

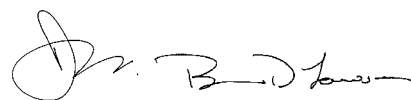
# INTERNAL CONTROL OVER FINANCIAL REPORTING

## Management's Report on Internal Control Over Financial Reporting

Management of Brookfield Asset Management Inc. ("Brookfield") is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles as defined in Regulation 240.13a-15(f) or 240.15d-15(f).

Management assessed the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2010, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2010, Brookfield's internal control over financial reporting is effective in all material respects. Management excluded from its assessment the internal control over financial reporting at Prime Infrastructure and Ainsworth Lumber Co., which were acquired during 2010, and whose total assets, net assets, total revenues, and net income on a combined basis constitute approximately 11%, 10%, 2% and 5% respectively of the consolidated financial statement amounts as of and for the year ended December 31, 2010.

Brookfield's internal control over financial reporting as of December 31, 2010, has been audited by Deloitte & Touche LLP Independent Registered Chartered Accountants, who also audited Brookfield's consolidated financial statements for the year ended December 31, 2010. As stated in the Report of Independent Registered Chartered Accountants, Deloitte & Touche LLP expressed an unqualified opinion on the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2010.



Toronto, Canada  
March 23, 2011

J. Bruce Flatt  
Chief Executive Officer

Brian D. Lawson  
Chief Financial Officer

# Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Brookfield Asset Management Inc.

We have audited the internal control over financial reporting of Brookfield Asset Management Inc. and subsidiaries (the "Company") as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Prime Infrastructure and Ainsworth Lumber Co. ("Ainsworth") which were acquired in December 2010 and May 2010, respectively, and whose financial statements constitute approximately 9% and 1% of net assets, 10% and 1% of total assets, 1% and 1% of revenues, and 5% and nil% of net income, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2010. Accordingly, our audit did not include the internal control over financial reporting at Prime Infrastructure and Ainsworth. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as

necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2010 of the Company and our report dated March 23, 2011 expressed an unqualified opinion on those financial statements.



Toronto, Canada  
March 23, 2011

Independent Registered Chartered Accountants  
Licensed Public Accountants

## Management's Responsibility for the Financial Statements

The accompanying consolidated financial statements and other financial information in this Annual Report have been prepared by the company's management which is responsible for their integrity, consistency, objectivity and reliability. To fulfill this responsibility, the company maintains policies, procedures and systems of internal control to ensure that its reporting practices and accounting and administrative procedures are appropriate to provide a high degree of assurance that relevant and reliable financial information is produced and assets are safeguarded. These controls include the careful selection and training of employees, the establishment of well-defined areas of responsibility and accountability for performance and the communication of policies and code of conduct throughout the company. In addition, the company maintains an internal audit group that conducts periodic audits of the company's operations. The Chief Internal Auditor has full access to the Audit Committee.

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards and, where appropriate, reflect estimates based on management's judgement. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte & Touche LLP, the independent registered chartered accountants appointed by the shareholders, have audited the consolidated financial statements set out on pages 96 through 153 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.

The consolidated financial statements have been further reviewed and approved by the Board of Directors acting through its Audit Committee, which is comprised of directors who are not officers or employees of the company. The Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors, oversees management's responsibilities for the financial reporting and internal control systems. The auditors have full and direct access to the Audit Committee and meet periodically with the committee both with and without management present to discuss their audit and related findings.



Toronto, Canada  
March 23, 2011

J. Bruce Flatt  
Chief Executive Officer

Brian D. Lawson  
Chief Financial Officer

# Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Brookfield Asset Management Inc.

We have audited the accompanying consolidated financial statements of Brookfield Asset Management Inc. and subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010, December 31, 2009 and January 1, 2009, and the consolidated statements of operations, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years ended December 31, 2010 and December 31, 2009, and the notes to the consolidated financial statements.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2010, December 31, 2009 and January 1, 2009, and its financial performance and cash flows for the years ended December 31, 2010 and December 31, 2009 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

## *Other Matter*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 23, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.



Toronto, Canada  
March 23, 2011

Independent Registered Chartered Accountants  
Licensed Public Accountants

# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS

(MILLIONS)	Note	Dec. 31, 2010	Dec. 31, 2009 <sup>1</sup>	Jan. 1, 2009 <sup>1</sup>
<b>Assets</b>				
Cash and cash equivalents		\$ 1,713	\$ 1,309	\$ 1,169
Other financial assets	5	4,419	5,146	4,506
Accounts receivable and other	6	7,869	4,709	3,803
Inventory	7	5,849	5,560	4,752
Investments	8	6,629	4,466	4,646
Property, plant and equipment	9	18,148	16,723	15,597
Investment properties	10	22,163	19,219	16,719
Timber	11	3,206	2,968	2,839
Intangible assets	12	3,805	1,048	619
Goodwill	13	2,546	2,363	1,992
Deferred income tax asset	14	1,784	1,454	984
		<b>\$ 78,131</b>	<b>\$ 64,965</b>	<b>\$ 57,626</b>
<b>Liabilities and Equity</b>				
Accounts payable and other	15	\$ 10,334	\$ 7,827	\$ 6,977
Corporate borrowings	16	2,905	2,593	2,284
Non-recourse borrowings				
Property-specific mortgages	17	23,454	19,712	17,808
Subsidiary borrowings	17	4,007	3,800	3,661
Deferred income tax liability	14	4,970	5,232	4,748
Capital securities	18	1,707	1,641	1,425
Interests of others in funds	19	1,562	1,021	548
Equity				
Preferred equity	20	1,658	1,144	870
Non-controlling interests	20	14,739	10,186	8,038
Common equity	20	12,795	11,809	11,267
		<b>29,192</b>	<b>23,139</b>	<b>20,175</b>
		<b>\$ 78,131</b>	<b>\$ 64,965</b>	<b>\$ 57,626</b>

1. Refer to Note 3 for the effects of the adoption of IFRS

On behalf of the Board:



Robert J. Harding, FCA, Director



Marcel R. Coutu, Director

## CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31  
(MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Note	2010	2009 <sup>1</sup>
Total revenues		\$ 13,623	\$ 11,218
Asset management and other services	21	365	298
Revenues less direct operating costs			
Renewable power generation	21	748	777
Commercial properties	21	1,282	1,059
Infrastructure	21	221	95
Development activities	21	527	156
Private equity and finance	21	281	111
		3,424	2,496
Equity accounted income		494	353
Investment and other income		593	683
		4,511	3,532
Expenses			
Interest		1,829	1,480
Operating costs		417	396
Current income taxes	14	97	(5)
		2,168	1,661
Other items			
Fair value changes	22	1,865	(2,268)
Depreciation and amortization		(795)	(656)
Deferred income tax	14	(43)	287
Net income (loss)		\$ 3,195	\$ (976)
1. Refer to Note 3 for the effects of the adoption of IFRS			
Net income (loss) attributable to:			
Common shareholders		\$ 1,454	\$ (836)
Non-controlling interests		1,741	(140)
		\$ 3,195	\$ (976)
Net income (loss) per common share:			
Diluted	20	\$ 2.33	\$ (1.54)
Basic	20	\$ 2.40	\$ (1.54)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31  
(MILLIONS)

	2010	2009 <sup>1</sup>
Net income (loss)	\$ 3,195	\$ (976)
Other comprehensive income		
Foreign currency translation	653	2,212
Available-for-sale securities	107	142
Derivative instruments designated as cash flow hedges	(49)	99
Revaluations of property, plant and equipment	(948)	(236)
Equity accounted investments	(16)	(130)
Taxes on above items	448	98
	195	2,185
Comprehensive income	\$ 3,390	\$ 1,209
Attributable to:		
Common shareholders		
Net income (loss)	\$ 1,454	\$ (836)
Other comprehensive (loss) income	(226)	1,596
Comprehensive income	\$ 1,228	\$ 760
Non-controlling interests		
Net income (loss)	\$ 1,741	\$ (140)
Other comprehensive income	421	589
Comprehensive income	\$ 2,162	\$ 449

