggregates segment FFO into fee related earnings and carried interests to facilitate analysis.

AS AT AND FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Funds from operations		
Fee related earnings.....	\$ 300	\$ 180
Carried interests.....	565	14
	\$ 865	\$ 194

Revenues in this segment include fees earned by us in respect of capital managed for clients as well as the capital provided by Brookfield, with the exception of carried interests and performance fees which exclude amounts earned on Brookfield capital. This is representative of how we manage the business and more appropriately measures the returns from our asset management activities

and the returns from the capital invested in our funds. We do not recognize carried interests until the end of any determination or “clawback” period, which typically occurs at or near the end of a fund term, however we do provide supplemental information on the estimated amount of unrealized carried interests that have accumulated to date based on fund performance up to the date of the financial statements.

Fee Related Earnings

We generated the following fee related earnings during the year:

FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Fee revenues		
Base management fees.....	\$ 502	\$ 352
Incentive distributions.....	32	15
Performance fees.....	30	17
Transaction and advisory fees.....	53	53
	<u>617</u>	<u>437</u>
Direct costs.....	(317)	(257)
Fee related earnings.....	<u>\$ 300</u>	<u>\$ 180</u>

Fee related earnings increased by 67% to \$300 million for the year, as a result of substantial increases in fee bearing capital and associated revenues as well as operating margins.

Base management fees increased 43% to \$502 million compared to \$352 million in the prior year. Our private funds contributed \$68 million to the increase mainly resulting from new commitments to our infrastructure and real estate flagship funds, including \$15 million of catch-up fees that had been deferred until the final close of a large real estate fund during 2013. Some of our private funds earn fees only on invested capital or earn higher fees once capital is invested. We estimate that private fund base management fees will increase by approximately \$18 million upon calling the \$9.0 billion of third-party capital that has not been invested to date. Increases in the capitalization of our listed issuers through unit price appreciation and issuance of new capital added a further \$57 million of base fees. We earned \$36 million of fees from Brookfield Property Partners, which was launched in April 2013 and pays a minimum base fee to us of \$50 million per year. Base fees from our public securities activities increased by \$25 million due to net inflows and market value appreciation of the securities under management. Base management fees include \$172 million (2012 – \$119 million) earned in respect of Brookfield capital.

We received \$32 million of incentive distributions from Brookfield Infrastructure Partners during 2013, representing an increase of \$17 million from 2012. The increase was the result of a 15% growth in BIP’s limited partnership unit distributions from \$1.50 per unit during 2012 to \$1.72 per unit in 2013.

We earned \$30 million of performance fees for managing public securities portfolios, based on exceeding performance thresholds in a number of our strategies, in particular our real estate hedge funds and structured products funds.

Transaction and advisory fees totalled \$53 million in 2013, consistent with the prior year. We have expanded our investment banking activities into the U.S., UK and India and we continue to advise on a number of mandates in Canada and Brazil. Our primary focus is on real estate and infrastructure transactions.

Direct costs consist primarily of employee expenses and professional fees, as well as business related technology costs and other shared services. Operating margins, which are calculated as fee related earnings divided by fee revenues, increased to 49% for the year, compared to 41% in 2012. We had expanded our operating capabilities considerably in prior years, which enabled us to expand our asset management revenues without a commensurate increase in operating costs. Gross margins also benefitted from the receipt of catch-up base management fees and increased performance fees during 2013. Direct costs increased by \$60 million year-over-year in particular due to geographic expansion in our infrastructure, public securities and advisory businesses, as well as \$25 million of costs reallocated from our corporate activities segment to our asset management segment following the launch of Brookfield Property Partners and \$9 million of additional costs incurred that directly relate to employee compensation income based on the in-year performance fees.

Carried Interests

We concluded the initial phase of our investment in GGP with the reorganization of the consortium that we established to acquire our initial investment. This reorganization enabled our clients to convert this investment into cash, units of Brookfield Property Partners, or to continue to hold their GGP shares with us as manager. This investment had a 38% gross IRR and 2.6x gross multiple of equity invested and we received \$558 million of accumulated carried interest in accordance with the terms of our consortium agreements.

Accumulated unrealized carried interest totalled \$318 million at December 31, 2013. This represents an increase of \$195 million compared to last year, prior to the \$566 million realized in the year. We estimate that direct expenses of approximately \$118 million will arise on the realization of the income accumulated to date. The amount of unrealized carried interests and associated costs are shown in the following table:

AS AT DECEMBER 31 (MILLIONS)	2013			2012		
	Unrealized Carried Interest	Direct Costs	Net	Unrealized Carried Interest	Direct Costs	Net
Unrealized balance, beginning of year.....	\$ 689	\$ (57)	\$ 632	\$ 379	\$ (51)	\$ 328
In-period change						
Generated.....	195	(62)	133	327	(9)	318
Less: realized.....	(566)	1	(565)	(17)	3	(14)
Unrealized balance, end of year....	<u>\$ 318</u>	<u>\$ (118)</u>	<u>\$ 200</u>	<u>\$ 689</u>	<u>\$ (57)</u>	<u>\$ 632</u>

Fee Bearing Capital

The following table summarizes our fee bearing capital:

AS AT DECEMBER 31 (MILLIONS)	Listed Issuers ¹	Private Funds ¹	Public Securities	Total	2012
Property.....	\$ 15,396	\$ 12,185	\$ 2,732	\$ 30,313	\$ 18,133
Renewable energy.....	9,325	2,169	—	11,494	10,559
Infrastructure.....	8,276	8,588	4,853	21,717	16,497
Private equity.....	—	2,683	—	2,683	2,720
Other.....	—	—	13,086	13,086	12,160
December 31, 2013.....	\$ 32,997	\$ 25,625	\$ 20,671	\$ 79,293	n/a
December 31, 2012.....	<u>\$ 21,301</u>	<u>\$ 23,244</u>	<u>\$ 15,524</u>	<u>n/a</u>	<u>\$ 60,069</u>

1. Includes Brookfield capital of \$6.0 billion in private funds and \$19.7 billion in listed issuers

Fee bearing capital includes all capital on which we receive some form of asset management revenue and includes capital committed or invested by us. For example, we include 100% of the market capitalization of listed issuers such as BIP and private funds such as our private equity funds because we are entitled to earn fees on all of this capital, including our own. We do not, however, include the capital invested or committed by one Brookfield managed entity into another because the fees otherwise payable to us on this capital are credited against the fees payable to us by the other.

Listed issuer capital includes the market capitalization of our listed issuers: BPY, BREP, BIP, Brookfield Canada Office Properties, Acadian Timber Corp. and several smaller listed entities. Fee bearing capital also includes corporate debt and preferred shares issued by these entities to the extent these are included in determining base management fees.

The private fund capital includes \$16.6 billion of invested capital and \$9.0 billion of capital that has not been invested to date but which is available to pursue acquisitions within each fund's specific mandate. Of the total "dry powder," \$2.8 billion relates to property funds, \$5.3 billion relates to infrastructure funds and \$0.9 billion relates to private equity funds. The invested capital has an average term of 10 years and the uncalled capital has an average term during which it can be called of approximately four years.

We manage fixed income and equity securities within our public securities operations, with a particular focus on real estate and infrastructure, including high yield and distress securities.

Fee bearing capital increased by \$19.2 billion during 2013. The principal variances are set out in the following table:

FOR THE YEAR ENDED DECEMBER 31, 2013 (MILLIONS)	Listed Issuers	Private Funds	Public Securities	Total
Balance, December 31, 2012.....	\$ 21,301	\$ 23,244	\$ 15,524	\$ 60,069
Inflows.....	2,100	7,922	7,056	17,078
Launch of Brookfield Property Partners.....	11,518	—	—	11,518
Outflows.....	(926)	(5,332)	(3,090)	(9,348)
Changes in market value.....	235	—	1,181	1,416
Foreign exchange and other.....	(1,231)	(209)	—	(1,440)
Change.....	11,696	2,381	5,147	19,224
Balance, December 31, 2013.....	\$ 32,997	\$ 25,625	\$ 20,671	\$ 79,293

The increase in listed issuer capital of \$11.7 billion primarily relates to the launch of Brookfield Property Partners L.P. (“BPY”) in April 2013. Other inflows are related to the issuance of additional capital including \$1.4 billion of BPY equity units in connection with the GGP consortium reorganization, while outflows include quarterly cash distributions and repayment of corporate borrowings.

Private fund fee bearing capital increased by \$2.4 billion during the year to \$25.6 billion. The increase reflects \$7.9 billion of new commitments offset by distributions and the return of capital to investors. We held the final close for several private funds during the year including \$4.4 billion for Brookfield Strategic Real Estate Partners and \$7.0 billion for Brookfield Infrastructure II. In addition, we closed a \$1.0 billion global Timberlands Fund V, a \$270 million Brazil Timber Fund II and raised \$600 million for a pooled investment in a group of Los Angeles office properties. During the year, we concluded our Brookfield Global Timber Fund, following the sale of our Pacific Northwest timberlands and our Real Estate Turnaround Protocol Fund, upon the sale of our U.S. retail shopping business which resulted in the return of approximately \$7 billion to investors.

Fee bearing capital in our public securities business increased by \$5.1 billion during the year due to record inflows of \$7.1 billion. We have continued to expand our range of higher margin mutual funds and similar products and have received strong interest from clients, supported in part by excellent performance in many of our funds.

Outlook and Growth Initiatives

We continue to experience increased interest by institutions and other investors in real asset investments, which is the focus of most of our investment strategies and products. Our fundraising activities experienced tremendous success in 2013, and we have four funds in marketing seeking over \$2 billion of third-party capital.

Our listed issuers continue to have strong access to capital and to meet or exceed their annual distribution growth targets. Our property listed issuer, Brookfield Property Partners, is in the process of completing a merger with 51% owned Brookfield Office Properties Inc. (“BPO”), its global office subsidiary. Based on the shares of BPO properties tendered as at the date of this report we expect that the transaction will be completed during 2014 and will result in BPY issuing 186 million units, which will increase our fee bearing capital by approximately \$3.7 billion based on current market prices.

PROPERTY

Overview

We own virtually all of our commercial property assets through BPY, which is listed on the New York and Toronto Stock Exchanges. We also own \$1.3 billion of preferred shares of BPY which yield 6.2%, and a small number of other property assets.

BPY was launched in April 2013 with the distribution of a 7.6% interest to Brookfield shareholders. Since that time, BPY issued additional equity units for \$1.4 billion. We purchased 70% of the issued units for \$1.0 billion, reducing our fully diluted interest in BPY to 89%. We expect our fully diluted interest in BPY to decline to 66% following the merger with BPO.

BPY’s operations are principally organized as follows:

Office Properties: We own interests in and operate commercial office portfolios, consisting of 163 properties containing over 93 million square feet of commercial office space. The properties are located in major financial, energy, technology and government cities in North America, Europe and Australia. We also develop office properties on a selective basis in close proximity to our existing properties and our office development assets consist of interests in 21 sites totalling approximately 19 million square feet. The majority of BPY’s office properties are held through our 51% owned BPO and a 22% equity interest in Canary Wharf Group. Of the total properties in our office portfolio, 136 properties consisting of 80 million square feet are consolidated and the remaining interests are either equity accounted or accounted for as a financial asset under IFRS. The merger with BPO would provide BPY with 100% ownership of BPO’s office portfolio.

Retail Properties: Our retail portfolio consists of an interest in 163 retail properties in the United States, Brazil and Australia, encompassing 153 million square feet. Our North American retail operations are held through our 32% fully diluted interest in GGP and a 39% interest in Rouse Properties, both of which are equity accounted. Our Brazilian operations are held through a 35% owned institutional fund managed by us, and we also own direct property interests in Australia. Of the total properties in our retail portfolio, 154 properties, consisting of 149 million square feet, are equity accounted investments and the remaining are consolidated under IFRS.

Multifamily, Industrial and Other Properties: This category includes 25,500 multifamily units in the United States and Canada and 68 million square feet of industrial space in North America and Europe. We also own distressed and under-performing real estate assets and businesses and commercial real estate mortgages and mezzanine loans in North America, Europe and Australia, as well as interests in hotel and resort properties.

The following table disaggregates segment FFO and segment equity into the amounts derived from our ownership of BPY, the amounts represented by other assets and liabilities and realized disposition gains to facilitate analysis:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
Brookfield Property Partners¹				
Equity units ²	\$ 492	\$ 587	\$ 12,180	\$ 13,163
Preferred shares.....	56	—	1,275	—
	<u>548</u>	<u>587</u>	<u>13,455</u>	<u>13,163</u>
Other				
Property assets.....	6	91	469	434
Liabilities.....	(28)	(34)	(585)	(639)
Realized disposition gains.....	28	(107)	—	—
	<u>\$ 554</u>	<u>\$ 537</u>	<u>\$ 13,339</u>	<u>\$ 12,958</u>

1. BPY 2012 FFO and common equity by segment include assets contributed to BPY including BPO, GGP and our investment in Canary Wharf Group

2. Brookfield's equity units in BPY consist of 432.6 million redemption-exchange units, 45.2 million Class A LP units, 4.8 million special limited partnership units and 0.1 million general partnership units; together representing an effective economic interest of 89% of BPY

FFO within our property segment was \$554 million (2012 – \$537 million). We recorded \$28 million of realized disposition gains compared to realized disposition losses of \$107 million in 2012, resulting in a positive variance of \$135 million. This increase was partially offset by a decline in FFO from the operations that are now held through BPY to \$548 million (2012 – \$587 million).

Brookfield Property Partners

Our share of BPY's FFO during 2013 was \$548 million, of which \$56 million was received as dividends on preferred shares that were issued to us on the reorganization of the capital in our property segment on the formation of BPY. This represents a decline of \$39 million from the \$587 million of FFO recorded from the same businesses during 2012. The distribution of the initial 7.6% ownership position in BPY to shareholders in April 2013 reduced our interest in these operations, resulting in a \$31 million decline over the 2012 results on a comparative basis. In addition, BPY's FFO during 2013 was reduced by \$36 million of base management fees paid to us and recorded as revenue in our asset management segment. BPY's FFO from retail property operations and multifamily, industrial and other operations increased during the year, which was partially offset by lower FFO from office property operations.

Office Properties

BPY recorded FFO of \$312 million from office property operations in 2013 compared to \$338 million in 2012, of which our share was \$294 million and \$338 million, respectively. Favourable leasing performance resulted in a 1% increase in in-place rents on existing properties using consistent foreign exchange rates (1% decrease using actual foreign exchange rates), however this was more than offset by the anticipated expiry of a large lease in New York City in the fourth quarter of 2013 that reduced BPY's FFO from our U.S. operations by \$21 million. In addition, the dividend received by BPY from Canary Wharf in 2013 was \$14 million, lower than the \$40 million received by us in 2012.