1. Refer to Note 3 for the effects of the adoption of IFRS

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2010 (MILLIONS)	Common Share Capital	Contributed Surplus	Retained Earnings	Disposition Gains <sup>1</sup>	Accumulated Other Comprehensive Income			Common Equity	Preferred Equity	Non- controlling Interests	Total Equity
					Revaluation Surplus	Currency Translation	Other Reserves				
Balance as at December 31, 2009	\$ 1,289	\$ 67	\$ 3,560	\$ 117	\$ 5,193	\$ 1,623	\$ (40)	\$11,809	\$ 1,144	\$10,186	\$23,139
Prior to: deferred income taxes, net	—	—	295	—	2,352	119	29	2,795	—	983	3,778
	1,289	67	3,855	117	7,545	1,742	(11)	14,604	1,144	11,169	26,917
<b>Changes in period</b>											
<b>Net income</b>											
Income and disposition gains prior to other items	—	—	1,049	414	—	—	—	1,463	—	1,119	2,582
Depreciation and amortization	—	—	(693)	—	—	—	—	(693)	—	(102)	(795)
Fair value changes	—	—	1,129	—	—	—	—	1,129	—	736	1,865
Less: disposition gains <sup>1</sup>	—	—	—	(414)	—	—	—	(414)	—	—	(414)
Associated deferred income taxes	—	—	(31)	—	—	—	—	(31)	—	(12)	(43)
	—	—	1,454	—	—	—	—	1,454	—	1,741	3,195
<b>Other comprehensive income</b>											
Fair value changes	—	—	—	—	(952)	—	(3)	(955)	—	49	(906)
Currency translation	—	—	—	—	—	276	—	276	—	377	653
Associated deferred income taxes	—	—	—	—	439	31	(17)	453	—	(5)	448
	—	—	—	—	(513)	307	(20)	(226)	—	421	195
<b>Shareholder distributions</b>											
Common equity	—	—	(298)	—	—	—	—	(298)	—	—	(298)
Preferred equity	—	—	(75)	—	—	—	—	(75)	—	—	(75)
Non-controlling interests	—	—	—	—	—	—	—	—	—	(444)	(444)
	—	—	(373)	—	—	—	—	(373)	—	(444)	(817)
<b>Other items</b>											
Equity issuances, net of redemptions	45	—	(14)	—	—	—	—	31	514	1,121	1,666
Share-based compensation	—	30	—	—	—	—	—	30	—	16	46
Acquisitions / dispositions	—	—	—	(162)	—	75	—	(87)	—	1,668	1,581
Associated deferred income taxes	—	—	—	232	—	(75)	—	157	—	30	187
	45	30	(14)	70	—	—	—	131	514	2,835	3,480
<b>Reversal of in-period income taxes</b>	—	—	31	(232)	(439)	44	17	(579)	—	(13)	(592)
	1,334	97	4,953	(45)	6,593	2,093	(14)	15,011	1,658	15,709	32,378
Less: deferred income taxes, net											
Opening balances	—	—	(295)	—	(2,352)	(119)	(29)	(2,795)	—	(983)	(3,778)
In-period amounts	—	—	(31)	232	439	(44)	(17)	579	—	13	592
Ending balances	—	—	(326)	232	(1,913)	(163)	(46)	(2,216)	—	(970)	(3,186)
Balance as at December 31, 2010	\$ 1,334	\$ 97	\$ 4,627	\$ 187	\$ 4,680	\$ 1,930	\$ (60)	\$12,795	\$ 1,658	\$14,739	\$29,192

1. Disposition gains not recognized in net income under IFRS
2. Refer to Note 3 for the effects of the adoption of IFRS



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2009 (MILLIONS)	Common Share Capital	Contributed Surplus	Retained Earnings	Disposition Gains <sup>1</sup>	Accumulated Other Comprehensive Income			Common Equity	Preferred Equity	Non- controlling Interests	Total Equity
					Revaluation Surplus	Currency Translation	Other Reserves				
Balance as at January 1, 2009	\$ 1,278	\$ 49	\$ 4,760	\$ —	\$ 5,327	\$ —	\$ (147)	\$11,267	\$ 870	\$ 8,038	\$20,175
Prior to: deferred income taxes, net	—	—	270	—	2,446	—	16	2,732	—	1,032	3,764
	1,278	49	5,030	—	7,773	—	(131)	13,999	870	9,070	23,939
<b>Changes in period</b>											
<b>Net income</b>											
Income and disposition gains prior to other items	—	—	992	410	—	—	—	1,402	—	669	2,071
Depreciation and amortization	—	—	(573)	—	—	—	—	(573)	—	(83)	(656)
Fair value changes	—	—	(1,502)	—	—	—	—	(1,502)	—	(766)	(2,268)
Less: disposition gains <sup>1</sup>	—	—	—	(410)	—	—	—	(410)	—	—	(410)
Associated deferred income taxes	—	—	247	—	—	—	—	247	—	40	287
	—	—	(836)	—	—	—	—	(836)	—	(140)	(976)
<b>Other comprehensive income</b>											
Fair value changes	—	—	—	—	(228)	—	120	(108)	—	(17)	(125)
Currency translation	—	—	—	—	—	1,612	—	1,612	—	600	2,212
Associated deferred income taxes	—	—	—	—	94	11	(13)	92	—	6	98
	—	—	—	—	(134)	1,623	107	1,596	—	589	2,185
<b>Shareholder distributions</b>											
Common equity	—	—	(298)	—	—	—	—	(298)	—	—	(298)
Preferred equity	—	—	(43)	—	—	—	—	(43)	—	—	(43)
Non-controlling interests	—	—	—	—	—	—	—	—	—	(277)	(277)
	—	—	(341)	—	—	—	—	(341)	—	(277)	(618)
<b>Other items</b>											
Equity issuances, net of redemptions	11	—	(23)	—	—	—	—	(12)	274	1,909	2,171
Share-based compensation	—	18	—	—	—	—	—	18	—	16	34
Acquisitions / dispositions	—	—	—	389	—	130	—	519	—	48	567
Associated deferred income taxes	—	—	—	(272)	—	(130)	—	(402)	—	3	(399)
	11	18	(23)	117	—	—	—	123	274	1,976	2,373
<b>Reversal of in-period income taxes</b>	—	—	(247)	272	(94)	119	13	63	—	(49)	14
	1,289	67	3,583	389	7,545	1,742	(11)	14,604	1,144	11,169	26,917
Less: deferred income taxes, net											
Opening balances	—	—	(270)	—	(2,446)	—	(16)	(2,732)	—	(1,032)	(3,764)
In-period amounts	—	—	247	(272)	94	(119)	(13)	(63)	—	49	(14)
Ending balances	—	—	(23)	(272)	(2,352)	(119)	(29)	(2,795)	—	(983)	(3,778)
Balance as at December 31, 2009	\$ 1,289	\$ 67	\$ 3,560	\$ 117	\$ 5,193	\$ 1,623	\$ (40)	\$11,809	\$ 1,144	\$10,186	\$23,139

1. Disposition gains not recognized in net income under IFRS
2. Refer to Note 3 for the effects of the adoption of IFRS

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31  
(MILLIONS)

	Note	2010	2009 <sup>1</sup>
<b>Operating activities</b>			
Net income (loss)		\$ 3,195	\$ (976)
Adjusted for the following items			
Fair value changes		(1,865)	2,268
Depreciation and amortization		795	656
Deferred income taxes		43	(287)
		<b>2,168</b>	<b>1,661</b>
Net change in non-cash working capital balances and other		<b>(714)</b>	<b>(540)</b>
		<b>1,454</b>	<b>1,121</b>
<b>Financing activities</b>			
Corporate borrowings, net of repayments	29	234	106
Property-specific mortgages, net of issuances	29	(314)	(571)
Other debt of subsidiaries, net of issuances	29	(360)	(359)
Capital provided by non-controlling interests, net of repayments		327	303
Capital provided by fund partners		445	478
Corporate preferred equity issuances		500	266
Subsidiary preferred equity issuances		782	261
Common shares issued, net of repurchases	29	45	(4)
Common shares of subsidiaries issued, net of repurchases		12	1,345
Shareholder distributions – subsidiaries		(444)	(277)
Shareholder distributions – corporate		(373)	(341)
		<b>854</b>	<b>1,207</b>
<b>Investing activities</b>			
Investment in or sale of operating assets, net			
Investment properties	29	(621)	(543)
Property, plant and equipment			
Renewable power generation	29	(348)	(164)
Infrastructure	29	11	(7)
Private equity and finance	29	(131)	(199)
Timber		(67)	(44)
Investments	29	(442)	(859)
Other financial assets	29	(391)	(108)
Restricted cash and deposits		(133)	(205)
Acquisition of subsidiaries, net of dispositions		218	(59)
		<b>(1,904)</b>	<b>(2,188)</b>
<b>Cash and cash equivalents</b>			
Balance, beginning of year		1,309	1,169
Increase		404	140
Balance, end of year	29	\$ 1,713	\$ 1,309

1. Refer to Note 3 for the effects of the adoption of IFRS

# Notes to the Consolidated Financial Statements

## 1. CORPORATE INFORMATION

Brookfield Asset Management Inc. (the “company”) is a global asset management company. Focused on property, power and infrastructure assets, the company is listed on the New York, Toronto and Euronext stock exchanges under the symbols BAM, BAM.A and BAMA, respectively. The company was formed by articles of amalgamation under the Business Corporations Act (Ontario) and is registered in Ontario, Canada. The registered office of the company is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of Compliance

These consolidated financial statements represent the first annual financial statements of the company prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The company adopted IFRS in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”) as discussed in Note 3.

These financial statements were authorized for issuance by the Board of Directors of the company on March 23, 2011.

### (b) Basis of Presentation

The financial statements are prepared on a going concern basis. Standards and guidelines not effective for the current accounting period are described in Note 2(q).

#### (i) *Subsidiaries*

The consolidated financial statements include the accounts of the company and its consolidated subsidiaries, which are the entities over which the company has control. Subsidiaries are consolidated from the date of acquisition, being the date on which the company obtains control, and continue to be consolidated until the date when control is lost. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Non-controlling interests in the equity of the company’s subsidiaries are included in equity on the Consolidated Balance Sheets. All intercompany balances, transactions, unrealized gains and losses are eliminated in full.

#### (ii) *Associates*

Associates are entities over which the company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The company accounts for investments over which it has significant influence using the equity method, and they are recorded in Investments on the Consolidated Balance Sheets.

Interests in investments accounted for using the equity method are initially recognized at cost. If the cost of the associate is lower than the proportionate share of the investment’s underlying fair value, the company records a gain on the difference between the cost and the underlying fair value of the investment in net income. If the cost of the associate is greater than the company’s proportionate share of the underlying fair value, goodwill relating to the associate is included in the carrying amount of the investment. Subsequent to initial recognition, the carrying value of the company’s interest in an investee is adjusted for the company’s share of comprehensive income and distributions of the investee.

#### (iii) *Joint Arrangements*

The company enters into joint arrangements with one or more parties whereby economic activity and decision-making are shared. These arrangements may take the form of a jointly controlled operation, jointly controlled asset or joint venture and accordingly the presentation of each differs.

A jointly controlled operation is where the parties to the joint arrangement each use their own assets and incur their own expenses and liabilities and a contractual agreement exists as to the sharing of revenues and joint expenses. In this case, the company recognizes only its assets and liabilities and its share of the results of operations of the jointly controlled operation.

A jointly controlled asset is a shared asset to which each party has rights and a contractual agreement exists as to the sharing of benefits and risks generated from the asset. The company recognizes its share of the asset and benefits generated from the asset in proportion to its rights.

A joint venture is an arrangement whereby each venturer does not have rights to individual assets or obligations for expenses of the venture, but where each venturer is entitled to a share of the outcome of the activities of the arrangement. The company accounts for its interests in joint ventures using the equity method and they are recorded in the Investments account on the Consolidated Balance Sheets.

### **(c) Foreign Currency Translation**

The U.S. dollar is the functional and presentation currency of the company. Each of the company's subsidiaries, associates and jointly controlled entities determines its own functional currency and items included in the financial statements of each subsidiary and associate are measured using that functional currency.

Assets and liabilities of foreign operations having a functional currency other than the U.S. dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Gains or losses on translation are included as a component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that foreign operation is reclassified to net income. Gains or losses on foreign currency denominated balances and transactions that are designated as hedges of net investments in these operations are reported in the same manner.

Foreign currency denominated monetary assets and liabilities of the company and its U.S. dollar functional currency subsidiaries are translated using the rate of exchange prevailing at the reporting date and non-monetary assets and liabilities measured at fair value are translated at the rate of exchange prevailing at the date when the fair value was determined. Revenues and expenses are measured at average rates during the period. Gains or losses on translation of these items are included in net income. Gains or losses on transactions which hedge these items are also included in net income. Foreign currency denominated non-monetary assets and liabilities, measured at historic cost, are translated at the rate of exchange at the transaction date.

### **(d) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, demand deposits and highly liquid short-term investments with original maturities of three months or less.

### **(e) Revaluation Method for Property, Plant and Equipment**

For certain classes of property, plant and equipment, as described below, the company uses the revaluation method of accounting. Property, plant and equipment measured using the revaluation method is initially measured at cost and subsequently carried at its revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations are made on an annual basis to ensure that the carrying amount does not differ significantly from fair value. Where the carrying amount of an asset is increased as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity in revaluation surplus, unless the increase reverses a previously recognized impairment recorded through net income, in which case that portion of the increase is recognized in net income. Where the carrying amount of an asset is decreased, the decrease is recognized in other comprehensive income to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder of the decrease recognized in net income.

### **(f) Operating Assets**

#### ***(i) Renewable Power Generation***

Renewable power generating assets are classified as property, plant and equipment and are accounted for using the revaluation method. The company determines the fair value of its renewable power generation assets using a discounted cash flow model, which includes estimates of forecasted revenue, operating costs, maintenance and other capital expenditures. Discount rates are selected for each facility giving consideration to the expected proportion of contracted to un-contracted revenue and markets into which power is sold.

Generally, the first twenty years of cash flow are discounted with a residual value based on the terminal value cash flows. The fair value and estimated remaining service lives are reassessed on an annual basis. The company uses external appraisers to review fair values of our renewable power generating assets on a rotating basis every three to five years.

Depreciation on power generating assets is calculated on a straight-line basis over the estimated service lives of the assets, which are as follows:

(YEARS)	Useful Lives
<b>Dams</b>	<b>Up to 115</b>
<b>Penstocks</b>	<b>Up to 60</b>
<b>Powerhouses</b>	<b>Up to 115</b>
<b>Generators</b>	<b>Up to 115</b>
<b>Other power generation assets</b>	<b>Up to 40</b>

Cost is allocated to significant components of power generating assets and each component is depreciated separately.

Renewable power generating assets under development are initially recorded at cost, including pre-development expenditures, unless an impairment is identified requiring a write-down to estimated fair value.

**(ii) Investment Properties**

The company uses the fair value method to account for real estate classified as investment property. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment property also includes properties that are under development for future use as investment property. Investment property is initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are included in net income during the period in which they arise. Fair values are primarily determined by discounting the expected future cash flows of each property, generally over a term of 10 years, using a discount and terminal capitalization rate reflective of the characteristics, location and market of each property. The future cash flows of each property are based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The company determines fair value using both internal and external valuations.

**(iii) Timber**

Standing timber is measured at fair value after deducting estimated selling costs and is recorded as Timber on the Consolidated Balance Sheets. Estimated selling costs include commissions, levies, delivery costs, transfer taxes and duties. The fair value of standing timber is calculated as the present value of anticipated future cash flows for standing timber before tax. Fair value is determined based on existing, sustainable felling plans and assessments regarding growth, timber prices and felling and silviculture costs. Changes in fair value are recorded in net income in the period of change. The company determines fair value using external valuations on an annual basis.

Harvested timber is included in inventory and is measured at the lower of fair value less estimated costs to sell at the time of harvest and net realizable value.

Land under standing timber is accounted for using the revaluation method and included in property, plant and equipment.

**(iv) Utilities and Transport and Energy**

Utilities and transport and energy assets classified as property, plant and equipment are accounted for using the revaluation method. The company determines the fair value of its utilities and transport and energy assets as their depreciated replacement cost. Depreciated replacement cost is determined as the current cost of reproduction or replacement of an asset less deductions for physical deterioration and obsolescence. Valuations are performed internally on an annual basis.

Depreciation on utilities and transport and energy assets is calculated on a straight-line basis over the estimated service lives of the components of the assets, which are as follows:

(YEARS)	Useful Lives
Buildings and infrastructure	Up to 50
Machinery and equipment	Up to 40
Other utilities and transport and energy assets	Up to 41

The fair value and the estimated remaining service lives are reassessed on an annual basis.

**(v) Other Property, Plant and Equipment**

The company accounts for its property, plant and equipment, which do not utilize the revaluation method, under the cost model. These assets are initially recorded at cost and are subsequently depreciated over the assets' useful lives, unless an impairment is identified requiring a write-down to estimated fair value.

**(vi) Residential Development**

Residential development lots and homes are recorded in inventory. Residential development lots are recorded at the lower of cost, including pre-development expenditures and capitalized borrowing costs, and net realizable value, which the company determines as the estimated selling price in the ordinary course of business, less estimated expenses.

Homes and other properties held for sale, which include properties subject to sale agreements, are recorded at the lower of cost and net realizable value in inventory. Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue.

**(vii) Other Financial Assets**

Other financial assets are classified as either fair value through profit or loss or available-for-sale securities based on their nature and use within the company's business. Other financial assets are initially recorded at fair value with changes in fair value recorded in net income or other comprehensive income in accordance with the classification.

Other financial assets also include loans and notes receivable which are recorded initially at fair value and, with the exception of loans and notes receivable designated as fair value through profit or loss, are subsequently measured at amortized cost using the effective interest method, less any applicable provision for impairment. A provision for impairment is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Loans and receivables designated as fair value through profit or loss are recorded at fair value with changes in fair value accounted for in net income in the period in which they arise.

**(g) Asset Impairment**

At each balance sheet date the company assesses whether for assets, other than those measured at fair value with changes in value recorded in net income, there is any indication that such assets are impaired. An impairment is recognized if the recoverable amount, determined as the higher of the estimated fair value less costs to sell or the discounted future cash flows generated from use and eventual disposal from an asset or cash generating unit is less than their carrying value. Impairment losses are recorded as unrealized fair value adjustments within accumulated depreciation or cost for depreciable and non-depreciable assets, respectively. The projections of future cash flows take into account the relevant operating plans and management's best estimate of the most probable set of conditions anticipated to prevail. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

**(h) Accounts Receivable**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less any allowance for uncollectability.

## **(i) Intangible Assets**

Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, and are amortized on a straight-line basis over their estimated useful lives, generally not exceeding 25 years.

Certain of the company's intangible assets have an indefinite life, as there is no foreseeable limit to the period over which the asset is expected to generate cash flows. Indefinite life intangible assets are recorded at cost unless an impairment is identified which requires a write-down to its estimated fair value.

## **(j) Goodwill**

Goodwill represents the excess of the price paid for the acquisition of a consolidated entity over the fair value of the net identifiable tangible and intangible assets and liabilities acquired. Goodwill is allocated to the cash generating unit to which it relates. The company identifies cash generating units as identifiable groups of assets that are largely independent of the cash inflows from other assets or groups of assets.

Goodwill is evaluated for impairment annually or more often if events or circumstances indicate there may be impairment. Impairment is determined for goodwill by assessing if the carrying value of a cash generating unit, including the allocated goodwill, exceeds its recoverable amount determined as the greater of the estimated fair value less costs to sell or the value in use. Impairment losses recognized in respect of a cash generating unit are first allocated to the carrying value of goodwill and any excess is allocated to the carrying amount of assets in the cash generating unit. Any goodwill impairment is charged to income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

## **(k) Revenue and Expense Recognition**

### **(i) Asset Management Fee Income**

Revenues from performance-based incentive fees are recorded on the accrual basis based upon the amount that would be due under the incentive fee formula at the end of the measurement period established by the contract where it is no longer subject to adjustment based on future events, and are presented as Asset Management and Other Services on the Statement of Operations.