Leasing activity during the year consisted of 8.9 million square feet of new leases at an average in-place net rent of \$30.27 during the year and 10.4 million square feet of lease expiries at expiring net rents of \$27.90 per square foot. This resulted in an increase in average in-place net rents from \$29.40 to \$30.15 per square foot and reduced the proportion of leases expiring over the next five years by 180 basis points compared to the end of 2012. Overall occupancy decreased to 88.0% at December 31, 2013 (2012 – 91.1%). The decrease in portfolio occupancy was primarily due to the expiry of a large lease in New York, decreasing U.S. occupancy from 87.7% to 83.3%. Our average remaining lease term is approximately seven years (2012 – seven years). Contractual lease expiries in the upcoming year consist of 4.8 million square feet and the associated expiring average in-place

net rent is \$32. Our 10 largest tenants occupy 15.4 million square feet with the largest tenant class consisting of government and government agencies representing 5.5 million square feet.

In North America, average in-place net rents across our 81.3 million square foot portfolio approximate \$26 per square foot compared to \$26 per square foot at the end of 2012. Net rents represent a discount of approximately 15.7% 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 net rents in our 10.8 million square foot portfolio are \$48 per square foot, which represents a 6% discount to market rents. The occupancy rate across the portfolio remains high at 97.6% 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.

Of our 19 million square feet of office developments, 8.4 million are under active development, 2.3 million are in the planning stage and 8.2 million are held for future development. Active developments at December 31, 2013 had incurred a cost of \$951 million and had a total planned development cost of \$732 per square foot with a weighted average planned construction period of seven years.

Retail Properties

BPY's FFO from retail operations, which is derived largely from its ownership interest in GGP, increased to \$298 million in 2013 (2012 – \$259 million), of which our share was \$281 million and \$259 million, respectively.

BPY's net share of GGP's funds from operations was \$271 million compared to \$251 million in 2012. The growth in FFO reflects increases in both net rents and occupancy. Initial rental rates for leases commencing in 2013 increased by 12.3% or \$7.05 per square foot, to \$64.29 per square foot when compared to the rental rate for expired leases. Tenant sales were \$564 per square foot on a trailing 12-month basis as at year end, representing a 3.6% increase over the prior year on a comparable basis. The remaining FFO includes the results of Rouse Properties, which was spun out of GGP during 2012, and our share of FFO from our Brazilian retail property fund.

Total leasing activity during the year consisted of 14.6 million square feet of new leases at an average in-place net rent of \$54.30 during the year and 13.5 million square feet of lease expiries at expiring net rents of \$50.39 per square foot. This resulted in an increase in average in-place net rents from \$50.48 to \$53.39 per square foot. Overall occupancy in our retail property portfolio was 95.9% (2012 – 95.1%), and represented an average lease term of six years. Portfolio net rents represent a discount of approximately 13% compared to market rents of \$61.38 per square foot. Contractual lease expiries in the upcoming year consist of 6.9 million square feet and the associated expiring average in-place net rent is \$55.

GGP completed 10.7 million square feet of new and renewal leasing in 2013, excluding anchor tenants. Same store regional mall percentage leased was 97.1% at year-end 2013, an increase of 100 basis points over year-end 2012 and in-place rents increased by 5.2% to \$57.75 per square foot.

Multifamily, Industrial and Other Properties

BPY holds industrial, multifamily and other property assets primarily through funds that are managed by us. The carrying value of BPY's investment in these operations increased by \$404 million during 2013 to \$1,042 million at December 31, 2013, and its share of the associated FFO increased to \$61 million (2012 – \$10 million) largely as a result of acquisitions.

Common Equity by Segment

Common equity by segment at the end of 2013 was \$13.3 billion (2012 – \$13.0 billion). The distribution of BPY units in April 2013 reduced segment equity by \$0.9 billion, which was more than offset by our purchase of additional units in BPY for \$995 million in the fourth quarter of 2013 and undistributed net income.

Other Property Assets and Liabilities

We continue to sell other investments at opportunistic times as they are not core to our operations. We sold three retail properties in 2013 for \$265 million generating net proceeds of \$115 million.

Outlook and Growth Initiatives

As noted above, we hope to complete the merger of BPY and BPO during the first half of 2014, positioning BPY as one of the largest and most diverse global real estate investment entities.

We remain focused on the following strategic priorities:

- Realizing value from our properties through proactive leasing and select redevelopment initiatives;
- Prudent capital management, including refinancing mature properties and disposition of select mature or non-core assets;
- Advancing development assets as the economy rebounds and supply constraints create opportunities; and
- Renewing and extending borrowings to take advantage of the current low interest rate environment.

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 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.

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 whole or partial interests 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 eight million square feet. This pipeline could add more than \$6.2 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 our shopping centres in the United States.

RENEWABLE ENERGY

Overview

We hold our renewable energy operations primarily through a 65% fully diluted interest in Brookfield Renewable Energy Partners. BREP is listed on both the NYSE and TSX and had a market capitalization of \$6.9 billion at December 31, 2013. BREP operates renewable power facilities and owns them both directly as well as through joint ventures and institutional infrastructure funds that we manage.

We arrange for the sale of power generated by BREP through our energy marketing business (“Brookfield Energy Marketing” or “BEMI”). We purchase a portion of BREP’s power pursuant to long-term contracts at pre-determined prices, providing a stable revenue profile for unitholders of BREP and providing us with continued participation in future increases (or decreases) in power prices.

The following table disaggregates segment FFO and segment equity into the amounts attributable to our ownership of BREP, the operations of BEMI and realized disposition gains to facilitate analysis:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
Brookfield Renewable Energy Partners ¹	\$ 390	\$ 236	\$ 3,534	\$ 4,272
Brookfield Energy Marketing.....	(119)	(137)	894	704
Realized disposition gains.....	176	214	—	—
	<u>\$ 447</u>	<u>\$ 313</u>	<u>\$ 4,428</u>	<u>\$ 4,976</u>

1. Brookfield’s interest in BREP consists of 129.7 redemption-exchange units, 40.0 Class A LP units and 2.7 million general partnership units; together representing an economic interest of 65% of BREP

FFO for the year was \$447 million compared to \$313 million in the prior year and included \$176 million of realized disposition gains (2012 – \$214 million). Our share of BREP’s FFO increased by \$154 million, or 65%, reflecting a return to normalized levels of generation following a particularly dry year in 2012 and the contribution from newly acquired and commissioned assets. We completed a secondary offering of BREP in the first quarter of 2013 which generated proceeds of \$233 million and recognized a \$176 million realized disposition gain. Realized disposition gains in the prior year included a \$214 million gain on a previous sale of BREP units.

Brookfield Renewable Energy Partners

We own one of the world’s largest publicly traded, pure-play renewable power portfolios with 5,849 megawatts (“MW”) of installed capacity and long-term average annual generation of 21,836 gigawatt hours (“GWh”). Our portfolio includes 193 hydroelectric generating stations on 69 river systems and 11 wind facilities, diversified across 12 power markets in the United States, Canada and Brazil. We also have an approximate 1,700 MW development pipeline spread across all of our operating jurisdictions.

BREP's operating results are summarized as follows:

FOR THE YEARS DECEMBER 31
(GIGAWATT HOURS AND \$MILLIONS)

	Actual Generation (GWh)		Long-Term Average (GWh)		Funds from Operations	
	2013	2012	2013	2012	2013	2012
Brookfield Renewable Energy						
Revenues						
Hydroelectric.....	19,232	13,336	18,399	15,647	\$ 1,409	\$ 1,079
Wind energy.....	2,220	1,709	2,538	2,034	258	189
Co-generation.....	770	897	899	521	71	70
	<u>22,222</u>	<u>15,942</u>	<u>21,836</u>	<u>18,202</u>	<u>1,738</u>	<u>1,338</u>
Direct costs.....					(530)	(486)
Interest and other costs.....					(470)	(461)
Non-controlling interest.....					(348)	(155)
					<u>\$ 390</u>	<u>\$ 236</u>

Our share of FFO increased by \$154 million to \$390 million, from \$236 million in 2012.

Generation at facilities owned throughout 2013 and 2012 increased by 2,640 gigawatt hours to 17,944 gigawatt hours, representing a 17% increase. This resulted in additional revenues of \$209 million and FFO of \$122 million. Generation approximated long-term average levels in 2013 whereas generation in 2012 was 12% below long-term average due to dry conditions in New York State, the mid-western U.S. and eastern Canada.

Facilities acquired or developed since the beginning of 2012 contributed an increase in generation of 3,638 gigawatt hours over 2012, of which 3,093 GWh of generation were from recently acquired U.S. hydroelectric assets in Tennessee, North Carolina and Maine. This resulted in \$218 million of additional revenues and \$39 million of additional FFO after deducting interest costs associated with acquisition debt and FFO attributable to non-controlling interests.

The foregoing increases were partially offset by an \$11 million decrease in FFO, as a result of our reduced ownership interest in BREP.

Realized prices decreased to \$78 per megawatt hour ("MWh") on a total portfolio basis compared to \$84 per MWh in 2012. Much of the generation from hydroelectric capacity acquired during 2013 was sold pursuant to contracts that are at significantly lower levels than the contracts for our existing portfolio, and in our view provide us with the opportunity for substantial revenue growth should prices for renewable energy increase in line with our expectations. The decline in the value of the Brazilian currency relative to the U.S. dollar also impacted our average realized price for hydroelectric power.

Operating costs increased by \$44 million to \$530 million. The increase is primarily attributable to the costs associated with recently acquired or commissioned facilities. Costs within our renewable energy operations are largely fixed and therefore do not vary with generation levels to the same extent as revenues.

Interest expense totalled \$410 million, consistent with the prior year, as the impact of higher levels of borrowings in respect of acquisitions was offset by lower borrowing costs on refinancings and changes in foreign exchange rates. Other costs increased by \$10 million to \$60 million and include a \$5 million increase in base management fees paid to us, as a result of a higher level of capitalization, and a \$5 million increase in cash taxes paid based on increased revenues. Non-controlling interests increased to \$348 million for 2013 (2012 – \$155 million) reflecting a \$79 million increase in BREP's FFO attributable to non-controlling interests, a \$21 million increase from the completion of two preferred share issuances during the year, as well as the increase in units held by non-controlling interests following sales by us during both 2013 and 2012.

Brookfield Energy Marketing

Our wholly owned energy marketing group has entered into long-term purchase agreements and price guarantees with BREP as described below. We are entitled to sell the power as well as any ancillary revenues such capacity payments and renewable credits or premiums.

BEMI purchased approximately 8,800 gigawatt hours of electricity from BREP during 2013 at an average price of \$74 per megawatt hour and sold this power at an average price, including ancillary revenues, of \$60 per megawatt hour, resulting in an FFO loss of \$119 million (2012 – \$137 million). Approximately 3,400 gigawatt hours of BEMI power sales were pursuant to long-term contracts at prices modestly in excess of our purchase cost. The balance of 5,400 gigawatt hours was sold in the short-term market at an average price of \$45 per megawatt, including ancillary revenues and peaking premiums (2012 – \$37 per megawatt hour).

Common Equity by Segment

Common equity by segment decreased by \$548 million to \$4.4 billion during the year, primarily due to the sale of a 3% interest in BREP in the first quarter of 2013, a strengthening of the U.S. dollar relative to the Canadian dollar and Brazilian real, which decreased the carrying value of our non-U.S. dollar operations, and as well as depreciation and amortization recorded during the year and a reduction in the fair value attributable to these operations at year end.

Outlook and Growth Initiatives

Acquisition and development activities completed during the year increased our estimated annualized generation by 2,573 GWh, which, together with the expected closing of a previously announced acquisition of a large-scale hydroelectric portfolio in the northeast U.S., should increase overall portfolio generation by 15% at attractive projected returns. In addition, we continue to advance a 45 MW hydroelectric facility with a total expected construction cost of approximately \$200 million and maintain a development pipeline of approximately 1,700 MW of capacity.

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 uncontracted power is being sold at the current market environment which has increased substantially in recent months due to seasonal climate conditions. In the long term, we are well positioned to benefit from increasing electricity prices.

BREP has entered into long-term agreements that enable it to sell power at pre-determined prices, including contracts with BEMI. These contracts have a weighted average term of 18 years and represent 88% and 79% of our long-term average generation for 2014 and 2015, respectively, based on long-term average generation, declining to 78% in 2016. The average price at which power is sold under these agreements is \$82 per megawatt hour in 2014, and averages \$84 per megawatt hour over the next five years.

During 2013, BREP secured short-term contracts in Brazil for 513 GWh in 2014 and 160 GWh in 2015. At our recently acquired 360 MW hydroelectric portfolio located in Maine, we were able to secure short-term contracts at BREP for 150 GWh for the first quarter of 2014.

BEMI is expected to purchase approximately 8,500 gigawatt hours of electricity from BREP during each of the next five years based on long-term average generation, at an average price of \$75 per megawatt hour, which increases annually based on a percentage of inflation. BEMI has entered into long-term contracts to sell approximately 3,250 gigawatt hours of expected annual purchases based on long-term average generation. These contracts have an average life of 15 years and an average price over the next five years of \$79 per megawatt hour. The remaining 5,250 gigawatt hours is expected to be sold on a short-term basis until such time as we can secure long-term contracts at prices that are consistent with our long-term expectation for power prices.

The majority of our portfolio consists of hydroelectric generating facilities, and as a result, our revenues are subject to hydrology levels. Over the long term we believe that generation at our existing facilities will approximate long-term average, however significant variances may occur in any given year. Our North American assets have the ability to store water in reservoirs approximating 32% of their annual generation which allow us to generate power during higher price periods to varying degrees. In addition, our assets in Brazil benefit from a framework that exists in the country to levelize generation risk across hydroelectric producers. This ability to store water and have levelized generation in Brazil, provides partial protection against short-term changes in water supply.

INFRASTRUCTURE

Overview

Our infrastructure operations are held primarily through our 28% fully diluted interest in Brookfield Infrastructure Partners. BIP is listed on the New York and Toronto Stock Exchanges and had a market capitalization of \$8.2 billion at year end. BIP owns a number of these infrastructure businesses directly as well as through private funds and joint ventures that we manage. We also have direct investments in our sustainable resources operations.