### **(ii) Renewable Power Generation**

Revenue from the sale of electricity is recorded at the time power is provided based upon output delivered and capacity provided at rates as specified under contract terms or prevailing market rates. Costs of generating electricity are recorded as incurred.

### **(iii) Commercial Properties Operations**

Revenue from a commercial property is recognized when the property is ready for its intended use. Commercial properties are considered to be ready for their intended use when the property is capable of operating in the manner intended by management, which generally occurs upon completion of construction and receipt of all occupancy and other material permits.

The company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, as applicable, is recorded as a component of investment property for the difference between the rental revenue recorded and the contractual amount received. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property, capital and similar taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

Revenue from commercial land sales is recognized at the time that the risks and rewards of ownership have been transferred, possession or title passes to the purchaser, all material conditions of the sales contract have been met, and a significant cash down payment or appropriate security is received.

### **(iv) Timber**

Revenue from timber is derived from the sale of logs and related products. The company recognizes sales to external customers when the product is shipped, title passes and collectibility is reasonably assured.



**(v) Utilities**

Revenue from utilities infrastructure is derived from the distribution and transmission of energy as well as from the company's coal terminal. Distribution and transmission revenue is recognized when services are rendered based upon usage or volume during that period. Terminal infrastructure charges are charged at set rates per tonne of coal based on each customer's annual contracted tonnage and is then recognized on a pro-rata basis each month. The company's coal terminal also recognizes variable handling charges based on tonnes of coal shipped through the terminal.

**(vi) Transport and Energy**

Revenue from transport and energy infrastructure consists primarily of energy distribution income and freight services revenue. Energy distribution income is recognized when services are provided and are rendered based upon usage or volume throughput during the period. Freight services revenue is recognized at the time of the provision of services.

**(vii) Development and Construction Activities**

Revenue from residential land sales is recognized at the time that the risks and rewards of ownership have been transferred, which is generally when possession or title passes to the purchaser, all material conditions of the sales contract have been met, and a significant cash down payment or appropriate security is received.

Revenue from the sale of homes and residential condominium projects is recognized upon completion, when title passes to the purchaser upon closing and at which time all proceeds are received or collectibility is reasonably assured.

Revenue from construction contracts is recognized using the percentage-of-completion method once the outcome of the construction contract can be estimated reliably, in proportion to the stage of completion of the contract and to the extent to which collectibility is reasonably assured. The stage of completion is measured by reference to actual costs incurred as a percentage of estimated total costs of each contract. When the outcome cannot be reliably determined, contract costs are expensed as incurred and no revenue is recorded. Where it is probable that a loss will arise from a construction contract, the excess of total expected costs over total expected revenue is recognized as an expense immediately.

**(viii) Loans and Notes Receivable**

Revenue from loans and notes receivable, less a provision for uncollectible amounts, is recorded on the accrual basis using the effective interest method.

**(I) Derivative Financial Instruments and Hedge Accounting**

The company and its subsidiaries selectively utilize derivative financial instruments primarily to manage financial risks, including interest rate, commodity and foreign exchange risks. Derivative financial instruments are recorded at fair value determined on a credit adjusted basis. Hedge accounting is applied when the derivative is designated as a hedge of a specific exposure and there is assurance that it will continue to be effective as a hedge based on an expectation of offsetting cash flows or fair value. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as a hedge or the hedging relationship is terminated. Once discontinued, the cumulative change in fair value of a derivative that was previously recorded in other comprehensive income by the application of hedge accounting is recognized in net income over the remaining term of the original hedging relationship. The asset or liability relating to unrealized mark-to-market gains and losses on derivative financial instruments are recorded in Accounts Receivable and Other or Accounts Payable and Other, respectively.

**(i) Items Classified as Hedges**

Realized and unrealized gains and losses on foreign exchange contracts, designated as hedges of currency risks relating to a net investment in a subsidiary with a functional currency other than the U.S. dollar are included in equity and are included in net income in the period in which the subsidiary is disposed of or to the extent partially disposed and control is not retained. Derivative financial instruments that are designated as hedges to offset corresponding changes in the fair value of assets and liabilities and cash flows are measured at estimated fair value with changes in fair value recorded in net income or as a component of equity as applicable.

Unrealized gains and losses on interest rate contracts designated as hedges of future variable interest payments are included in equity as a cash flow hedge when the interest rate risk relates to an anticipated variable interest payment. The periodic exchanges of payments on interest rate swap contracts designated as



hedges of debt are recorded on an accrual basis as an adjustment to interest expense. The periodic exchanges of payments on interest rate contracts designated as hedges of future interest payments are amortized into net income over the term of the corresponding interest payments.

Unrealized gains and losses on electricity contracts designated as cash flow hedges of future power generation revenue are included in equity as a cash flow hedge. The periodic exchanges of payments on power generation commodity swap contracts designated as hedges are recorded on a settlement basis as an adjustment to power generation revenue.

**(ii) Items Not Classified as Hedges**

Derivative financial instruments that are not designated as hedges are carried at estimated fair value, and gains and losses arising from changes in fair value are recognized in net income in the period the changes occur. Realized and unrealized gains and losses on equity derivatives used to offset the change in share prices in respect of vested Deferred Share Units and Restricted Share Appreciation Units are recorded together with the corresponding compensation expense. Realized and unrealized gains on other derivatives not designated as hedges are recorded in investment and other income.

**(m) Income Taxes**

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current and deferred income tax relating to items recognized directly in equity are also recognized in equity. Deferred income tax liabilities are provided for using the liability method on temporary differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax assets will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

**(n) Business Combinations**

The acquisition of businesses is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* ("IFRS 3") are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* which are recognized and measured at fair value, less costs to sell. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, the excess is recorded as goodwill. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in net income.

Where a business combination is achieved in stages, previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in net income. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income. Changes in the company's ownership interest of a subsidiary that do not result in a loss of control are accounted for as equity transactions and are recorded in disposition gains as a component of equity. Acquisition costs are recorded as an expense in net income as incurred.

**(o) Other Items**

**(i) Capitalized Costs**

Capitalized costs related to assets under development and redevelopment include all eligible expenditures incurred in connection with the acquisition, development and construction of the asset until it is available for its intended use. These expenditures consist of costs that are directly attributable to these assets.

Borrowing costs are capitalized when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that takes a substantial period of time to prepare for its intended use.

**(ii) Capital Securities**

Capital securities are preferred shares that may be settled by a variable number of the company's common shares upon their conversion by the holders or the company. These instruments as well as the related accrued distributions are classified as liabilities on the Consolidated Balance Sheets. Dividends and yield distributions on these instruments are recorded as interest expense.

**(iii) Share-based Payments**

The company and its subsidiaries issue share-based awards to certain employees and non-employee directors. The cost of equity-settled share-based transactions, comprised of stock-options issued to certain employees, is determined as the fair value of the options on the grant date using a fair value model. The cost of stock-options is recognized as each tranche vests and is recorded in contributed surplus as a component of equity. The cost of cash-settled share-based transactions, comprised of Deferred Share Units and Restricted Share Units, is measured as the fair value at the grant date, and expensed on a proportionate basis consistent with the vesting features over the vesting period with the recognition of a corresponding liability. The liability is measured at each reporting date at fair value with changes in fair value recognized in net income.

**(p) Critical Judgements and Estimates**

The preparation of financial statements requires management to make critical judgements, estimates and assumptions that affect the carried amounts of certain assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses recorded during the period. Actual results could differ from those estimates.

In making estimates and judgements, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates and judgements have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in making these estimates and judgements in these financial statements.

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

**(i) Investment Property**

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. Commercial 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. Further information on investment property estimates is provided in Note 10.

**(ii) 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. Further information on estimates used in the revaluation method for property, plant and equipment is provided in Note 9.

**(iii) Timber**

The fair value of timber is based on the following critical estimates and assumptions: the timing of forecasted revenues and timber prices; estimated selling costs; sustainable felling plans; growth assumptions; silviculture costs; discount rates; terminal capitalization rates; and terminal valuation dates. Further information on estimates used for timber is provided in Note 11.

**(iv) Financial Instruments**

The critical assumptions and estimates used in determining the fair value of financial instruments are: equity and commodity prices; future interest rates; the relative credit worthiness of the company to its counterparties; the credit risk of the company's counterparties relative to the company; estimated future cash flows; discount rates and volatility utilized in option valuations. Further information on estimates used in determining the carrying value of financial instruments is provided in Notes 5, 23 and 24.

**(v) Inventory**

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

Other critical estimates and judgements utilized in the preparation of the company's financial statements are: assessment of net recoverable amounts; net realizable values; depreciation and amortization rates and useful lives; value of goodwill and intangible assets; ability to utilize tax losses and other tax measurements; determination of functional currency, and determination of the degree of control that exists in determining the corresponding accounting basis. Critical estimates and judgements also include the determination of effectiveness of financial hedges for accounting purposes, the likelihood and timing of anticipated transactions for hedge accounting; the fair value assets held as collateral and the company's ability to hold a financial asset and the selection of accounting policies.

**(q) Future Changes in Accounting Policies**

**(i) Financial instruments**

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 effective for annual periods beginning on or after January 1, 2013. The company has not yet determined the impact of IFRS 9 on its financial statements.

**(ii) Related Party Disclosures**

On November 4, 2009 the IASB issued a revised version of IAS 24 *Related Party Disclosures* ("IAS 24"). IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The company has not yet determined the impact of the change to IAS 24 on its financial statements.

**(iii) Income Taxes**

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

**3. TRANSITION TO IFRS**

The company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") for all periods up to and including December 31, 2009. These financial statements for the year ending December 31, 2010 are the company's first annual financial statements that have been prepared in accordance with IFRS.

The company adopted IFRS effective January 1, 2010. The company's transition date is January 1, 2009 and the company prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 2. This note explains the impact of the company's transition to IFRS.

The company issued its January 1, 2009 and December 31, 2009 transitional IFRS balance sheets and statement of operations in its March 31, 2010, June 30, 2010, and September 30, 2010 interim reports in anticipation of adopting IFRS. These financial statements include the final comparative balance sheets and Statement of Operations which reflect the correction of certain immaterial differences arising from the final selection of accounting policies and finalization of certain estimates and assumptions. These adjustments resulted in: a \$33 million increase in equity as at January 1, 2009, of which \$29 million is attributable to the company's common shareholders; a \$167 million increase in comprehensive income, of which a decrease of \$127 million is attributable to the company's common shareholders; and a \$105 million decrease in equity as at December 31, 2009, of which \$58 million is attributable to the company's common shareholders.

### **(a) Elected Exemptions from Full Retrospective Application**

These consolidated financial statements have been prepared in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"). In doing so, the company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

#### **(i) Business Combinations**

The company has elected to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the company has not restated business combinations that took place prior to the transition date.

#### **(ii) Fair Value or Revaluation as Deemed Cost**

The company has elected to measure certain items of property, plant and equipment at fair value as at the transition date or revaluation amounts previously determined under Canadian GAAP and use that amount as deemed cost as at the transition date.

#### **(iii) Employee Benefits**

The company has elected to recognize all cumulative actuarial gains and losses for the company's employee benefit plans as at the transition date in opening retained earnings.

#### **(iv) Cumulative Translation Differences**

The company has elected to set the previously accumulated cumulative translation account, which is included in accumulated other comprehensive income in equity, to zero at the transition date. This exemption has been applied to all subsidiaries.

#### **(v) Share-based Payment Transactions**

IFRS 2 *Share-based Payment* ("IFRS 2") only requires recognition of equity instruments in respect of share-based payment transactions granted by the company prior to the transition date. The company has elected to apply IFRS 2 to equity instruments granted after November 7, 2002 that have not vested by the transition date.

### **(b) Mandatory Exceptions to Retrospective Application**

In preparing these consolidated financial statements in accordance with IFRS 1 the company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

#### **(i) Hedge Accounting**

Hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the company's results under IFRS. Any derivative not meeting the IAS 39 *Financial Instruments: Recognition and Measurement* criteria for hedge accounting was recorded as a non-hedging derivative financial instrument.

#### **(ii) Estimates**

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the company under Canadian GAAP are consistent with their application under IFRS.

### (c) Reconciliation of Equity as Reported Under Canadian GAAP to IFRS

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at the transition date:

(MILLIONS)	Note	Common Equity	Preferred Equity	Non-controlling Interests	Equity
As reported under Canadian GAAP – December 31, 2008		\$ 4,911	\$ 870	\$ —	\$ 5,781
Reclassification of non-controlling interests to equity under IFRS		—	—	6,321	6,321
Differences increasing (decreasing) reported amount:					
Revaluations:					
Revaluation method for property, plant and equipment	(i)	8,000	—	580	8,580
Investment property	(ii)	1,227	—	2,143	3,370
Agricultural assets	(iii)	237	—	122	359
Fair value as deemed cost	(iv)	226	—	13	239
Financial instruments	(v)	195	—	(133)	62
Lease accounting	(vi)	(216)	—	(210)	(426)
Deferred revenue	(vii)	(127)	—	(63)	(190)
Unrecognized portion of employee benefits	(viii)	(168)	—	(56)	(224)
Renewable power generation sales	(ix)	(327)	—	(109)	(436)
Basis of accounting	(x)	—	—	(247)	(247)
Deferred income taxes	(xi)	(2,701)	—	(312)	(3,013)
Other		10	—	(11)	(1)
		6,356	—	1,717	8,073
As reported under IFRS – January 1, 2009		\$ 11,267	\$ 870	\$ 8,038	\$ 20,175

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS as at December 31, 2009:

(MILLIONS)	Note	Common Equity	Preferred Equity	Non-controlling Interests	Equity
As reported under Canadian GAAP – December 31, 2009		\$ 6,403	\$ 1,144	\$ —	\$ 7,547
Reclassification of non-controlling interests to equity under IFRS		—	—	8,969	8,969
Differences increasing (decreasing) reported amount:					
Revaluations:					
Revaluation method for property, plant and equipment	(i)	8,052	—	563	8,615
Investment property	(ii)	745	—	1,895	2,640
Agricultural assets	(iii)	333	—	213	546
Fair value as deemed cost	(iv)	237	—	(14)	223
Financial instruments	(v)	(212)	—	(419)	(631)
Lease accounting	(vi)	(294)	—	(270)	(564)
Deferred revenue	(vii)	(109)	—	(147)	(256)
Unrecognized portion of employee benefits	(viii)	(171)	—	(58)	(229)
Renewable power generation sales	(ix)	(281)	—	(94)	(375)
Basis of accounting	(x)	—	—	(248)	(248)
Deferred income taxes	(xi)	(2,862)	—	(181)	(3,043)
Other		(32)	—	(23)	(55)
		5,406	—	1,217	6,623
As reported under IFRS – December 31, 2009		\$ 11,809	\$ 1,144	\$ 10,186	\$ 23,139

#### (i) Revaluation Method for Property, Plant and Equipment

Under IFRS the company measures renewable power generation, utilities, and transport and energy assets at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses whereas for Canadian GAAP the company recorded such assets at historic cost less accumulated depreciation. The increase in equity relates to the difference in the fair value of renewable power generation, utilities, and transport and energy assets and their carried amounts for Canadian GAAP.

**(ii) Investment Property**

The company measures its commercial property and certain other assets as investment property and records the assets at fair value under IFRS whereas for Canadian GAAP the company recorded such assets at historic cost less any accumulated amortization. The increase in equity relates to the difference in the fair value of investment property and its carried amount for Canadian GAAP.

**(iii) Agricultural Assets**

The company's standing timber and other agricultural assets are measured at fair value less estimated costs to sell for IFRS whereas for Canadian GAAP the company recorded such assets at historic cost less accumulated depletion. The increase in equity relates to the difference in the fair value, less estimated costs to sell, of the company's standing timber and other agricultural assets and its carried amounts for Canadian GAAP.

**(iv) Fair Value as Deemed Cost**

The majority of the company's assets are revalued at least annually, however a smaller amount is carried at historical cost under IFRS. The company elected to measure certain of the assets at fair value that would otherwise not be revalued and used that amount as deemed cost on transition to IFRS. The increase in equity relates to the net difference between the fair value used as deemed cost and the carried amounts for Canadian GAAP. The established deemed cost amount will be amortized to net income over the useful lives of the assets.

The aggregate amount of assets which the company elected to measure at fair value and use that amount as deemed cost at the transition date was an increase of \$239 million which was recorded in the following account balances on the transitional Consolidated Balance Sheets: an increase of \$287 million in property, plant and equipment and a decrease of \$48 million in intangible assets.

**(v) Financial Instruments**

Certain equity securities that were measured at historical cost under Canadian GAAP are measured at fair value for IFRS. Additionally, non-controlling interests of others in the net assets of consolidated subsidiaries held in the form of equity securities that contain a feature that allows the holder to redeem the instrument for cash or another financial asset are presented as a liability under IFRS. These liabilities are recorded at fair value and are included in Interests of others in funds on the Consolidated Balance Sheets. For Canadian GAAP, these interests were presented within non-controlling interests and measured at the proportionate share of net assets not owned by the company of such consolidated subsidiaries. The effect on equity of these and other differences related to financial instruments is as follows:

(MILLIONS)	Common Equity	Non-controlling Interests	Equity
<b>As at January 1, 2009</b>			
Fair value of equity securities	\$ 324	\$ 25	\$ 349
Interests of others in funds	(137)	(146)	(283)
Other	8	(12)	(4)
	\$ 195	\$ (133)	\$ 62
<b>As at December 31, 2009</b>			
Fair value of equity securities	\$ 355	\$ 51	\$ 406
Interests of others in funds	(562)	(459)	(1,021)
Other	(5)	(11)	(16)
	\$ (212)	\$ (419)	\$ (631)

**(vi) Lease Accounting**

Under Canadian GAAP, the company recognized intangible assets and liabilities on the acquisition of commercial properties related to the difference between the fair value and contracted amounts of in place leases. These intangible assets and liabilities were amortized into revenue over the life of the underlying leases. As a result of electing to fair value investment properties under IFRS, as noted in 3(c)(ii), the company derecognized these intangible assets and liabilities as they are included as a component of the fair value attributable to investment properties. In addition, rental revenue from operating leases is recognized on a straight-line basis over the term of the lease for both Canadian GAAP and IFRS. Under IFRS however, rental revenue from operating leases is determined considering all rentals from the inception of the lease whereas for Canadian GAAP this determination considered only rental revenues to be received on a prospective basis subsequent to January 1, 2004, the adoption date of this accounting policy for Canadian GAAP purposes.