The following table disaggregates segment FFO and segment equity into the amounts attributable to our ownership of BIP, our directly held sustainable resources operations and realized disposition gains to facilitate analysis:

	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)				
Brookfield Infrastructure Partners ¹	\$ 185	\$ 127	\$ 1,478	\$ 1,432
Sustainable resources.....	37	52	693	1,139
Realized disposition gains.....	250	45	—	—
	<u>\$ 472</u>	<u>\$ 224</u>	<u>\$ 2,171</u>	<u>\$ 2,571</u>

1. Brookfield's interest in BIP consist of 59.8 million redemption-exchange units representing an economic interest of 28% of BIP

Brookfield Infrastructure Partners

BIP's operations are principally organized as follows:

Utilities operations: consist of our regulated distribution, regulated terminal and electricity transmission operations, located in Australasia, North and South America and Europe. 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 tend to be highly predictable and typically not impacted to any great degree by short-term volume or price fluctuations.

Transport operations: is comprised of open access systems that provide transportation for freight, bulk commodities and passengers, for which we are paid an access fee. Profitability is based on the volume and price achieved for the provision of these services. These operating are comprised of businesses with regulated tariff structures, such as our railroad and toll road operations, as well as unregulated businesses, such as our ports. Approximately 70% of our transport operations are supported by long-term contracts or regulation.

Energy operations: consists of systems that provide energy transportation, distribution and storage services. Profitability is based on the volume and price achieved for the provision of these services. These operations are comprised of businesses that are subject to light regulation, such as our natural gas transmission business whose services are subject to price ceilings, and businesses that are essentially unregulated like our district energy business. Approximately 80% of our energy operations are supported by long-term contractual revenues.

Utilities FFO increased by \$19 million from the prior year, primarily due to the contribution from investments completed near the end of 2012 that doubled the size of our UK regulated distribution business and an increased ownership interest in our Chilean electricity transmission system. In addition, our businesses also benefitted from inflation indexation and contributions from organic growth investments.

Transport FFO increased by \$45 million. Our Australian railroad contributed an increase of \$23 million over the prior year, primarily due to the completion of our \$600 million expansion program in the beginning of 2013 and a strong grain harvest. Our South American toll roads contributed an additional \$22 million of FFO compared to 2012, primarily from our increased ownership in these toll roads, following our follow-on \$670 million investment and by higher traffic volumes and regulatory tariffs.

Energy FFO decreased by \$2 million primarily due to the impact of a challenging North American natural gas market that continues to negatively impact results at our North American gas transmission business. This decrease was partially offset by a full year's contribution from our district energy operations, which were acquired in the fourth quarter of 2012.

Sustainable Resources

Our share FFO from sustainable resource investments decreased by \$15 million to \$37 million primarily due to our lower level of common equity in these operations after we sold our U.S. Pacific Northwest timberlands in June of 2013. These operations were owned both directly and by BIP. Our other directly held assets include our investment in Acadian Timber Corp. which owns and operates timberlands in the northeastern U.S. and Canada, and our equity invested in a number of timber and agriculture private funds we manage. Our agriculture funds are focused on Brazil's agricultural sector based on the country's strong competitive position as a leading agricultural producer.

Realized Disposition Gains

We sold non-core assets during the year, generating \$1.5 billion of proceeds, of which our share was \$833 million. Dispositions included Pacific Northwest timberlands, a regulated distribution business in New Zealand and a 20% interest in our UK regulated distribution business, which collectively gave rise to \$250 million of realized disposition gains.

Common Equity by Segment

Invested capital decreased by \$400 million to \$2,171 million at the end of 2013 from \$2,571 million at the end of 2012, reflecting the sale of our direct investment in timberlands, offset by our proportionate participation in a \$330 million equity offering at BIP.

Outlook and Growth Initiatives

In the utilities platform, we expect to earn a return on incremental investments which is consistent with our current return on rate base and expect to benefit from the completion of a Texas electric transmission system. Within our transport and energy operations we are increasing our investments in transportation assets such as ports and toll roads, as we see attractive valuations and exposure to GDP growth through increasing traffic volumes. We have also recently completed or committed to \$1.1 billion of new investments in these operations.

Our timber funds continue to attract strong interest from institutional investors and we continue to deploy capital in these funds. Our R\$330 million Brazil Agriland Fund is currently almost fully invested and we will use the remaining capital to fund conversion of additional lands to crop production.

PRIVATE EQUITY

Our private equity operations are conducted through a series of institutional private equity funds operated under the Brookfield Capital Partners brand with total committed capital of \$3.1 billion as well as direct investments in several public companies including Norbord Inc. (“Norbord”) and Western Forest Products Inc. (“Western Forest Products”).

FFO increased to \$612 million during 2013 from \$227 million in 2012, reflecting a large increase in realized disposition gains as well as improved FFO at investee companies. FFO excluding realized disposition gains increased by \$84 million to \$296 million compared to 2012, reflecting improved pricing and volumes primarily due to the ongoing recovery in the U.S. housing market, particularly at our two panelboard investments.

The following table disaggregates segment FFO and segment equity into the amounts attributable to the capital we have invested in the private funds that we manage, our investment in Norbord, other investments and realized disposition gains to facilitate analysis:

	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
Brookfield Capital Partners				
Private funds.....	\$ 66	\$ 59	\$ 474	\$ 198
Norbord.....	120	77	246	217
Other.....	110	76	385	542
Realized disposition gains.....	316	15	—	—
	<u>\$ 612</u>	<u>\$ 227</u>	<u>\$ 1,105</u>	<u>\$ 957</u>

The private equity fund portfolios include 12 investments in a diverse range of industries. Our average investment is \$41 million and our largest single exposure is \$114 million using IFRS values or \$211 million based on stock market prices. 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 52% interest in 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, 2013 was approximately \$890 million based on stock market prices, compared to our carrying value of \$246 million.

Increased prices and volumes within our panelboard businesses, which are benefitting from the U.S. housing recovery, led to a \$98 million increase in FFO from our various industrial and forest products businesses to \$221 million.

Realized disposition gains include the sale of pulp and paper business, which was held in our private funds, achieving a 70% IRR and a 10x multiple on capital. The fund recognized a \$507 million realization gain, of which our proportionate share was \$200 million. In addition, we partially monetized our investments in Western Forest Products and Norbord during the year, recognizing a gain of \$47 million on the sale of 117.1 million shares of Western Forest Products, as well as a gain of \$73 million on the sale of 8.1 million shares of Norbord.

Segment common equity increased by \$148 million over the prior year, as capital invested in our private funds and direct investments in our energy and related services operations, more than offset the impact of asset sales within our industrial and forest products.

RESIDENTIAL DEVELOPMENT

Our residential development operations consist of our direct investment in two public companies: Brookfield Residential Properties Inc. (“BRPI”) and Brookfield Incorporações S.A. (“BISA”), as well as operations in Australia that we are in the process of winding down.

Our North American business is conducted through BRPI. We hold approximately 69% of BRPI, which is listed on the New York and Toronto stock exchanges. BRPI is active in 11 principal markets located primarily in Canada, and the U.S., and controls over 110,000 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.

Our Brazilian business is conducted through BISA. We hold approximately 45% of BISA which is listed on the principal stock exchange in Brazil. BISA 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 Brasilia Federal District, and the five other markets that collectively account for the majority of the Brazilian real estate market.

Our residential 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.

The following table disaggregates segment FFO and segment equity into the amounts attributable to our operations by region and realized disposition gains to facilitate analysis:

	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
Residential				
North America (BRPI).....	\$ 117	\$ 64	\$ 960	\$ 913
Brazil (BISA).....	(61)	(36)	421	482
Australia and other.....	(10)	(10)	54	222
Realized disposition gains.....	—	16	—	—
	<u>\$ 46</u>	<u>\$ 34</u>	<u>\$ 1,435</u>	<u>\$ 1,617</u>

Our North American operations demonstrated strong growth reflecting the recovery in U.S. housing markets and continued strength in Canada. Funds from operations increased from \$64 million to \$117 million due largely to an increase in gross margin of \$82 million (+28%), offset in part by associated income taxes. Funds from operations in 2012 includes a \$16 million realized disposition gain recognized on partial sell-downs of our interest in BRPI.

Home closings and housing gross margins increased in both our Canadian and U.S. operations when compared to the prior year. We delivered 2,216 homes and 2,402 lots during the year, compared to 1,808 and 2,142, respectively, in 2012, representing a year-over-year increase of 23% and 12%, respectively. The gross margin on our Canadian housing operations was 20.8% compared to 18.9% in 2012 reflecting a slight change in mix between the projects being delivered and between home and lot sales.

Our Brazilian operations experienced lower levels of sales and project launches during 2013, reflecting decreased levels of growth in our principal development areas following several years of expansion and consistent with the experience of other developers. We experienced margin pressure from cost increases, and project overruns; however, we remain focused on increasing launches and sales in the near term.

The 2013 results for Australia are consistent with the prior year and we continue to wind down these businesses.

Outlook and Growth Initiatives

We believe our North American activities will continue to benefit from the continuing recovery of the U.S. housing industry which should favourably impact our future prices and volumes. In addition, our residential development business benefits from our strong market share within the energy-focused Alberta market. Net new home orders increased 15% to 2,356 units in 2013 as a result of stable market performance in Canada and the recovery in the U.S., which increased the units and value of our backlog units by 10% and 23% respectively, over the prior year, with much of the increase occurring within our U.S. operations. At the end of 2013, the North American backlog of homes sold but not delivered was 915, with a sales value of \$448 million, compared to 834 homes with a value of \$365 million at the same time last year.

Brazil is currently experiencing lower growth, which is having a negative impact on current returns. We are confident that the country's favourable demographics when combined with supportive government policies will contribute to increased sales and FFO. 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. In February 2014, we launched a tender offer for the shares of BISA that we do not own at a price of R\$1.60 per share or approximately US\$180 million in total based on recent exchange rates.

SERVICE ACTIVITIES

The following table disaggregates segment FFO and segment equity into the amounts attributable to our construction services and property services businesses and realized disposition gains to facilitate analysis:

	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
Service activities				
Construction	\$ 118	\$ 113	\$ 938	\$ 1,029
Property.....	39	46	348	296
Realized disposition gain.....	—	70	—	—
	<u>\$ 157</u>	<u>\$ 229</u>	<u>\$ 1,286</u>	<u>\$ 1,325</u>

Construction revenues increased relative to 2012 as we were managing a larger volume of projects during the year. Operating margins decreased to 7.5% from 8.2% in 2012 as we are experiencing increased bidding competition in the current year, and we completed several higher margin, large projects in the prior year.

The remaining work-in-hand totalled \$3.4 billion at the end of December 31, 2013 (2012 – \$4.3 billion), and represented approximately 1.3 years (2012 – 1.1 years) of scheduled activity. We continue to pursue and secure new projects which should position us well for future growth.

Property services fees include property and facilities management, leasing and project management and a range of real estate services. FFO was \$39 million in 2013 compared to \$46 million last year, reflecting the continued strength of our property services business offset by a reduced ownership interest in these operations following the merger of our U.S. residential brokerage business with another industry participant in late 2012. The merger gave rise to the \$70 million disposition gain.

CORPORATE ACTIVITIES

Our corporate operations include: allocating capital to our various operating platforms, principally through our primary listed issuers, (BPY, BREP and BIP) and through directly held investments and interests in our private equity funds, as well as funding this capital through the issuance of corporate borrowings and preferred shares. We also invest capital in portfolios of financial assets and enter into financial contracts to manage our foreign currency and interest rate risks.

The following table disaggregates segment FFO and segment equity into the principal assets and liabilities within our corporate operations and associated FFO to facilitate analysis:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Funds from Operations		Common Equity by Segment	
	2013	2012	2013	2012
Cash and financial assets, net.....	\$ 159	\$ 96	\$ 814	\$ 1,133
Corporate borrowings.....	(204)	(209)	(3,975)	(3,526)
Subsidiary borrowings.....	(87)	(123)	—	(1,130)
Capital securities.....	(13)	(25)	(163)	(325)
Preferred equity.....	—	—	(3,098)	(2,901)
Net working capital.....	—	—	223	250
Corporate costs.....	(157)	(171)	—	—
Realized disposition gains.....	525	30	—	—
	<u>\$ 223</u>	<u>\$ (402)</u>	<u>\$ (6,199)</u>	<u>\$ (6,499)</u>

We invest capital at the corporate level that is not deployed elsewhere into a variety of financial assets and enter into financial contracts to manage our foreign currency and interest rate risks. Our financial assets are presented in more detail on page 51 and consist of \$1,596 million (2012 – \$1,719 million) of cash and financial assets which are partially offset by \$782 million (2012 – \$586 million) of deposits and other liabilities. FFO from these activities includes dividends and interests from our financial assets, mark-to-market gains or losses and realized disposition gains or losses. FFO in 2013 totalled \$159 million and included \$104 million of mark-to-market and realized disposition gains, a charge of \$12 million incurred on the early redemption of higher cost debt and \$67 million of gains on currency and interest rate contracts that are not treated as hedges. We describe our corporate borrowings and preferred shares in more detail within Part 4 – Capitalization and Liquidity.

During the year we settled a group of long-dated high yielding financial contracts that were classified as a subsidiary borrowing but included in our corporate capitalization because they were guaranteed by the Corporation. The accrued value of the contracts at the end of 2012 was \$1.1 billion and an associated mark-to-market liability of \$257 million was included in net working capital. The contracts were settled for \$905 million in the third quarter of 2013 which was funded from the proceeds of asset sales and incremental corporate borrowings. This gave rise to the elimination of the subsidiary borrowings and a reduction in the associated carrying costs. Corporate borrowings increased as a result of funding a portion of the settlement, however interest costs declined as a result of refinancing other corporate borrowings at reduced rates.

We continued to redeem capital securities with the proceeds from additional perpetual preferred shares at lower yields, giving rise to a reduction in the balance of capital securities outstanding as well as associated interest costs and an increase in the balance of preferred equity. Dividends on preferred equity during 2013 totalled \$145 million (2012 – \$129 million) and are not included in segment FFO because they represent distributions on shareholders' equity that are not included in net income.

Net working capital includes corporate accounts receivable, accounts payable, other assets and liabilities. Also included in net working capital is our corporate deferred income tax asset of \$625 million (2012 – \$773 million). Net working capital was relatively unchanged. The elimination of a \$257 million mark-to-market liability on the subsidiary financial contract referred to above was partially offset by a \$148 million reduction in the deferred tax asset.

Corporate costs declined to \$157 million in 2013 from \$171 million in the prior year as a result of \$25 million of costs being reallocated to our asset management operations following the launch of BPY in 2013.

PART 4 – CAPITALIZATION AND LIQUIDITY

FINANCING STRATEGY

The following are key elements of our capital strategy:

- Match 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; and
- Structure our affairs to facilitate access to a broad range of capital and liquidity at multiple levels of the organization.

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. We attempt to diversify our maturity schedule so that financing requirements in any given year are manageable. Limiting recourse to specific assets or business units is intended to limit the impact of weak performance by one asset or business unit on our ability to finance the balance of the operations.

Most of our financings have investment-grade characteristics which is intended to ensure that debt levels on any particular asset or business can typically be maintained throughout a business cycle, and to enable 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 corporate, operating unit, and asset level on a private or public basis is intended to lessen our dependence 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 sufficient 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 historically 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.

CAPITALIZATION

Overview

We review key components of our consolidated capitalization in the following sections. In several instances we have disaggregated the balances into the amounts attributable to our operating segments in order to facilitate discussion and analysis.

The following table presents our capitalization on a corporate (i.e., deconsolidated), a proportionally consolidated and consolidated basis.

	Consolidated		Corporate		Proportionate	
AS AT DECEMBER 31 (MILLIONS)	2013	2012	2013	2012	2013	2012
Corporate borrowings.....	\$ 3,975	\$ 3,526	\$ 3,975	\$ 3,526	\$ 3,975	\$ 3,526
Non-recourse borrowings						
Property-specific mortgages.....	35,495	33,720	—	—	20,319	21,794
Subsidiary borrowings ¹	7,392	7,585	—	1,130	3,998	4,928
	<u>46,862</u>	<u>44,831</u>	<u>3,975</u>	<u>4,656</u>	<u>28,292</u>	<u>30,248</u>
Accounts payable and other.....	10,316	11,652	978	1,199	6,041	7,175
Deferred tax liabilities.....	6,164	6,425	24	—	3,737	3,753
Capital securities.....	791	1,191	163	325	655	758
Interests of others in consolidated funds.....	1,086	425	—	—	—	—
Equity						
Non-controlling interests.....	26,647	23,287	—	—	—	—
Preferred equity.....	3,098	2,901	3,098	2,901	3,098	2,901
Common equity.....	17,781	18,150	17,781	18,150	17,781	18,150
	<u>47,526</u>	<u>44,338</u>	<u>20,879</u>	<u>21,051</u>	<u>20,879</u>	<u>21,051</u>
Total capitalization.....	<u>\$ 112,745</u>	<u>\$ 108,862</u>	<u>\$ 26,019</u>	<u>\$ 27,231</u>	<u>\$ 59,604</u>	<u>\$ 62,985</u>

1. Represents interest rate swap contracts settled in August 2013 that was previously included in corporate subsidiary borrowings due to a corporate guarantee

Consolidated Capitalization

Consolidated capitalization reflects the full consolidation of wholly owned and partially owned entities.

We note 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. 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 consolidated borrowings primarily reflects the assumption of non-recourse asset specific borrowings on newly acquired or consolidated assets and businesses.

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 common equity and remitted cash flows. Corporate borrowings increased by \$449 million as a result of retained cash flow, asset monetizations and financing activities. We completed five corporate bond issues during the year for total proceeds of C\$980 million and used the proceeds in part to redeem higher cost debt. These activities reduced the average coupon to 4.5%. The average term of our corporate term debt is eight years. Preferred equity increased by \$197 million, reflecting the issuance of C\$200 million, 4.90% perpetual preferred shares. The proceeds were used in part to redeem C\$150 million of capital securities with an average rate 5.0%. 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 were guaranteed by the Corporation and were settled during 2013.

Common and preferred equity totals \$21 billion and represents 80% of our corporate capitalization. The average term to maturity of our corporate debt is eight 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 we believe is an important component of enhancing shareholder returns. We believe that the levels of debt relative to total capitalization are 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.

Our proportionate share of non-recourse borrowings and accounts payable and other liabilities declined since 2012 primarily as a result of lower exchange rates on liabilities denominated in non-U.S. dollar currencies and the distribution of a 7.6% interest in Brookfield Property Partners, which holds the vast majority of our commercial property operations, including the associated debt.

Cash and Financial Assets

The following table presents our cash and financial assets on a consolidated and corporate (i.e., deconsolidated) basis.

	Consolidated		Corporate	
	2013	2012	2013	2012
AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)				
Financial assets				
Government bonds.....	\$ 179	\$ 178	\$ 141	\$ 137
Corporate bonds and other.....	498	344	303	380
Preferred shares.....	33	39	18	297
Common shares.....	2,758	2,034	730	690
Loans receivable/deposits.....	1,479	516	43	40
Total financial assets.....	4,947	3,111	1,235	1,544
Cash and cash equivalents.....	3,663	2,850	361	175
	<u>\$ 8,610</u>	<u>\$ 5,961</u>	<u>\$ 1,596</u>	<u>\$ 1,719</u>

Consolidated Cash and Financial Assets

Consolidated cash and financial assets reflects the full consolidation of wholly owned and partially owned entities and includes financial assets which are held throughout our operations and include both publicly traded investments as well as investments in private entities. Common shares and loans receivable / deposits include investments that are allocated to certain of our business operating segments. For example, BPY's 22% common share investment in Canary Wharf Group \$1.0 billion is included within consolidated financial assets, and loans receivable / deposits includes loans issued by our private equity and real estate finance operations.

Corporate Cash and Financial Assets

We maintain a corporate portfolio of financial assets with the objective of generating favourable investment returns and providing additional liquidity.

Government and corporate bonds include short duration securities for liquidity purposes and longer dated securities that match \$119 million of insurance liabilities that are included in net working capital within our corporate segment.

In addition to the carrying values of financial assets, we hold credit default swaps with a notional value of \$800 million. The carrying value of these derivative instruments reflected in our financial statements at December 31, 2013 was a liability of \$12 million.

Corporate Borrowings

Corporate borrowings at December 31, 2013 included \$662 million (2012 – \$744 million) of commercial paper and bank borrowings pursuant to, or backed by, \$2.2 billion of committed revolving term credit facilities of which \$1.9 billion have a five-year term and the remaining \$300 million have a four-year term. As at December 31, 2013, approximately \$170 million (December 31, 2012 – \$253 million) of the facilities were utilized for letters of credit issued to support various business initiatives.

Term debt of \$3.3 billion (2012 – \$2.8 billion) consists of public bonds and private placements, all of which are fixed rate and have maturities ranging from 2016 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 eight years (December 31, 2012 – eight years). The average interest rate on our corporate borrowings was 4.5% at December 31, 2013 (December 31, 2012 – 4.7%).

In January 2014, we issued C\$500 million of 12 year 4.82% notes and used the proceeds to repay commercial paper borrowings.

Property-Specific Borrowings

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

AS AT DECEMBER 31 (\$ MILLIONS)	Average Term		Consolidated	
	2013	2012	2013	2012
Property.....	4	4	\$ 21,577	\$ 18,709
Renewable energy.....	12	12	4,907	4,347
Infrastructure.....	10	6	6,077	7,093
Residential development.....	2	3	2,465	2,890
Private equity.....	1	3	363	671
Corporate.....	1	2	106	10
Total.....	6	5	\$ 35,495	\$ 33,720

Property-specific borrowings increased during 2013 due to debt issued or assumed through acquisitions in our property and renewable energy operations. We completed a number of refinancings within our infrastructure business that extended the average term from six years to 10 years. The decrease in infrastructure borrowings is due primarily to the sale of North American timberlands.

Subsidiary Borrowings

We endeavour to capitalize our principal 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)	Average Term		Consolidated	
	2013	2012	2013	2012
Subsidiary borrowings				
Property.....	2	3	\$ 3,074	\$ 1,896
Renewable energy.....	7	8	1,717	1,772
Infrastructure	4	4	436	967
Residential development.....	8	6	1,080	1,041
Private equity.....	3	4	899	779
Other.....	1	4	186	—
Corporate – contingent swap accruals ¹	—	3	—	1,130
Total.....	4	4	\$ 7,392	\$ 7,585

1. Guaranteed by the Corporation

Subsidiary borrowings have no recourse to the Corporation with only a limited number of exceptions. Property borrowings increased due to borrowings assumed on acquisitions, including U.S. and UK industrial companies and a Los Angeles office portfolio. During the year we settled the contingent swap accruals at a discount and financed the payment with corporate liquidity and borrowings. We also repaid all of the short-term borrowings within our infrastructure business with the proceeds from asset sales.

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 of the issuer based on the market price of the common shares at that time unless they are previously redeemed by the issuer. The dividends paid on these securities are recorded in interest expense. As at December 31, 2013, C\$175 million of the capital securities were issued by the Corporation and the balance are obligations of BPO and its subsidiaries.

The average distribution yield on the consolidated capital securities at December 31, 2013 was 5.3% (December 31, 2012 – 5.4%) and the average term to the holders' conversion date was four years as at December 31, 2013 (December 31, 2012 – two years).

During 2013, we redeemed C\$150 million of 5.0% capital securities at the corporate level and Brookfield Office Properties redeemed C\$200 million of 6.0% capital securities.

On March 6, 2014, the company notified holders that it will redeem all of its outstanding Class A Series 12 preferred shares for cash on April 6, 2014. The redemption price for each preferred share will be C\$26.00 plus accrued and unpaid dividends.

Preferred Equity

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

AS AT DECEMBER 31 (MILLIONS)	Average Rate			
	2013	2012		
Floating rate.....	2.13%	2.12%	\$ 480	\$ 480
Fixed rate.....	4.82%	4.79%	753	556
Fixed rate-reset.....	5.00%	5.00%	1,865	1,865
	4.51%	4.48%	\$ 3,098	\$ 2,901

We issued C\$200 million of 4.9% perpetual fixed rate preferred shares in June 2013 and used the proceeds to redeem C\$150 million of 5.0% capital securities.

On March 13, 2014, the company issued 8.0 million Series 38 preferred shares with an initial dividend rate of 4.4% for total gross proceeds of C\$200 million.

Non-controlling Interests

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 DECEMBER 31
(MILLIONS)

	2013	2012
Participating equity interests		
Property		
Brookfield Property Partners L.P. ¹	\$ 1,443	\$ —
Subsidiaries		
Brookfield Office Properties Inc. ¹	5,351	5,093
Private funds and other	5,168	4,128
Other	400	363
Renewable energy		
Brookfield Renewable Energy Partners L.P. ¹	1,903	2,030
Private funds and other	1,305	1,022
Infrastructure		
Brookfield Infrastructure Partners L.P. ¹	3,711	3,592
Private funds and other	2,169	2,566
Other	96	104
Private equity	1,424	983
Residential development		
Brookfield Incorporações S.A. ¹	506	727
Brookfield Residential Properties Inc. ¹	479	427
	<u>23,995</u>	<u>21,035</u>
Non-participating interests		
Brookfield Office Properties Inc.	1,542	1,345
Brookfield Renewable Energy Partners L.P.	796	500
Other	354	407
	<u>2,692</u>	<u>2,252</u>
	<u>\$ 26,647</u>	<u>\$ 23,287</u>

1. Non-controlling interests in deconsolidated capitalization of the listed issuer shown separately from non-controlling interest in entities consolidated by the listed issuers

Common Equity

Issued and Outstanding Shares

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

FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Outstanding at beginning of year	619.6	619.3
Issued (repurchased)		
Repurchases	(8.8)	(2.6)
Long-term share ownership plans ¹	4.5	2.7
Dividend reinvestment plan	0.2	0.2
Outstanding at end of year	615.5	619.6
Unexercised options ²	35.6	38.4
Total diluted shares at end of year	<u>651.1</u>	<u>658.0</u>

1. Includes management share option plan and restricted stock plan

2. Includes management share option plan and escrowed stock plan

We repurchased 8.8 million Class A shares during 2013 for \$314 million of which 4.1 million shares (\$150 million) are in respect of long-term share ownership programs issued to employees.

The company holds 9.6 million Class A shares (2012 – 5.5 million) for management long-term share ownership programs, which have been deducted from the total amount of shares outstanding at the date acquired. Included in diluted shares outstanding is 1.0 million (2012 – 0.7 million) of these shares resulting in a net reduction of 8.6 million (2012 – 4.8 million) diluted shares outstanding, based on the market value of the Class A shares at December 31, 2013 and 2012.

In calculating our book value per share, the cash value of our unexercised options of \$904 million (2012 – \$912 million) is added to the book value of our common equity of \$17,781 million (2012 – \$18,150 million) prior to dividing by the total diluted shares presented above.

As of March 28, 2014, the Corporation had outstanding 615,512,430 Class A shares and 85,120 Class B shares.

Basic and Diluted Earnings Per Share

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

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Net Income	
	2013	2012
Net income.....	\$ 2,120	\$ 1,380
Preferred share dividends.....	(145)	(129)
	1,975	1,251
Capital securities dividends ¹	13	25
Net income available for shareholders.....	\$ 1,988	\$ 1,276
Weighted average shares.....	616.1	618.9
Dilutive effect of the conversion of options using treasury stock method ²	12.8	12.1
Dilutive effect of the conversion of capital securities ^{1,3}	7.9	18.0
Shares and share equivalents.....	636.8	649.0

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 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. The Series 10, 11 and 21 shares were redeemed on April 5, 2012, October 1, 2012, and June 30, 2013, respectively

2. Includes Management Share Option Plan and Escrowed Stock Plan

3. The number of shares is based on 95% of the quoted market price at period end

INTEREST RATE PROFILE

As at December 31, 2013, our net floating rate liability position on a proportionate basis was \$4.0 billion (December 31, 2012 – \$4.9 billion). As a result, a 10 basis-point increase in interest rates would decrease funds from operations by \$4 million (December 31, 2012 – \$5 million). Notwithstanding our practice of match funding long-term assets with long-term debt, we 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 in respect of these assets while preserving a long-term maturity profile.

The impact of a 10 basis-point increase in long-term interest rates on the carrying value of 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, 2013 (December 31, 2012 – \$1 million).

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 completed approximately \$20 billion of debt and preferred share financings during the year. These refinancing activities have enabled us to extend or maintain our average maturity term at favourable rates. Approximately \$9.3 billion of the asset-specific financings and the \$1.3 billion of preferred shares issued have fixed rate coupons. The continued steepness in the yield curve and prepayment terms on existing debt continue to reduce the attractiveness of prefinancing a number of our future maturities; however, we are actively refinancing short-dated maturities and longer-dated maturities when the opportunities present themselves.

As at December 31, 2013, we held a \$2.7 billion notional amount (2012 – \$3.6 billion) of interest rate contracts, \$1.7 billion net to the Corporation (2012 – \$2.2 billion), to lock in the risk-free component of interest rates for debt refinancings over the next three years at an average risk-free rate of 2.53% (2012 – 2.39%). The effective rate will be approximately 3.76% (2012 – 3.34%) 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 and UK markets (2012 – 50%) at our share. 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 increase in the interest rate would result in a \$25 million positive mark-to-market (2012 – \$50 million), and \$14 million net to Brookfield (2012 – \$25 million), being recorded in other comprehensive income and vice versa.