**(vii) Revenue Recognition**

IFRIC 15 *Agreements for the Construction of Real Estate* provides specific guidance to determine whether an agreement represents a contract for the construction of real estate or the sale of real property. For both Canadian GAAP and IFRS construction contracts are measured using the percentage-of-completion method and sales of real property are recognized in revenue upon completion, when title passes to the purchaser and the collectibility is reasonably assured. Upon transition to IFRS certain contracts in the company's Brazilian development business that were measured for Canadian GAAP using the percentage-of-completion method were determined to be contracts for the sale of real property under IFRS. Accordingly these contracts are recognized in revenue upon completion of construction and title transfers to the purchaser under IFRS.

**(viii) Employee Benefits**

The company elected to recognize all cumulative actuarial gains and losses as at January 1, 2009. Cumulative actuarial gains and losses that existed at the transition date were recognized in opening retained earnings for all of the company's employee benefit plans.

**(ix) Renewable Power Generation Sales**

Certain power generation sales are recognized on a levelized basis for Canadian GAAP but are recognized on an accrual basis for IFRS.

**(x) Basis of Accounting**

Under Canadian GAAP the conclusion as to whether an entity should be consolidated or not is determined by using two different frameworks: the variable interest entity framework or voting control model. Under IFRS an entity is consolidated if it is controlled by the company. Control under IFRS is defined as the power to govern the financial and operating policies of an entity to obtain benefit and is presumed to exist when the parent controls, directly or indirectly through subsidiaries, more than one half of an entity's voting power, but also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control. The decrease represents the effect of deconsolidating certain of the company's investments under IFRS that were previously consolidated under Canadian GAAP, partially offset by the impact of consolidating certain of the company's investments under IFRS that were previously deconsolidated.

**(xi) Deferred Taxes**

The decrease in equity related to deferred taxes reflects the change in temporary differences resulting from the effect of the IFRS and Canadian GAAP adjustments described.

**(d) Reconciliation of Net Income (Loss) as Reported Under Canadian GAAP to IFRS**

The following is a reconciliation of the company's net income reported in accordance with Canadian GAAP to its net loss in accordance with IFRS for the year ended December 31, 2009:

YEAR ENDED DECEMBER 31, 2009 (MILLIONS)	Note	Common Equity	Non-controlling Interests	Net Income (Loss)
Net income as reported under Canadian GAAP		\$ 454	\$ —	\$ 454
Add back: non-controlling interests	(i)	—	219	219
Differences increasing (decreasing) reported net income:				
Depreciation of fair value adjustments	(ii)	(140)	(30)	(170)
Investment property	(iii)	(596)	(415)	(1,011)
Agricultural assets	(iv)	(11)	(27)	(38)
Financial instruments	(v)	(314)	155	(159)
Lease accounting	(vi)	(63)	(50)	(113)
Revenue recognition	(vii)	(61)	(77)	(138)
Deferred gains	(viii)	(410)	(9)	(419)
Renewable power generation sales	(ix)	61	15	76
Basis of accounting	(x)	—	10	10
Deferred income taxes	(xi)	234	77	311
Other		10	(8)	2
		(1,290)	(359)	(1,649)
Net loss as reported under IFRS		\$ (836)	\$ (140)	\$ (976)

**(i) Non-controlling Interests**

Non-controlling interests are included in the determination of net income under IFRS reported by an entity. This adjustment adds back non-controlling interests expense to net income as reported under Canadian GAAP.

**(ii) Depreciation of Fair Value Adjustments**

Certain property, plant and equipment were recorded at fair value on transition at carried values in excess of their recorded amount under Canadian GAAP. Accordingly, these increased carrying values resulted in a higher amounts of depreciation during the year.

**(iii) Investment Property**

For IFRS the company measures investment property at fair value and records any change in fair value in net income during the period of change. Under Canadian GAAP commercial property was recorded at historic cost and depreciated over its estimated useful life. The effect on net income of these differences is as follows:

YEAR ENDED DECEMBER 31, 2009 (MILLIONS)	Common Equity	Non-controlling interests	Net Income (Loss)
Changes in fair value recorded under IFRS	\$ (1,128)	\$ (579)	\$ (1,707)
Depreciation and amortization recorded under Canadian GAAP	532	164	696
	\$ (596)	\$ (415)	\$ (1,011)

**(iv) Agricultural Assets**

For IFRS the company's standing timber and other agricultural assets are measured at fair value less estimated cost to sell, with changes in fair value or costs to sell recorded in net income during the period of change. Under Canadian GAAP, the company recorded such assets at historic cost and charged a depletion amount to net income based upon harvest levels. Depletion is not recorded under IFRS. The effect on net income of these differences is as follows:

YEAR ENDED DECEMBER 31, 2009 (MILLIONS)	Common Equity	Non-controlling interests	Net Income (Loss)
Changes in fair value recorded under IFRS	\$ (53)	\$ (90)	\$ (143)
Depletion recorded under Canadian GAAP	42	63	105
	\$ (11)	\$ (27)	\$ (38)

**(v) Financial Instruments**

Under Canadian GAAP, certain equity securities that were carried at historic cost are recorded at fair value under IFRS. Furthermore under IFRS, changes in the fair value of the equity securities and interests of others in funds classified outside of shareholders' equity is recorded in net income in the period of change. Under IFRS changes in fair value attributable to changes in foreign currency exchange rates of available-for-sale debt securities denominated in foreign currencies is recorded in net income whereas for Canadian GAAP this amount was recorded in other comprehensive income. The following table shows the effect on net income of these differences:

YEAR ENDED DECEMBER 31, 2009 (MILLIONS)	Common Equity	Non-controlling interests	Net Income (Loss)
Fair value of equity securities	\$ (5)	\$ 50	\$ 45
Investments of others in funds	(332)	100	(232)
Foreign exchange on debt securities	23	5	28
	\$ (314)	\$ 155	\$ (159)

**(vi) Lease Accounting**

As described in 3(c)(vi), under IFRS the company derecognized intangible assets and liabilities recognized on the acquisition of investment property. Under Canadian GAAP, these intangible assets and liabilities were amortized into revenue. In addition, under IFRS, rental revenue from operating leases is determined considering all rentals from the inception of the lease whereas for Canadian GAAP this determination considers only rentals to be received on a prospective basis subsequent to the adoption of this accounting policy for Canadian GAAP purposes.



**(vii) Revenue Recognition**

As described in 3(c)(vii), upon transition to IFRS certain contracts that were measured using the percentage of completion method for Canadian GAAP were determined to be contracts for the sale of real property under IFRS. Accordingly for IFRS, sales under these contracts are recognized in revenue upon completion of construction and transfer of title to the purchaser.

**(viii) Deferred Gains**

In Canadian GAAP, the company recognized gains in net income resulting from the partial disposition of a subsidiary when the company retains a controlling interest in the subsidiary after the sale. Under IFRS, gains on the partial disposition of a subsidiary are recorded in equity.

**(ix) Renewable Power Generation Sales**

Certain renewable power generation sales are recognized on a levelized basis for Canadian GAAP but are on an accrual basis for IFRS.

**(x) Basis of Accounting**

The company either consolidates or does not consolidate entities under IFRS that were accounted for differently under Canadian GAAP. Accordingly, where the company has deconsolidated entities, the results of operations attributable to the non-controlling interests are excluded from the determination of net income under IFRS. When the company commenced consolidation under IFRS, the results attributable to non-controlling interests are included in net income under IFRS.

**(xi) Deferred Taxes**

Deferred taxes are impacted by the change in temporary differences resulting from the effect of the IFRS and Canadian GAAP reconciling items described above.

**(e) Reconciliation of Comprehensive Income as Reported Under Canadian GAAP to IFRS**

The following is a reconciliation of the company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2009:

FOR THE YEAR ENDED DECEMBER 31, 2009 (MILLIONS)	Note	Common Equity	Non-controlling Interests	Comprehensive Income
Comprehensive income as reported under Canadian GAAP		\$ 1,829	\$ —	\$ 1,829
Add back: non-controlling interests	(i)	—	806	806
Differences increasing (decreasing) reported comprehensive income:				
Differences in net income	(ii)	(1,290)	(359)	(1,649)
Foreign currency translation	(iii)	488	60	548
Financial instruments	(iv)	(58)	(8)	(66)
Revaluations of property, plant and equipment	(v)	(228)	(8)	(236)
Equity accounted investments	(vi)	(77)	(53)	(130)
Deferred taxes	(vii)	96	11	107
		(1,069)	(357)	(1,426)
Comprehensive income as reported under IFRS		\$ 760	\$ 449	\$ 1,209

**(i) Non-controlling Interests**

Non-controlling interests are included in the determination of comprehensive income under IFRS reported by an entity. This adjustment adds back non-controlling interests expense as determined under Canadian GAAP.

**(ii) Differences in Net Income**

Reflects the differences in net income between Canadian GAAP and IFRS as described in 3(d) for the year ended December 31, 2009.

**(iii) Foreign Currency Translation**

Reflects the impact of foreign currency arising from the IFRS adjustments described above.