LIQUIDITY

Overview

Our principal sources of short-term liquidity are our corporate cash and financial assets together with undrawn committed credit facilities, which we refer to collectively as core liquidity. As at December 31, 2013 core liquidity at the corporate level was \$2.2 billion, consisting of \$0.8 billion in net cash and financial assets and \$1.4 billion in undrawn credit facilities. Aggregate core liquidity includes the core liquidity of our principal subsidiaries, which consist for these purposes of BPY, BPO, BREP, and BIP, and was \$5.9 billion at year end, approximately \$1.7 billion higher than at the end of 2012. The majority of the underlying assets and businesses in these asset classes are funded by these entities, and they will continue to fund our ongoing investments in these areas and, accordingly, we include the resources of these entities in assessing our liquidity. We continue to maintain elevated liquidity levels because we continue to pursue a number of attractive investment opportunities. We also hold \$9.0 billion of third-party undrawn capital commitments to our private funds at year end.

The following table presents core liquidity and undrawn capital commitments on a corporate and consolidated basis:

	Corporate		Principal Subsidiaries		Total	
	2013	2012	2013	2012	2013	2012
	\$	\$	\$	\$	\$	\$
Cash and financial assets, net.....	814	1,133	913	497	1,727	1,630
Undrawn committed credit facilities.....	1,405	1,154	2,733	1,364	4,138	2,518
	<u>2,219</u>	<u>2,287</u>	<u>3,646</u>	<u>1,861</u>	<u>5,865</u>	<u>4,148</u>

Our two largest normal course capital requirements on a consolidated basis are the funding of debt maturities and acquisitions. As a result of our financing strategy, the quality of our assets and emphasis on investment grade borrowings and diversification of capital sources, we have consistently refinanced maturities in the normal course, even in difficult capital market environments, and frequently do so in advance of the scheduled maturity. Most of our acquisitions are completed by private funds or listed entities that we manage. In the case of private funds, the necessary equity capital is obtained by calling on commitments made by the limited partners in each fund, which include commitments made by us or our managed entities. In the case of listed entities, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings. We schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels, which we refer to as sustaining capital expenditures, and which are typically funded by, and represent a relatively small proportion of, the operating cash flows within each business. The timing of these expenditures is discretionary, however we believe it is important to maintain the productivity of our assets in order to optimize cash flows and value accretion and fund these expenditures with operating cash flow.

Our principal liquidity needs at the corporate level include: debt service and principal repayment obligations; capital calls from funds to which we have committed capital; discretionary investments to fund acquisitions and capital expansion projects, including participation in equity issues by our principal investee companies; payments related to financial instruments such as interest rate and foreign currency contracts; sustaining capital expenditures; ongoing corporate operating costs; and dividend payments declared by our Board of Directors. We describe our contractual obligations on page 58.

We and our listed subsidiaries enter into commitments to provide capital to the private funds that we manage, similar to the commitments that our clients make. In the case of our property, infrastructure and timber funds, these commitments are expected to be funded by our listed entities, specifically BPY, BREP and BIP, although the agreements provide that we will fund any commitments that our listed entities fail to fund. As at December 31, 2013 the Corporation had commitments to fund \$4.7 billion of capital to funds, of which \$4.1 billion is expected to be funded by managed entities and the balance by the Corporation. In addition, we had \$9.0 billion of commitments from third-party clients to fund qualifying transactions. Investments and capital expansion projects are discretionary and require approval under our investment policies including, where appropriate, our Board of Directors. The approval of these activities takes into consideration the availability of capital to fund them.

As discussed further on pages 65 and 66, we enter into financial instruments such as interest rate, foreign currency and power price contracts that require us to make or receive payments based on changes in value of the contracts, either to settle the contract or as collateral. We carefully monitor potential liquidity requirements to ensure that they remain within a reasonable amount and can easily be funded with core liquidity.

Over the medium to longer term, we believe that our strategy of holding most of the capital we invest in our property, renewable energy and infrastructure businesses through listed entities will significantly increase our capital resources and liquidity and reduce our capital requirements with respect to future investing activities. Our strategy calls for most of the capital invested in assets within these sectors, either directly or through commitments to private funds, to be funded by the listed entities with their own capital resources. This will likely involve the issuance of equity by these entities from time to time, and we may participate in such equity issues, however, the extent of our participation is at our discretion. Furthermore, we may have the opportunity, but not the obligation, to provide other forms of financing to these entities if we believe it is appropriate. We may from time to time enter into commitments to provide financing to listed entities such as an equity subscription facility or loan facility.

In addition, we have the ability to sell a portion of our interests in the listed entities thereby generating additional liquidity. Our interest in BREP, at 65%, and our interest in BPY, at 66% (proforma to the merger of BPY with BPO), are both well in excess of what we expect our longer term ownership positions to be.

REVIEW OF CONSOLIDATED STATEMENT OF CASH FLOWS

The following table summarizes the consolidated statement of cash flows within our consolidated financial statements:

FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Operating activities.....	\$ 2,278	\$ 1,505
Financing activities.....	2,710	3,917
Investing activities.....	(4,041)	(4,562)
Increase in cash and cash equivalents.....	\$ 947	\$ 860

Operating Activities

Cash flow from operations generated \$2.3 billion of cash flow, representing an increase of 51% or \$773 million over 2012. Cash flow from operating activities consists of net income, including the amount attributable to co-investors, less non-cash items such as undistributed equity accounted income, fair value changes, depreciation and deferred income taxes, and adjusted for changes in non-cash working capital. We also deduct other income and gains from net income, as the proceeds of these items are included within financing and investing activities. Cash flow from operating activities includes the net amount invested or recovered through the ongoing investment in and subsequent sale of residential land, houses and condominiums, which represented an outlay of \$378 million in 2013 (2012 – \$861 million). The increase in cash flow from operating activities is primarily the result of a \$0.8 billion increase in revenues, excluding the impact of other gains and \$558 million of carried interest received in kind.

Financing Activities

Financing activities generated \$2.7 billion of cash flow, compared to \$3.9 billion in the prior year. We generated \$2.8 billion of net cash proceeds through the issuance of \$18.8 billion of secured and unsecured borrowings, primarily through the refinancing of \$16.7 billion of existing borrowings, increasing borrowing levels, while extending term and decreasing our weighted average cost of capital. We issued \$3.8 billion of equity capital, which we used to expand our operations, and we returned \$1.5 billion to our partners, primarily from the disposition of our of non-core timber, property and private equity investments. We also paid out \$1.5 billion of cash distributions and acquired \$0.4 billion of our Class A limited voting shares.

Financing activities in the prior year included the generation of \$1.9 billion of net proceeds through the refinancing of unsecured and secured borrowings, the issuance of \$737 million of preferred shares, the proceeds from which were used to redeem \$506 million of capital securities, and the issuance of \$3.8 billion of equity capital.

Investing Activities

We invested \$5.0 billion to expand our operations in the current year, which included \$4.0 billion of net cash investments and an additional \$998 million of a non-cash investment of securities received in kind, compared with the \$4.6 billion invested in 2012. The following table reconciles total investing activities to our statement of cash flows.

FOR THE YEARS ENDED DECEMBER 31
(MILLIONS)

	2013	2012
Cash flow from investing activities.....	\$ (4,041)	\$ (4,562)
In-kind investment in General Growth Properties.....	(998)	—
	\$ (5,039)	\$ (4,562)

We deployed \$11.6 billion of capital throughout our operations, including a follow-on \$1.4 billion investment in General Growth Properties, funded in part through securities received in kind on the liquidation of our real estate consortium that held our investment in GGP. Our property operations also acquired UK and U.S. industrial real estate companies for aggregate consideration of \$1.2 billion, as well as a Los Angeles office property owner and operator for \$0.5 billion and commercial properties within our property private equity funds. We completed the acquisition of Western Wind Energy Corporation and acquired hydroelectric generation facilities in the northeastern U.S. within our renewable energy operations, and acquired a Brazilian timberland investment for \$0.6 billion within our infrastructure operations. We also invested in financial assets during the year within our real estate, infrastructure and private equity operations. We disposed of non-core assets generating cash proceeds of \$6.4 billion, including our Pacific Northwest timberlands, a pulp and paper business within our private equity operations, and property assets.

Investing activities in the prior year included the acquisition of two hydroelectric portfolios within North America for \$1.1 billion and \$2.1 billion to acquire a UK regulated distribution operation, a Brazilian toll road, and several other businesses within our infrastructure operations. We also disposed of \$0.9 billion of financial assets in the prior year, the proceeds of which were reinvested into our operations.

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	1 – 2 Years	2 – 5 Years	After 5 Years	
Corporate borrowings.....	\$ —	\$ 282	\$ 1,137	\$ 2,556	\$ 3,975
Principal repayments					
Non-recourse borrowings					
Property-specific mortgages.....	5,647	9,610	6,665	13,573	35,495
Other debt of subsidiaries.....	1,823	1,721	1,593	2,255	7,392
Capital securities.....	188	440	—	163	791
Lease obligations ¹	34	94	49	142	319
Commitments.....	1,755	—	—	—	1,755
Interest expense ²					
Long-term debt.....	2,044	3,457	2,251	6,322	14,074
Capital securities.....	42	47	11	—	100

1. Included in accounts payable and other

2. Represents the 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 \$1.8 billion (2012 – \$2.7 billion) represent various contractual obligations of the company and its subsidiaries assumed in the normal course of business. These included commitments to provide bridge financing, and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations, of which \$269 million (2012 – \$297 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 produced by 65% owned BREP as previously described on pages 43 to 44.

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.

EXPOSURES TO SELECTED FINANCIAL INSTRUMENTS

As discussed elsewhere in this MD&A 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 6 to our consolidated financial statements and under Financial and Liquidity Risks beginning on page 65.

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. To this end, we strive for excellence and quality in each of our core operating platforms in the belief that this approach will produce strong 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 those competitors that have shorter investment horizons and more of a speculative focus. These operating platforms have been established over the course of 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 institutional investors and believe we are well positioned to continue increasing the 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. To achieve this, we are continually expanding the breadth of resources we devote 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 ethical business conduct, as well as our position in the market 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 includes maintaining 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.

RISK MANAGEMENT

Managing risk is an integral part of Brookfield's business and we have a disciplined and focused approach to risk management.

The assessment and management of risk is the responsibility of the Company's management. Given the diversified and decentralized nature of our operations, we seek to ensure that risk is managed as close to its source as possible, and by management teams that have the most knowledge and expertise in the business or risk area.

As such, business specific risks are generally managed at the operating platform level, as the risks vary based on the unique business and operational characteristics. The specific manner and methodologies by which risks are addressed and mitigated vary based upon, among other things, the nature of the risks and of the assets and operations to which they apply, the geographic location of the assets, the economic, political and regulatory environment, and Brookfield's assessment of the benefits to be derived from such mitigation strategies.

At the same time, we utilize a coordinated approach among our corporate group and our operating platforms to risks that can be more pervasive and correlated in their impact across the organization, such as foreign exchange and interest rate risks, and where we can bring together specialized knowledge to manage these risks. Management of strategic, reputational and regulatory compliance risks are similarly coordinated to ensure consistent focus on organizational objectives.

The Corporation's Chief Financial Officer has ultimate responsibility for the risk management function and discharges the responsibility with the assistance of the Risk Management Group, which works with various operational and functional groups within Brookfield to coordinate the risk management program and to develop and implement risk mitigation strategies that are appropriate for the Corporation.

These efforts leverage the work conducted by management committees that have been formed to bring together required expertise to manage and oversee key risk areas, and include:

- Risk Management Steering Committee to support the overall corporate risk management program, and coordinate risk assessment and mitigation on an enterprise-wide basis;
- Investment Committees to oversee the investment process as well as monitor the ongoing performance of investments;

- Conflicts Committee to resolve potential conflict situations in the investment process and other corporate transactions;
- Financial Risk Oversight Committee to review and monitor financial exposures;
- Safety Steering Committee to focus on health, safety, and environmental matters; and Disclosure Committee to oversee the disclosure of non-financial information.

The Corporation's Board of Directors has governance oversight for risk management with a focus on the more significant risks facing the Corporation, and builds upon management's risk assessment and oversight processes. The Board of Directors has delegated responsibility for the oversight of specific risks to board committees as follows:

Risk Management Committee

Oversees the management of Brookfield's significant financial and non-financial risk exposures, including market, credit, operational, reputational, strategic, regulatory and business risks. These responsibilities include discussing risk assessment and risk management practices with management to ensure ongoing, effective mitigation of key organizational risks, as well as confirming that the company has an appropriate risk taking philosophy and suitable risk capacity.

Audit Committee

Oversees the management of risks related to Brookfield's systems and procedures for financial reporting as well as for associated audit processes (internal and external). Part of the Audit Committee's responsibilities is the review and approval of the risk-based internal audit plan, which ensures alignment with risk management activities and organizational priorities.

Management Resources and Compensation Committee

Oversees the risks related to Brookfield's management resource planning, including succession planning, proposed senior management appointments, executive compensation, and the job descriptions and annual objectives of senior executives, as well as performance against those objectives.

Governance and Nominating Committee

Oversees the risks related to Brookfield's governance structure, including the effectiveness of board and committee activities and potential conflicts of interest, as well as with respect to related party transactions.

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 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

Economic Conditions

We are exposed to the local, regional, national and international economic conditions and other events and occurrences beyond our control, including, but not limited to, credit and capital market volatility, business investment levels, government spending levels, consumer spending levels, changes in laws (including laws relating to taxation), trade barriers, commodity prices, currency exchange rates and controls, national and international political circumstances (including wars, terrorist acts or security operations), changes in interest rates, inflation rates and general economic uncertainty. These economic conditions affect the jurisdictions in which our entities are formed and where we own assets and operate businesses. Further, these factors may affect securities prices and the liquidity and the value of existing and potential investments. In general, a decline in economic conditions, either in the markets or industries in which we participate, or both, will result in downward pressure on our operating margins and asset values as a result of lower demand and increased price competition for the services and products that we provide. In particular, given the importance of the U.S. and Canada to our operations, an economic downturn in North America could have an adverse effect on our operating margins and asset values.

Competition

Each segment of our business is subject to competition in varying degrees. We compete on the basis of a number of factors, including, but not limited to, the quality of our employees, transaction execution, our products and services, innovation and reputation and price. Our competitors include private equity funds, specialized investment funds, hedge funds, funds of hedge funds and other sponsors managing pools of capital, as well as corporate buyers, traditional asset managers, commercial banks, investment banks and other financial institutions (including sovereign wealth funds). We compete in pursuit of investor capital to be invested in our securities and investment funds but also in acquiring investments in attractive assets. Competition for investor capital, in particular, is intense and investors are increasingly seeking to manage their own assets or reduce their management fees. Further, our competitors may have certain competitive advantages, including greater financial, technical, marketing and other resources, more personnel, less onerous regulatory requirements or a lower cost of capital and access to funding sources or other resources that are not available to us. These pressures and/or an increase in competition could result in downward pressure on revenues which could, in turn, reduce operating margins and thereby reduce operating cash flows, investment returns and

negatively affect our overall financial condition. In addition, competition could result in the scarcity of inputs which can impact certain of our businesses through higher costs.

Interest Rates

A number of our long-life assets are interest rate sensitive: increases in long-term interest rates will, absent all else, decrease the value of an asset by reducing the present value of the cash flows expected to be produced by such asset. Additionally, any of our debt or preferred shares that are subject to variable interest rates, either as an obligation with a variable interest rate or as an obligation with a fixed interest rate that resets into a variable interest rate in the future, are subject to interest rate risk. Further, the value of any debt or preferred share that is subject to a fixed interest rate will be determined based on the prevailing interest rates and, accordingly, this type of debt or preferred share is also subject to interest rate risk. In addition, over the last few years, interest rates have been at historically low levels. These rates may remain relatively low or rise in the future either gradually or abruptly. Should interest rates increase, the amount of cash required to service these obligations would increase and our earnings could be adversely impacted.

Ownership of Common Shares

The trading price of our Class A shares is subject to volatility and cannot be predicted. Our shareholders may not be able to resell their Class A shares at or above the price at which they purchased such shares due to trading price fluctuations. The trading price could fluctuate significantly in response to factors both related and unrelated to our operating performance and/or future prospects, including, but not limited to: (i) variations in our quarterly or annual operating results and financial condition; (ii) changes in government laws, rules or regulations affecting our businesses; (iii) material announcements by our competitors; (iv) market conditions and events specific to the industries in which we operate; (v) changes in general economic conditions; (vi) differences between our actual financial and operating results and those expected by investors and analysts; (vii) changes in analysts' recommendations or earnings projections; (viii) changes in the extent of analysts' interest in covering the Corporation and its publicly-traded affiliates; (ix) the depth and liquidity of the market for our Class A Shares; (x) dilution from the issuance of additional equity; (xi) investor perception of our businesses and the industries in which we operate; (xii) investment restrictions; (xiii) our dividend policy; (xiv) the departure of key executives; (xv) sales of Class A Shares by senior management or significant shareholders; and (xvi) the materialization of other risks described in this section.

Taxes

Our structure is based on prevailing taxation law and practice in the local jurisdictions in which we operate. Any change in tax policy, tax legislation (including in relation to taxation rates), the interpretation of tax policy or legislation or practice in these jurisdictions could adversely affect the return we can earn on our investments, on the capital available to be invested by us or our institutional investors or on the willingness of investors to acquire our securities or invest in our funds. Further, taxes and other constraints that would apply to our operating entities in such jurisdictions may not apply to local institutions or other parties, and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing acquisitions. A number of other factors may increase our effective tax rates, which would have a negative impact on our net income. These include, but are not limited to, changes in the valuation of our deferred tax assets and liabilities, and any reassessment of taxes by a taxation authority.

Laws, Rules and Regulations

There are many laws and governmental rules and regulations that apply to us, our assets and our businesses. Changes in these laws, rules and regulations, or their interpretation by governmental agencies or the courts, could adversely affect our business, assets or prospects, or those of our customers, clients or partners. Furthermore, economic and political factors, including civil unrest, changes in government or government policy and restrictions on the ability to transfer capital across borders can have a major impact on us as a global company.

We acquire and develop primarily property, renewable energy and 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 can impose on us uncertainty, 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. Changes in these laws may adversely affect us and our businesses or may benefit our competitors or their businesses. We must also comply with municipal, state or provincial and federal laws, rules and regulations relating to the protection or preservation of human health and safety and the environment. See "Business Environment and Risks - Health, Safety and the Environment" on page 63. These laws, rules and regulations sometimes result in uncertainty and delays, which cause us to incur additional costs, or severely restrict development activity in certain regions or areas. Additionally, liability under such laws, rules and regulations may occur without our fault. Private parties may have the right to pursue legal actions against us to enforce compliance as well as seek damages for non-compliance with these laws, rules and regulations or for personal injury or property damage. Our insurance may not provide any coverage or sufficient coverage in the event that a successful claim is made against us. Any future increases in regulatory requirements may require us to incur further compliance costs. Environmental laws and regulations can change rapidly and significantly and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations and the associated costs could adversely affect our business, financial condition or results of operation.

Our asset management business is subject to substantial and increasing regulatory compliance and oversight. The recent financial crisis and various high profile financial scandals have resulted in active debate regarding the appropriate level of regulation and oversight of asset management businesses in a number of jurisdictions in which we operate. The introduction of new legislation and increased regulation may result in increased compliance costs and could materially affect the manner in which we conduct our business and adversely affect our profitability.

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, but not limited to, fiduciary duties to clients, maintaining an effective compliance program, record-keeping, advertising and operating requirements, disclosure obligations, general anti-fraud prohibitions and “pay to play” practices vis-à-vis U.S. state and local government entities. These requirements and regulations are primarily intended to benefit investment advisory clients and investment company shareholders and generally grant supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with such laws and regulations. In the event that such powers are exercised, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the activities in which the investment adviser may engage, suspension or revocation of the investment adviser’s registration as an adviser, censure and fines. Compliance with these requirements and regulations results in the expenditure of costs and internal resources, and a failure to comply with such obligations could result in investigations, financial or other sanctions, and reputational damage.

The Investment Company Act of 1940 (the “40 Act”) and the rules promulgated thereunder (and similar legislation in other jurisdictions) provide certain protections to investors and impose certain restrictions on companies that are registered as investment companies. Among other things, such rules limit or prohibit transactions with affiliates, impose limitations on the issuance of debt and equity securities and impose certain governance requirements. The 40 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 40 Act also requires the registration of an entity 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 such entity’s assets on an unconsolidated basis. We are not currently nor do we intend to become registered as an investment company under the 40 Act. In order to ensure that we are not deemed to be an investment company, we may be required to materially restrict or limit the scope of our operations or plans, we will be limited in the types of acquisitions that we may make and we may need to modify our organizational structure or dispose of assets that we would not otherwise dispose of. If we were required to register as an investment company under the 40 Act, we would, among other things, be restricted from engaging in certain business activities (or have conditions placed on our business activities), issuing certain securities and be required to limit the amount of investments that we make as a principal or otherwise conduct our business in a manner that does not subject us to the registration and other requirements of the 40 Act.

Governmental Investigations; Anti-Bribery and Corruption

We are from time to time subject to various governmental investigations, audits and inquiries, both formal and informal (“investigations”). These investigations, regardless of their outcome, could be costly, divert management attention, and damage our reputation. The unfavourable resolution of such investigations could result in criminal liability, fines, penalties or other monetary or non-monetary remedies and could materially affect our business or results of operations.

There is an increasing global focus on the implementation and enforcement of anti-bribery and corruption legislation, and this focus has heightened the risks that we face in this area, particularly as we expand our operations globally. We are subject to a number of laws and regulations governing payments and contributions to public officials or other third parties, including restrictions imposed by the U.S. Foreign Corrupt Practices Act and similar laws in non-U.S. jurisdictions, such as the UK Bribery Act and the Canadian Corruption of Foreign Public Officials Act. Different laws that are applicable to us may contain conflicting provisions, making our compliance more difficult. The policies and procedures we have implemented to protect against non-compliance with anti-bribery and corruption legislation may be inadequate. If we fail to comply with these laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our operating results and financial condition. In addition, we may be subject to successor liability for violations under these laws or other acts of bribery committed by companies in which we or our funds invest.

Instances of bribery, fraud, accounting irregularities and other improper, illegal or corrupt practices can be difficult to detect, and fraud and other deceptive practices can be widespread in certain jurisdictions. We invest in emerging market countries that may not have established stringent anti-bribery and corruption laws and regulations, or where existing laws and regulations may not be consistently enforced. For example, we invest in jurisdictions that are perceived to have materially higher levels of corruption according to international rating standards, such as China, India, Latin America and the Middle East. Due diligence on investment opportunities in these jurisdictions is frequently more challenging because consistent and uniform commercial practices in such locations may not have developed or do not meet international standards. Bribery, fraud, accounting irregularities and corrupt practices can be especially difficult to detect in such locations.

The increased global focus on anti-bribery and corruption enforcement may also lead to more investigations in this area, the results of which cannot be predicted. For example, we are currently facing anti-bribery and corruption investigations by the SEC and U.S. Department of Justice (“DOJ”) related to a Brazilian subsidiary of ours that allegedly made payments to certain third parties in Brazil and those payments were, in turn, used, with our knowledge, to pay certain municipal officials to obtain permits and other benefits. A civil action against our Brazilian subsidiary has been commenced by a public prosecutor in Brazil. All involved have denied the allegations. The SEC and DOJ are seeking information from us and we are cooperating with both authorities in this regard. In 2012, we engaged a leading international law firm to conduct an independent investigation into the allegations. Based on the results of that investigation, we have no reason to believe that our Brazilian subsidiary engaged in any wrongdoing and hope to resolve this matter in due course. We do not expect that any legal outcome will be financially material to the Corporation.

In addition, a legal action in Brazil has resulted in the arrest of four City of São Paulo officials for corruption. The four officials allegedly perpetrated an extortion scheme that forced real estate developers to make illicit payments in order to obtain occupancy permits necessary to complete development projects and other benefits. One of our affiliates is a real estate development company in Brazil that builds residential high-rise condominiums and was one of many developers targeted by this extortion. We have been cooperating fully with the public prosecutor’s office in São Paulo and providing relevant information and witness testimony. There are no charges against our affiliate or any of its employees in connection with this matter and none are expected.

Litigation

In the normal course of our operations, we become involved in various legal actions, including claims relating to personal injury, property damage, property taxes, land rights and contract and other commercial disputes. Further, we have significant operations in the U.S., which may, as a result of the prevalence of litigation in the U.S., be more susceptible to legal action than certain of our other operations. The final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and the resolution of such actions may have an adverse effect on our financial position or results of our operations in a particular quarter or fiscal year. Any litigation may consume substantial amounts of our management’s time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. Even if ultimately unsuccessful, litigation could adversely affect our business, including by damaging our reputation.

Health, Safety and the Environment

As an owner and operator of real property, we may become liable for the costs of removal and remediation of certain hazardous substances released or deposited on or in our properties, or disposed of at other locations regardless of whether or not we were responsible for the release or deposit of such hazardous materials. These costs could be significant and could reduce cash available for our business. 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. Environmental laws and regulations can change rapidly and significantly and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations and the associated costs could adversely affect our business, financial condition or results of operations.

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 potential civil liability. Compliance with health, safety and environmental standards and the requirements set out in our licenses, permits and other approvals are material to our business. We have incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental standards and to obtain and comply with licenses, permits and other approvals and to assess and manage potential liability exposure. Nevertheless, we may be unsuccessful in obtaining or maintaining 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 standards, licenses, permits or other approvals could have a significant impact on our operations and/or result in 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.

Insurance

We carry various insurance policies on our assets. These policies contain policy specifications, limits and deductibles that may mean that insurance may not provide coverage or sufficient coverage against all potential material losses. We may also self-insure a portion of certain of these risks. There are certain types of risk (generally of a catastrophic nature such as war or environmental contamination) which are either uninsurable or not economically insurable. Further, there are certain types of risk for which insurance coverage is not equal to the full replacement cost of all of the assets. Should any uninsured or underinsured 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 any related properties to the extent the borrowers have recourse beyond the specific asset or operations being financed, which could have an adverse effect on our results of operations and financial position.

Climate Change

Ongoing changes to the physical climate in which we operate may have an impact on our businesses. In particular, changes in weather patterns or extreme weather (such as floods, hurricanes and other storms) may impact hydrology and/or wind levels, thereby influencing power generation levels or affect other of our businesses or damage our assets. Further, rising sea levels could, in the future, affect the value of any low-lying real property that we may own or develop or result in the imposition of new property taxes. Climate change may also give rise to changes in regulations and consumer sentiment that could impact other areas of our operations. Climate change regulation at provincial or state, federal and international levels could have an adverse effect on our business, financial position, results of operations or cash flows.

Labour

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

In addition, we face competition in connection with the attraction and retention of qualified employees. Our ability to continue to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees. If we are unable to attract and retain qualified employees this could limit our ability to compete successfully and achieve our business objectives, which could negatively impact our business, financial condition and results of operations.

Terrorist Acts

Our commercial office portfolio is concentrated in large metropolitan areas, some of which have been or may be perceived to be threatened by terrorist attacks. Furthermore, many of our properties consist of high-rise buildings, which may also be subject to this actual or perceived threat. The perceived threat of a terrorist attack could negatively impact our ability to lease office space in our real estate portfolio. Renewable energy and infrastructure assets, such as roads, railways, power generation facilities and ports, may also be targeted by terrorist organizations who seek to disrupt the backbone of Western economies. A terrorist act affecting us could have an adverse effect on our operating results and cash flows. Any damage or business interruption costs as a result of uninsured or underinsured acts of terrorism could result in a material cost to us and could adversely affect our business, financial condition or results of operation. Adequate terrorism insurance may not be available at rates we believe are reasonable in the future. All of the risks indicated in this paragraph could potentially be heightened by foreign policy decisions of the U.S. and other influential countries or general political conditions.

Further, our information technology systems may be subject to cyber terrorism, intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, often through the introduction of computer viruses, cyberattacks and other means, and could originate from a wide variety of sources, including unknown third parties outside the firm. Although we have implemented measures to ensure system integrity, there can be no assurance that these measures will provide adequate protection. If our information systems are compromised do not operate properly or are disabled, we could suffer financial loss and/or a disruption in one or more of our businesses. This could have a negative impact on our operating results and cash flows, or result in reputational damage.

Execution of Strategy

Value Investing

The successful execution of our value investment strategy is uncertain as it requires suitable opportunities, 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.