**(iv) Financial Instruments**

The differences primarily relate to securities that are not traded in an active market and that were measured at cost for Canadian GAAP whereas for IFRS, these securities are recorded at fair value, with changes in fair

value recorded in other comprehensive income. In addition, as described in Note (d)(v), fair value changes related to foreign exchange translation of available-for-sale debt securities is recorded in net income under IFRS, whereas it was recorded in other comprehensive income for Canadian GAAP.

**(v) Revaluations of Property, Plant and Equipment**

The company measures renewable power generation, utilities, and transport and energy assets at their revalued amount under IFRS. Revaluations of these assets in excess of their cost base less accumulated depreciation are recorded in revaluation surplus as a component of equity.

**(vi) Equity Accounted Investments**

The difference reflects the impact of various changes in IFRS to equity accounted investments.

**(vii) Deferred Taxes**

The difference related to deferred taxes reflects the change in temporary differences resulting from the effect of the reconciling items described above that are recorded in other comprehensive income.

**(f) Statement of Cash Flow As Reported Under Canadian GAAP and IFRS**

The following items are the differences in cash flow reported in accordance with Canadian GAAP from cash flow reported in accordance with IFRS:

**(i) Differences in Net Income**

Reflects the differences in net income between Canadian GAAP and IFRS as described in 3(d) for the year ended December 31, 2009.

**(ii) Fair Value Changes**

Reflects the adjustment of non-cash fair value changes to investment properties, agricultural assets, and financial instruments recognized under IFRS as described in 3(d)(iii) and 3(d)(iv) for the year ended December 31, 2009.

**(iii) Basis of Accounting**

The company either consolidates or does not consolidate entities under IFRS that were accounted differently under Canadian GAAP. The results of operations attributable to the non-controlling interests of entities that were deconsolidated under IFRS, are excluded from cash flow for the year ended December 31, 2009. When the company commenced consolidation under IFRS, the results of operations attributable to the non-controlling interests are included in cash flow.

## **4. ACQUISITIONS OF CONSOLIDATED ENTITIES**

The company accounts for business combinations using the acquisition method of accounting, pursuant to which the cost of acquiring a business is allocated to its identifiable tangible and intangible assets and liabilities on the basis of the estimated fair values at the date of acquisition.

**(a) Completed During 2010**

On December 8, 2010, Brookfield Infrastructure Partners ("Brookfield Infrastructure"), a subsidiary of the company, completed a merger with Prime Infrastructure ("Prime") through the issuance of 50.7 million limited partnership units of Brookfield Infrastructure valued at \$1.1 billion. As a result of the merger, the company's ownership interest in Brookfield Infrastructure decreased from 41% to 28% and Brookfield Infrastructure's interest in Prime increased from 40% to 100%. Brookfield Infrastructure recorded a \$405 million gain on the revaluation of the underlying assets on completion of the Prime merger.

On May 11, 2010, the company acquired a controlling interest in Ainsworth Lumber Co. ("Ainsworth") through a 40% owned fund that is controlled by the company and commenced consolidation of Ainsworth. Prior to the acquisition, the fund held a 29% interest in Ainsworth. The company paid consideration of \$56 million for the additional 24.5% interest in Ainsworth. Following the acquisition, the fund's interest in Ainsworth is 53.5%.

Other acquisitions primarily consisted of the acquisition of a controlling interest in commercial property funds in Australia as well as the indirect acquisition of eight commercial properties in North America.

As a result of the total acquisitions made during the year, the company earned \$296 million of revenue and \$56 million of net income. The total revenue and net income if the acquisitions had occurred at the beginning of the year would have been \$1,612 million and \$148 million, respectively.

The following table summarizes the balance sheet impact of significant acquisitions during 2010 that resulted in consolidation:

(MILLIONS)	Prime	Ainsworth	Other	Total
Cash and cash equivalents	\$ 125	\$ 69	\$ 43	\$ 237
Accounts receivable and other assets	2,429	176	76	2,681
Investments	779	—	143	922
Property, plant and equipment	1,932	538	51	2,521
Investment properties	—	—	1,416	1,416
Intangible assets	2,490	74	—	2,564
Goodwill	—	—	22	22
	7,755	857	1,751	10,363
Less:				
Accounts payable and other liabilities	(2,659)	(101)	(276)	(3,036)
Non-recourse borrowings	(2,606)	(535)	(693)	(3,834)
Non-controlling interests	(1,862)	(173)	(392)	(2,427)
	\$ 628	\$ 48	\$ 390	\$ 1,066

### (b) Completed During 2009

On November 20, 2009, the company increased its infrastructure investments by sponsoring the recapitalization of Prime. As part of the transaction, the company made direct and indirect investments in utility and transportation operations. The company acquired control of, and began consolidating Brookfield Ports (UK) Ltd. ("PD Ports"), a large port operator in the United Kingdom ("UK").

On November 12, 2009, the company increased its 22% interest in the Multiplex Prime Property Fund ("MAFCA") to 68%. As a result, the company ceased equity accounting for its investment and commenced consolidation. MAFCA is a listed unit trust and owns commercial properties in Australia.

The company also acquired \$28 million of net assets which relate to its commercial property and timber operations.

The following table summarizes the balance sheet impact of significant acquisitions in 2009 that resulted in consolidation:

(MILLIONS)	PD Ports	MAFCA	Other	Total
Cash and cash equivalents	\$ 15	\$ 7	\$ 5	\$ 27
Accounts receivable and other assets	36	—	7	43
Investments	—	238	—	238
Property, plant and equipment	297	136	35	468
Investment properties	138	183	—	321
Intangible assets	306	—	—	306
	792	564	47	1,403
Less:				
Accounts payable and other liabilities	(236)	(27)	(19)	(282)
Non-recourse borrowings	(392)	(425)	—	(817)
Non-controlling interests	(102)	(56)	—	(158)
	\$ 62	\$ 56	\$ 28	\$ 146

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the company looks primarily to external readily observable market inputs such as interest rate yield curves, currency rates, and price and rate volatilities as applicable. The fair value of interest rate swap contracts which form part of financing arrangements is calculated by way of discounted cash flows using market interest rates and applicable credit spreads. In limited circumstances, the company uses input parameters that are not based on observable market data and believes that using alternative assumptions will not result in significantly different fair values.

### Classification of Financial Instruments

Financial instruments classified as fair value through profit or loss or available-for-sale are carried at fair value on the Consolidated Balance Sheets. Changes in the fair values of financial instruments classified as fair value through profit or loss and available-for-sale are recognized in net income and other comprehensive income, respectively. The cumulative changes in the fair values of available-for-sale securities previously recognized in accumulated other comprehensive income are reclassified to net income when the security is sold, or there is a significant or prolonged decline in fair value or when the company acquires a controlling interest in the underlying investment and commences consolidating the investment. During the year ended December 31, 2010, \$28 million of net deferred losses (2009 – \$32 million) previously recognized in Accumulated other comprehensive income were reclassified to net income as a result of a sale or a determination that a decline in fair value was significant or prolonged or the acquisition of a controlling interest of the investment.

Available-for-sale securities are assessed for impairment at each reporting date. As at December 31, 2010, unrealized gains relating to the fair values of available-for-sale financial instruments measured at fair value amounted to \$61 million (2009 – \$126 million) and unrealized losses were \$19 million (2009 – \$67 million).

Gains or losses arising from changes in the fair value of fair value through profit or loss financial assets are presented in the Consolidated Statements of Operations, within Investment and other income, in the period in which they arise. Dividends on fair value through profit or loss and available-for-sale financial assets are recognized in the Consolidated Statements of Operations as part of Investment and other income when the company's right to receive payment is established. Interest on available-for-sale financial assets is calculated using the effective interest method and recognized in the Consolidated Statements of Operations as part of Investment and other income.

## Carrying Value and Fair Value of Financial Instruments

The following table provides the allocation of financial instruments and their associated financial instrument classifications as at December 31, 2010:

(MILLIONS) Financial Instrument Classification	FVTPL <sup>1</sup>	Available- for-Sale	Held-to- Maturity	Loans and Receivables/ Other Financial Liabilities	
MEASUREMENT BASIS	(Fair Value)	(Fair Value)	(Amortized Cost)	(Amortized Cost)	Total
<b>Financial assets</b>					
Cash and cash equivalents	\$ 1,713	\$ —	\$ —	\$ —	\$ 1,713
Other financial assets					
Government bonds	242	414	—	—	656
Corporate bonds	20	194	—	—	214
Fixed income securities	95	231	—	—	326
Common shares	1,059	88	—	—	1,147
Loans and notes receivable	—	—	1,332	744	2,076
	1,416	927	1,332	744	4,419
Accounts receivable and other <sup>2</sup>	1,823	—	—	2,824	4,647
<b>Total</b>	<b>\$ 4,952</b>	<b>\$ 927</b>	<b>\$ 1,332</b>	<b>\$ 3,568</b>	<b>\$ 10,779</b>
<b>Financial liabilities</b>					
Corporate borrowings	\$ —	\$ —	\$ —	\$ 2,905	\$ 2,905
Property-specific mortgages	—	—	—	23,454	23,454
Subsidiary borrowings	—	—	—	4,007	4,007
Accounts payable and other <sup>2</sup>	572	—	—	9,762	10,334
Capital securities	—	—	—	1,707	1,707
Interest of others in funds	1,562	—	—	—	1,562
	\$ 2,134	\$ —	\$ —	\$ 41,835	\$ 43,969