Our approach to investing entails adding assets to our existing businesses when the competition for assets is weakest, typically when depressed economic conditions exist in the market relating to a particular entity or industry. However, there is no certainty that we will be able to identify suitable or sufficient opportunities that meet our investment criteria and acquire additional high-quality assets at attractive prices to supplement our growth. Conversely, overly favourable economic sentiment can limit the number of attractive investment opportunities and thereby restrict our ability to increase assets under management and avail ourselves of the related benefits. Competition from other investors may significantly increase the purchase price of target assets 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 well or as quickly as expected. Investments in companies or assets that are experiencing significant financial or business difficulties are subject to a risk of poor performance or loss. We may fail to value opportunities accurately or to consider all relevant facts that may be necessary or helpful in evaluating an opportunity, or we may underestimate the costs necessary to bring an acquisition up to standards established for its intended market position or be unable to quickly and effectively integrate new acquisitions into our existing operations. We may be required to sell a business before it has realized our expected level of returns. If we are unable to realize the benefits we expect to achieve as a result of acquisitions, our operating results and cash flows may be less than expected.

Management Team

Our executive and other senior officers have a significant role in our success and oversee the execution of our strategy. Our ability to retain our management group or attract suitable replacements should any members of the management group leave is dependent on, among other things, the competitive nature of the employment market and the career opportunities that we can offer. We have experienced departures of key professionals in the past and may do so in the future, and we cannot predict the impact that any such departures will have on our ability to achieve our objectives. Competition for the best people is intense and 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. Furthermore, such a loss could be negatively perceived in the capital markets. We do not maintain any key person insurance.

The conduct of our businesses and the execution of our growth strategy rely heavily on teamwork. Our continued ability to respond promptly to opportunities and challenges as they arise depends on co-operation across our organization and our team-oriented management structure, which may not materialize in the way we expect.

Business Partnerships

We participate in joint ventures, partnerships, co-tenancies and similar arrangements affecting many of our assets and businesses. Investments in partnerships, joint ventures, co-tenancies or other entities may involve risks and uncertainties not present absent third-party involvement, including, but not limited to, our dependency on partners, co-tenants or co-venturers that are not under our control and that might compete with us for opportunities, become bankrupt or otherwise fail to fund their share of required capital contributions, or suffer reputational damage that could have an adverse impact on us. Additionally, our partners, co-venturers or co-tenants might at any time have economic or other business interests or goals that are different than or inconsistent with those of the Corporation, and we could become engaged in a dispute with any of them that might affect our ability to operate the business or assets in question. We do not have sole control over certain major decisions relating to these assets and businesses, including, but not limited to: the decisions relating to the sale of assets and businesses; refinancings; the 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 a management agreement in limited circumstances relating to disputes over the managers' obligations. Any such termination could adversely affect our revenue from management fees or our ability to raise future capital. 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. Such rights may be triggered at a time when we may not want to sell but are forced to do so because we do not have the inclination or financial resources at the relevant 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 business to enhance returns to shareholders and our investors and finance our operations. We attempt to match the profile of any leverage to the associated assets. Accordingly, we 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. We are therefore subject to the risks associated with debt financing and refinancing. These risks, including but not limited to 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 and dividends; if we are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavourable terms, we may have difficulty completing acquisitions or may generate profits that are lower than would otherwise be the case; we may not be able to refinance indebtedness on our assets at maturity due to company and market factors such as the estimated cash flow produced by our assets, the value of our assets, liquidity in the debt markets, and/or 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. Our ability to achieve attractive rates of return will depend on our ability to access sufficient sources of indebtedness at attractive rates.

The use of leverage poses a significant degree of risk and enhances the possibility of a significant loss. Highly leveraged assets are inherently more sensitive to declines in revenues, increases in expenses and interest rates, and adverse market conditions. A leveraged company's income and net assets also tend to increase or decrease at a greater rate than would otherwise be the case if money had not been borrowed. As a result, the risk of loss associated with a leveraged company, all other things being equal, is generally greater than for companies with comparatively less debt.

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, adequate insurance coverage and certain credit ratings. These covenants may limit our flexibility in conducting our operations and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness, even if we have satisfied and continue to satisfy our payment obligations.

We rely on our subsidiaries to provide us with the funds necessary to pay dividends and meet our financial obligations. The leverage on our assets may affect the funds available to us if the terms of the debt impose restrictions on the ability of our subsidiaries to make distributions to us. In addition, our subsidiaries will generally have to service their debt obligations before making distributions to us or their parent entity.

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 we may need to dispose of one or more of our assets on disadvantageous terms or raise equity, causing dilution to existing shareholders. If we are required to repay indebtedness using cash on hand, cash provided by our continuing operations or cash from the sale of our assets, this could reduce dividends to our shareholders. 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, a 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, if financial or operating difficulties of other owners result in distress sales, such sales could depress asset values in the markets in which we operate. The restrictions inherent in owning physical assets could reduce our ability to respond to changes in market conditions and could adversely affect the performance of our investments, 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 such syndications or assignments, which may increase the amount of capital that we are required to invest. Such an outcome can have an adverse impact on our liquidity, which may reduce our ability to pursue further acquisitions or meet other financial commitments.

We enter into financing commitments in the normal course of business, which we may be required to fund. Additionally, in the ordinary course of business we guarantee the obligations of funds or other entities that we manage and/or invest in. If we are required to fund these commitments and are unable to do so, this could result in damages being pursued against us or a loss of opportunity through default of contracts that are otherwise to our benefit.

Investors in our private funds make capital commitments to our funds through the execution of subscription agreements. When a fund makes an investment, these capital commitments are then satisfied by our investors via capital contributions. Investors in our private funds may default on their capital commitment obligations to our private funds, which could have an adverse impact on our earnings or result in other negative implications to our businesses such as the requirement to redeploy our own capital to cover such obligations, even if the capital would otherwise earn a greater return.

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 currency utilized in one or more countries where we have a significant presence may have a material adverse effect on our results of operations and financial position.

Our businesses are impacted by changes in currency rates, interest rates, commodity prices and other financial exposures. We selectively utilize financial instruments to manage these exposures, including credit default swaps and other derivatives to hedge certain of our financial positions. However, a significant portion of this risk remains unhedged. We may also establish unhedged positions in the ordinary course of business. These instruments are typically utilized as a hedge or an alternative to purchasing or selling the underlying security when such instruments are more effective from a capital employment perspective. There is no assurance that hedging strategies will fully mitigate the risks they are intended to offset, and 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 (if a counterparty fails to fulfill its obligations we may be exposed to risks we had sought to mitigate) and a potential requirement to fund mark-to-market adjustments. The company's risk management and derivative financial instruments are more fully described in the notes to our consolidated financial statements.

The Dodd-Frank Act ("Dodd-Frank") imposes rules and regulations governing federal oversight of the over-the-counter ("OTC") derivatives market and its participants, including the Corporation. Regulations promulgated by the U.S. Commodities Futures Trading Commission and the SEC under Dodd-Frank require, since June 10, 2013, certain types of OTC derivative transactions to be executed through a centralized exchange or regulated facility and be cleared through a regulated clearinghouse. These new rules impose additional costs and additional regulation on the Corporation. Derivative transactions executed through exchanges or regulated facilities attract incremental collateral requirements in the form of initial margin, and require variation margin to be cash settled on a daily basis which increases liquidity risk for the Corporation. The increase in margin requirements (relative to bilateral agreements) combined with a more restricted list of securities that qualify as eligible collateral requires us to hold larger positions in cash and treasuries, which could reduce income. Conversely, transactions executed through exchanges largely eliminate OTC counterparty credit risk but increase our exposure to the risk of an exchange or clearinghouse defaulting, and increased capital or margin requirements imposed on our OTC derivative counterparties could reduce our exposure to

the counterparties' default. In force OTC derivative transactions are grandfathered and will migrate to being cleared through exchanges over time, or the Corporation may elect to accelerate the migration. As such, this does not become a significant risk for the Corporation until a large portion of our derivatives have transitioned to clearing houses. Similar regulations in other jurisdictions we operate in are expected to become effective as early as 2014. We cannot predict the effect of the legislation on our hedging costs, our hedging strategy or its implementation, or whether Dodd-Frank and similar regulations in other jurisdictions will lead to an increase or decrease in or change in composition of the risks we hedge. Such regulatory oversight could have an adverse impact on our ability to hedge risks in our businesses. Specifically, Dodd-Frank, and any other similar regulations in the markets in which we operate, could significantly increase the cost of derivative contracts, reduce the availability of derivatives to protect against operational risk and reduce the liquidity of the market for derivatives. A reduction in the Corporation's use of derivatives as a result of Dodd-Frank and other similar regulations may, among other things, result in increased volatility and decreased predictability of our cash flows.

Asset Management

Our ability to raise capital from third party investors and successfully expand our asset management activities is dependent on a number of factors, including certain factors that are outside our control. In the event that any of our funds were to perform poorly, our revenue, income and cash flow would decline because the value of our assets under management would decrease, which would result in a reduction in management fees, and our investment returns would decrease, resulting in a reduction in the carried interest and incentive fees that we earn. Moreover, we could experience losses on our investments of our own capital as a result of poor investment performance by our funds.

Poor performance could damage our reputation with our current and potential investment partners and make it more difficult for us to raise new capital. Investors may decline to invest in future investment funds we raise, may withdraw their investments as a result of poor performance in the funds in which they are invested, or may demand lower fees or fee concessions for new or existing funds, which would decrease our revenue.

Competition for investor capital, particularly within the asset classes on which we focus, is intense. There is no assurance that we will be successful in differentiating ourselves as an asset manager and this competition may reduce the capital available to us to invest, the returns we can make on our investments and the margins of our asset management business. Our asset management business relies on the continued willingness of insurance companies, pension funds, endowments, sovereign wealth funds, other institutional investors and wealthy individuals to deploy capital to asset managers that focus on investments in real assets. Depending on factors outside of our control, such as the performance of the stock market, asset allocation rules or regulations or investment policies to which third party investors are subject could inhibit or restrict the ability of third party investors to make investments in our funds or the asset classes in which our funds invest. The general appeal of our funds and asset classes could also decline or fall into disfavour. In addition, certain institutional investors are demonstrating a preference to in-source their own investment professionals and to make direct investments without the assistance of asset managers like us. These investors may not continue to make new capital commitments to our managed funds and could become competitors to us for capital and investment opportunities. As a result, we may need to identify and attract new investors in order to maintain or increase the size of our funds. There are no assurances that we can find new investors or secure commitments from new or existing investors. If we are unable to raise capital from third party investors, we will be unable to collect management fees or deploy their capital into investments and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.

We could be negatively impacted if there is misconduct by personnel of portfolio companies in which our funds invest. Failures by personnel at our portfolio companies to comply with legal and regulatory requirements could adversely affect our business and reputation. We may face increased risk of such misconduct to the extent our investment in emerging markets increases. Such misconduct might undermine our due diligence efforts with respect to such companies and could negatively affect the valuation of a fund's investments.

Our private funds have a finite life that may require us to exit an investment made in a fund at an inopportune time. Volatility in the exit markets for these investments, increasing levels of capital required to finance companies to exit, and rising enterprise value thresholds to go public or complete a strategic sale can all contribute to the risk that we will not be able to exit a private fund investment successfully. We cannot always control the timing of our private fund investment exits or our realizations upon exit.

Our private fund investments may not meet their investment hurdles and we may not realize performance based income related to these investments upon exit. If, as a result of poor performance of investments in a fund's life, the fund does not achieve certain investment returns for the fund over its life, we will be obligated to repay the amount by which the carried interest that was previously distributed to us exceeds amounts to which we are ultimately entitled.

Property

We invest in high-quality commercial office properties and are therefore 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 the 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.

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. It is possible that we may face a disproportionate amount of space expiring in any one year. Additionally, rental rates could decline, tenant bankruptcies could increase and tenant renewals may not be achieved, particularly in the event of a protracted disruption in the economy such as a recession.

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, competition and other factors. 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 sales at stores operating in our malls are poor, existing tenants might be unable or unwilling 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 in real estate assets, such as mortgage payments, property 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 are therefore negatively impacted by tenant bankruptcies or the voluntary or involuntary closure of stores in our properties. 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 could 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, discount shopping centres, 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 Energy

Our renewable energy 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. 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. It is therefore possible that low water levels at our North American power generating operations could result at any time and potentially continue for indefinite periods.

A significant portion of our renewable energy 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 our counterparties in these contracts are unable or unwilling to fulfill their contractual obligations, we may not be able to replace an existing contract with an agreement on equivalent terms and conditions. In this event, and potentially others, we may not be successful in mitigating the impact of fluctuations in wholesale electricity prices.

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 generally or to specific 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 levels. 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 power generation projects.

Our renewable energy 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 make access for repair of damage difficult.

Infrastructure

Our infrastructure operations include utilities, transport, energy, timberlands and agrilands operations in North and South America, Europe and Australasia. These operations include toll roads, electricity transmission systems, coal terminal operations, electricity and gas distribution companies, rail networks and ports. 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 investments that we had planned or we may not be able to recover our initial cost.

Economic regulation can also involve ongoing commitments to economic regulators, safety regulators and other governmental agencies. Our timberlands operations are subject to provincial or state and federal government regulations relating to forestry practices and the export of logs, and several of our infrastructure 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 an existing 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 infrastructure operations. 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.

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. Protecting the quality of our revenue streams through the inclusion of take-or-pay or guaranteed minimum volume provisions into our contracts, such as at our rail operations, is not always possible or fully effective.

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.

Our infrastructure 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 infrastructure operations require the usage of large areas of land for construction and operation. 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.

The financial performance of our timberland operations depends on strong demand in the wood products and pulp and paper industries. A decrease in the level of residential construction activity generally reduces 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 timber that we may be able to sell. In addition to impacting our timberland 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. There is no certainty that we will be successful in implementing flexible timberland harvest plans that can reduce harvest levels when prices are low and defer sales until prices recover.

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. 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 timberland assets.

Our agriland operations are comprised of pasture land that may be converted to higher-and-better uses, including soybean, corn and sugarcane production. Such conversion of agrilands may not materialize as anticipated. Additionally, the attractiveness of agrilands as an asset class for investors is contingent on the demand for soft commodities, growth in population and per capita incomes, improving diets and the demand for biofuels, all of which involve future uncertainty. Weather conditions, growing seasons, interactions with surrounding population, damage by fire, insect infestation, wind, disease, prolonged drought and other natural and man-made disasters may negatively impact our agriland operations.

Private Equity

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 typically 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. Even with our support of investee companies through an economic downturn, adverse economic or business conditions facing our investee companies may adversely impact the value of our investments or deplete our financial or management resources. These investments are also subject to the risks inherent in the underlying businesses, some of which are facing difficult business conditions and may continue to do so for the foreseeable future.

Residential Development

We have residential land development and homebuilding operations located in Canada, the United States, Brazil and Australia. 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, availability of qualified trade workers and required materials, 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. 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, Ontario and Brazil, where we derive a large proportion of our residential property revenue. Government regulations, legal challenges and delays in the entitlement process may delay the start or completion of our communities or limit our homebuilding or other activities, which could have an adverse impact on our results of operations. Our residential operations may be affected by the ability to raise capital on favourable terms or at all and by fluctuations in exchange rates.

Virtually all of our homebuilding customers finance their home acquisitions through lenders providing mortgage financing. Volatility experienced in mortgage markets 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, resulting in a reduced demand for new homes. Fundamentally, rising mortgage rates or reduced mortgage availability could adversely affect our ability to sell new homes and the prices at which we can sell them.

Service Activities

We have several companies that operate in the service industry. The revenues and profitability of these companies are largely dependent on the awarding of new contracts, which they do not directly control, and the uncertainty of contract award timing could have an adverse effect on these companies. Our companies in the service industry operate in highly competitive markets where it is difficult to predict whether and when they will receive new contracts. These processes can be impacted by a wide variety of micro and macroeconomic factors that may affect our clients and over which we have no control. In addition, our service companies may not be able to compete effectively given the perception of their reputation, ability to perform and/or perceived technology or other advantages held by competitors. Our competitors in the service industry may be more inclined to take greater or unusual risks or accept terms and conditions in a contract that we do not deem market or acceptable.

Fluctuating demand cycles are common in the service industry. These fluctuations can have a significant impact on the degree of competition for available projects and the awarding of new contracts, and as a result there may, from time to time, be significant and unpredictable variations in the financial results of these businesses. In the construction industry, fluctuations in the demand for services or the ability of the private and/or public sector to fund projects in a depressed economic climate could adversely affect the awarding of new contracts and margins for our construction businesses. Large-scale domestic and international projects involve uncertain timing, and it is particularly difficult to predict whether and when our construction businesses will receive a contract award. The uncertainty of contract award timing can present difficulties in matching workforce size with contract needs. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, our construction businesses could incur costs that would have the effect of reducing operational efficiency, margins and profits.

PART 6 – ADDITIONAL INFORMATION

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Accounting Policies and Critical Judgments and Estimates

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments and estimates that affect the carried 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. Actual amounts could differ from those estimates.

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, 2013 consolidated financial statements.

i. Critical Estimates

The significant estimates used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

a. Investment Properties

The critical assumptions and estimates used when determining the fair value of commercial properties are: the timing of rental income from future leases reflecting current market conditions, less assumptions of future cash flows in respect of current and future leases; maintenance and other capital expenditures; discount rates; terminal capitalization rates; and terminal valuation dates. Properties under development are recorded at fair value using a discounted cash flow model which includes estimates in respect of the timing and cost to complete the development.

b. Revaluation Method for Property, Plant and Equipment

When determining the carrying value of property, plant and equipment using the revaluation method, the company uses the following critical assumptions and estimates: the timing of forecasted revenues, future sales prices and margins; future sales volumes; future regulatory rates; maintenance and other capital expenditures; discount rates; terminal capitalization rates; terminal valuation dates; useful lives; and residual values. Determination of the fair value of property, plant and equipment under development includes estimates in respect of the timing and cost to complete the development.

c. Sustainable Resources

The fair value of standing timber and agricultural assets is based on the following critical estimates and assumptions: the timing of forecasted revenues and prices; estimated selling costs; sustainable felling plans; growth assumptions; silviculture costs; discount rates; terminal capitalization rates; and terminal valuation dates.

d. Financial Instruments

Estimates and assumptions used in determining the fair value of financial instruments are: equity and commodity prices; future interest rates; the credit worthiness of the company relative to its counterparties; the credit risk of the company's counterparties; estimated future cash flows; discount rates and volatility utilized in option valuations.

e. Inventory

The company estimates the net realizable value of its inventory using estimates and assumptions about future selling prices and future development costs.

f. Other

Other estimates and assumptions utilized in the preparation of the company's financial statements are: the assessment or determination of net recoverable amounts; depreciation and amortization rates and useful lives; estimation of recoverable amounts of cash-generating units for impairment assessments of goodwill and intangible assets; ability to utilize tax losses and other tax measurements; and fair value of assets held as collateral.

ii. Critical Judgments

Management is required to make critical judgments when applying its accounting policies. The following judgments have the most significant effect on the consolidated financial statements:

a. Control or Level of Influence

When determining the appropriate basis of accounting for the company's investees, the company makes judgments about the degree of influence that the company exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors or appoint management. Control is obtained when the company has the power to direct the relevant investing, financing and operating decisions of an entity and does so in its capacity as principal of the operations, rather than as an agent for other investors. Operating as a principal includes having sufficient capital at risk in any investee and exposure to the variability of the returns generated by the decisions of the company as principal. Judgment is used in determining the sufficiency of the capital at risk or variability of returns. In making these judgments, the company considers the ability of other investors to remove the company as a manager or general partner in a controlled partnership.

b. Investment Properties

When applying the company's accounting policy for investment properties, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

c. Property, Plant and Equipment

The company's accounting policy for its property, plant and equipment requires critical judgments over the assessment of its carrying value, whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance, and for assets under development the identification of when the asset is capable of being used as intended and identifying the directly attributable borrowing costs to be included in the assets carrying value.

For assets that are measured using the revaluation method, judgment is required when estimating future prices, volumes and discount and capitalization rates. Judgment is applied when determining future electricity prices considering market data for years that a liquid market is available and estimates of electricity prices from renewable sources that would allow new entrants into the market in subsequent years.

d. Common Control Transactions

The purchase and sale of businesses or subsidiaries between entities under common control fall outside the scope of IFRS and accordingly, management uses judgment when determining a policy to account for such transactions taking into consideration other guidance in the IFRS framework and pronouncements of other standard-setting bodies. The company's policy is to record assets and liabilities recognized as a result of transfers of businesses or subsidiaries between entities under common control at carrying value. Differences between the carrying amount of the consideration given or received and the carrying amount of the assets and liabilities transferred are recorded directly in equity.

e. Indicators of Impairment

Judgment is applied when determining whether indicators of impairment exist when assessing the carrying values of the company's assets, including: the determination of the company's ability to hold financial assets; the estimation of a cash-generating unit's future revenues and direct costs; and the determination of discount and capitalization rates, and when an asset's carrying value is above the value derived using publicly traded prices which are quoted in a liquid market.

f. Income Taxes

The company makes judgments when determining the future tax rates applicable to subsidiaries and identifying the temporary difference that relate to each subsidiary. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the consolidated balance sheet dates. The company measures deferred income taxes associated with its investment properties based on its specific intention with respect to each asset at the end of the reporting period. Where the company has a specific intention to sell a property in the foreseeable future, deferred taxes on the building portion of an investment property are measured based on the tax consequences following from the disposition of the property. Otherwise, deferred taxes are measured on the basis the carrying value of the investment property will be recovered substantially through use. Judgment is required in determining the manner in which the carrying amount of each investment property will be recovered.

g. Classification of Non-controlling Interests in Limited-Life Funds

Non-controlling interests in limited-life funds are classified as liabilities (interests of others in consolidated funds) or equity (non-controlling interests) depending on whether an obligation exists to distribute residual net assets to non-controlling interests on liquidation in the form of cash or other financial assets or assets delivered in kind. Judgment is required to determine whether the governing documents of each entity convey a right to cash or other financial assets, or if assets can be distributed on liquidation.

h. Other

Other critical judgments include the determination of effectiveness of financial hedges for accounting purposes; the likelihood and timing of anticipated transactions for hedge accounting; the manner in which the carrying amount of each investment property will be recovered; and the determination of functional currency.

Adoption of Accounting Standards

i. 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”), and 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 became effective on January 1, 2013.

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. 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 exercise power over the investee’s financial and operating decisions, have exposure or rights to variable returns from involvement with the investee, and the ability to use its power over the investee to affect the amount of its returns in order to conclude it controls an investee. IFRS 10 requires continuous reassessment of changes in an investor’s power over the investee and changes in the investor’s exposure or rights to variable returns. The retrospective application of IFRS 10 increased consolidated assets, liabilities and non-controlling interests by \$218 million, \$114 million and \$104 million, respectively, as at December 31, 2012, and increased consolidated revenues and net income by \$69 million and \$8 million, respectively, for the year then ended, with no impact on common equity or net income to shareholders during the periods.

IFRS 11 supersedes IAS 31, *Interests 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 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.

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. The disclosure requirements of IFRS 12 are applicable for interim consolidated financial statements when significant events or transactions occur during the interim period requiring such disclosure. Otherwise, the additional disclosures will be included in the company’s annual consolidated financial statements.

ii. Employee Benefits

In September 2011, the IASB amended IAS 19, *Employee Benefits* (“IAS 19”) for items impacting defined benefit plans including the recognition of: actuarial gains and losses within other comprehensive income; interest on the net benefit liability (or asset) in profit and loss; and unvested past service costs in profit and loss at either the earlier of when an amendment is made or when related restructuring or termination costs are recognized. Additionally, the adoption of the amendments to IAS 19 required the company to retroactively exclude expected returns on plan assets from profit and loss, the result of which was a net charge against common equity of \$6 and \$10 million as at January 1, 2012 and December 31, 2012, respectively.

iii. Fair Value Measurement

IFRS 13, *Fair Value Measurements* (“IFRS 13”) establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The application of IFRS 13 has not materially impacted the manner in which the company measures its financial and non-financial assets and liabilities. The adoption of IFRS 13 has resulted in more comprehensive disclosures related to fair values used within the consolidated financial statements.

iv. Presentation of Other Comprehensive Income

In September 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 may be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit and loss. Income tax on items of other comprehensive income are required to be allocated on the same basis. The consolidated statements of comprehensive income were amended in this interim report to reflect the changes in presentation.

v. Financial Instruments: Disclosures

The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar arrangements. The amendments to IFRS 7 have been applied prospectively, however the application of these amendments had no material impacts on the companies consolidated financial statements.

The following table includes select financial statement line items outlining the impact of the adoption of IFRS 10 and IAS 19 on our previously reported consolidated financial statements as at January 1, 2012 and December 31, 2012 and for the year ended December 31, 2012:

(MILLIONS)	As at December 31, 2012			As at January 1, 2012		
	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
Consolidated Balance Sheets:						
Sustainable resources.....	\$ 3,283	\$ 233	\$ 3,516	\$ 3,155	\$ 226	\$ 3,381
Investments.....	11,689	(71)	11,618	9,401	(69)	9,332
Total Assets.....	108,644	218	108,862	91,022	214	91,236
Property-specific mortgages.....	\$ 33,648	\$ 72	\$ 33,720	\$ 28,415	\$ 72	\$ 28,487
Equity						
Non-controlling interests.....	23,190	97	23,287	18,516	96	18,612
Common equity.....	18,160	(10)	18,150	16,743	(6)	16,737
Total Liabilities and Equity.....	108,644	218	108,862	91,022	214	91,236

(MILLIONS)	Year Ended December 31, 2012		
	Previously Reported	Adjustment	Restated
Consolidated Statement of Operations:			
Total revenues and other gains.....	\$ 18,697	\$ 69	\$ 18,766
Net income.....	2,747	8	2,755
Net income to shareholders.....	1,380	—	1,380
Consolidated Statement of Comprehensive Income:			
Other comprehensive income (loss).....	\$ 1,081	\$ (5)	\$ 1,076
Other comprehensive income (loss) to shareholders.....	517	(4)	513
Comprehensive income.....	3,828	3	3,831
Comprehensive income (loss) to shareholders.....	1,897	(4)	1,893

Future Changes in Accounting Standards

IFRIC 21, *Levies* (“IFRIC 21”) provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and those where the timing and amount of the levy is certain. IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. A liability is recognized progressively if the obligating event occurs over a period of time or, if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. Management is currently evaluating the impact of IFRIC 21 on the consolidated financial statements.

IFRS 9, *Financial Instruments* (“IFRS 9”) was issued by the 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 tentatively effective for annual periods beginning on or after January 1, 2018. The company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

IAS 32, *Financial Instruments: Presentation* (“IAS 32”) was amended to clarify certain aspects as a result of the application of offsetting requirements, namely focusing on the following four main areas: the interpretation of “currently has a legally enforceable right of set-off,” the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. IAS 32 is effective for annual periods beginning on or after January 1, 2014. Management is currently evaluating the impact of IAS 32 on the consolidated financial statements.

Assessment and Changes in Internal Control Over Financial Reporting

Management has evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2013 and based on that assessment concluded that, as of December 31, 2013, our internal control over financial reporting was effective. Refer to Management's Report on Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the applicable U.S. and Canadian securities laws) as of December 31, 2013. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2013 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them by others within those entities.

Declarations Under the Dutch Act of Financial Supervision

The members of the Corporation's Corporate Executive Board (as such term is defined in the Dutch Act of Financial Supervision (the "Dutch Act")) as required by section 5:25d, paragraph 2, under c of the Dutch Act, confirm that to the best of their knowledge:

- The 2013 financial statements included in this MD&A 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; and
- The management report included in this MD&A gives a true and fair review of the information required under section 5:25d, paragraph 8 and, as far as applicable, paragraph 9 of the Dutch Act regarding the Corporation and the undertakings included in the consolidation taken as a whole as of December 31, 2013.

RELATED PARTY TRANSACTIONS

In the normal course of operations, we enter into transactions on market terms with related parties, including consolidated and equity accounted entities, which have been measured at exchange value and are recognized in the consolidated financial statements, including, but not limited to: manager or partnership agreements; base management fees, performance fees and incentive distributions; loans, interest and non-interest bearing deposits; power purchase and sale agreements; capital commitments to private funds; the acquisition and disposition of assets and businesses; derivative contracts; and the construction and development of assets.

The following is a list of significant related party transactions of the Corporation during the years ended December 31, 2012 and December 31, 2013.

In November 2013, we entered into a \$500 million subordinated credit facility with wholly owned subsidiaries of BPY. The terms of the facility, including the interest rate charged by the Corporation, are consistent with market practice given BPY's credit worthiness and the subordination of this facility. This transaction was approved by the independent directors of BPY.

In December 2012, BRPI, our 69% owned North American land developer and homebuilder, repaid its C\$480 million loan to BPO, using the proceeds from the completion of a senior unsecured debt offering. BRPI paid \$35 million of interest to BPO during the year ended December 31, 2012.

In October 2012, we agreed to sell the economic interest in our directly held 10% investment in a South American transmission operation to BIP for proceeds of \$235 million, subject to satisfaction of customary conditions. The transaction, which closed in 2012, was measured at fair value, as determined by an external appraiser, which approximated the carrying value of our investment. No gain or loss was recorded on the transaction in our consolidated statement of operations.