1. Financial instruments classified as fair value through profit and loss
2. Derivative instruments which are elected for hedge accounting totalling \$24 million (2009 – \$292 million) are included in Accounts Receivable and Other and \$278 million (2009 – \$424 million) of derivative instruments in Accounts Payable and Other

The following table provides the carrying values and fair values of financial instruments as at December 31, 2010, December 31, 2009 and January 1, 2009:

(MILLIONS)	Dec. 31, 2010		Dec. 31, 2009		Jan. 1, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>						
Cash and cash equivalents	\$ 1,713	\$ 1,713	\$ 1,309	\$ 1,309	\$ 1,169	\$ 1,169
Other financial assets						
Government bonds	656	656	561	561	557	557
Corporate bonds	214	214	1,104	1,104	620	620
Fixed income securities	326	326	300	300	418	418
Common shares	1,147	1,147	656	656	662	662
Loans and notes receivable	2,076	1,990	2,525	2,432	2,249	1,784
	4,419	4,333	5,146	5,053	4,506	4,041
Accounts receivable and other	4,647	4,647	3,632	3,632	2,889	2,889
<b>Total</b>	<b>\$ 10,779</b>	<b>\$ 10,693</b>	<b>\$ 10,087</b>	<b>\$ 9,994</b>	<b>\$ 8,564</b>	<b>\$ 8,099</b>
<b>Financial liabilities</b>						
Corporate borrowings	\$ 2,905	\$ 3,039	\$ 2,593	\$ 2,659	\$ 2,284	\$ 2,144
Property-specific mortgages	23,454	23,601	19,712	19,201	17,808	17,431
Subsidiary borrowings	4,007	4,085	3,800	3,803	3,661	3,422
Accounts payable and other	10,334	10,334	7,827	7,827	6,977	6,977
Capital securities	1,707	1,781	1,641	1,631	1,425	1,558
Interest of others in funds	1,562	1,562	1,021	1,021	548	548
	\$ 43,969	\$ 44,402	\$ 36,594	\$ 36,142	\$ 32,703	\$ 32,080

The current and non-current balances of other financial assets are as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current	\$ 1,700	\$ 1,797	\$ 926
Non-current	2,719	3,349	3,580
<b>Total</b>	<b>\$ 4,419</b>	<b>\$ 5,146</b>	<b>\$ 4,506</b>

## Hedging Activities

The company uses derivatives and non-derivative financial instruments to manage or maintain exposures to interest, currency, credit and other market risks. For certain derivatives which are used to manage exposures, the company determines whether hedge accounting can be applied. When hedge accounting can be applied, a hedge relationship can be designated as a fair value hedge, cash flow hedge or a hedge of foreign currency exposure of a net investment in a foreign operation with a functional currency other than the U.S. dollar. To qualify for hedge accounting the derivative must be highly effective in accomplishing the objective of offsetting changes in the fair value or cash flows attributable to the hedged risk both at inception and over the life of the hedge. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

## Fair Value Hedges

The company uses interest rate swaps to hedge the variability related to changes in the fair value of fixed rate assets or liabilities. For the year ended December 31, 2010, pre-tax net unrealized losses of \$5 million (2009 – gains of \$9 million) were recorded in net income as a result of changes in the fair value of the hedges which were offset by fair value changes related to the effective portion of the hedged asset or liability. As at December 31, 2010, there was a net unrealized derivative asset balance of \$24 million relating to derivative contracts designated as fair value hedges (2009 – net unrealized derivative asset balance of \$6 million).

## Cash Flow Hedges

The company uses the following cash flow hedges: energy derivative contracts to hedge the sale of power; interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability; and equity derivatives to hedge the long-term compensation arrangements. For the year ended December 31, 2010, pre-tax net unrealized losses of \$41 million (2009 – gains of \$118 million) were recorded in other comprehensive income for the effective portion of the cash flow hedges. As at December 31, 2010, there was a net unrealized derivative liability balance of \$136 million relating to derivative contracts designated as cash flow hedges (2009 – net unrealized derivative liability balance of \$29 million).

## Net Investment Hedges

The company uses foreign exchange contracts and foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations having a functional currency other than the U.S. dollar. For the year ended December 31, 2010, unrealized pre-tax net losses of \$318 million (2009 – losses of \$251 million) were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations. As at December 31, 2010, there was a net unrealized derivative liability balance of \$257 million relating to derivative contracts designated as net investment hedges (2009 – net unrealized derivative liability balance of \$103 million).

## Fair Value Hierarchical Levels

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation inputs of these assets and liabilities, and are as follows:

Level 1 – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life. Fair valued assets and liabilities that are included in this category are primarily certain derivative contracts, other financial assets carried at fair value in an inactive market and redeemable fund units.

Level 3 – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to determining the estimate. Fair valued assets and liabilities that are included in this category are power purchase contracts, subordinated mortgaged-backed securities, interest rate swap contracts, derivative contracts, certain equity securities carried at fair value which are not traded in an active market and the non-controlling interests share of net assets of limited life funds.

Assets and liabilities measured at fair value on a recurring basis include \$2,087 million (2009 – \$1,463 million) of financial assets and \$580 million (2009 – \$390 million) of financial liabilities which are measured at fair value using valuation inputs based on management's best estimates. The following table categorizes financial assets and liabilities, which are carried at fair value, based upon the level of input to the valuations as described above:

(MILLIONS)	Dec. 31, 2010			Dec. 31, 2009			Jan. 1, 2009		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets</b>									
Cash and cash equivalents	\$ 1,713	\$ —	\$ —	\$ 1,309	\$ —	\$ —	\$ 1,169	\$ —	\$ —
<b>Other financial assets</b>									
Government bonds	397	259	—	110	451	—	158	399	—
Corporate bonds	77	111	26	652	428	24	210	401	9
Fixed income securities	149	—	177	21	—	279	53	—	365
Common shares	274	11	862	167	13	476	167	17	478
Accounts receivable and other	789	12	1,022	642	1	684	631	11	110
	\$ 3,399	\$ 393	\$ 2,087	\$ 2,901	\$ 893	\$ 1,463	\$ 2,388	\$ 828	\$ 962
<b>Financial liabilities</b>									
Accounts payable and other	\$ —	\$ 199	\$ 373	\$ —	\$ 264	\$ 268	\$ —	\$ 97	\$ 393
Interests of others in funds	—	1,355	207	—	899	122	—	283	265
	\$ —	\$ 1,554	\$ 580	\$ —	\$ 1,163	\$ 390	\$ —	\$ 380	\$ 658

## 6. ACCOUNTS RECEIVABLE AND OTHER

(MILLIONS)	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Accounts receivable	(a)	\$ 3,860	\$ 2,991	\$ 2,331
Prepaid expenses and other assets	(b)	3,222	1,077	914
Restricted cash	(c)	787	641	558
Total		\$ 7,869	\$ 4,709	\$ 3,803

The current and non-current balances of accounts receivable and other are as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current	\$ 5,504	\$ 3,357	\$ 2,668
Non-current	2,365	1,352	1,135
Total	\$ 7,869	\$ 4,709	\$ 3,803

### (a) Accounts Receivable

Accounts receivable include \$1,026 million (2009 – \$684 million) of unrealized mark-to-market gains on energy sales contracts and \$814 million (2009 – \$760 million) of work-in-process related to contracted sales from the company's residential development operations. Also included in this balance are loans receivable from employees of the company and consolidated subsidiaries of \$7 million (2009 – \$6 million).

### (b) Prepaid Expenses and Other Assets

Prepaid expenses and other assets include the consolidation of Prime Infrastructure's \$1,859 million of assets which are classified as held-for-sale (see Note 4 and Note 15).

### (c) Restricted Cash

Restricted cash relates primarily to commercial property and power generating financing arrangements including defeasement of debt obligations, debt service accounts and deposits held by the company's insurance operations.



## 7. INVENTORY

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Residential properties under development	\$ 3,398	\$ 3,121	\$ 2,852
Land held for development	1,712	1,610	869
Completed residential properties	182	352	374
Pulp, paper and other	557	477	657
<b>Total carrying value<sup>1</sup></b>	<b>\$ 5,849</b>	<b>\$ 5,560</b>	<b>\$ 4,752</b>

1. The carrying amount of inventory pledged as security at December 31, 2010 was \$1,450 million (December 31, 2009 – \$1,265 million; January 1, 2009 – \$1,323 million)

The current and non-current balances of inventory are as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current	\$ 3,156	\$ 3,039	\$ 2,126
Non-current	2,693	2,521	2,626
<b>Total</b>	<b>\$ 5,849</b>	<b>\$ 5,560</b>	<b>\$ 4,752</b>

During the year ended December 31, 2010, the company recognized as an expense \$4,676 million (2009 – \$3,885 million) relating to costs of sales and \$65 million (2009 – \$53 million) relating to impairments of inventory.

## 8. INVESTMENTS

The following table presents the ownership interests and carrying values of the company's investments in associates and equity-accounted joint ventures:

(MILLIONS)	Ownership Interest		Carrying Value		
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
<b>Renewable power generation</b>					
Bear Swamp Power Co. LLC	50%	50%	\$ 70	\$ 119	\$ 120
Other renewable power generation	50%	23-50%	196	157	163
<b>Commercial properties</b>					
U.S. Office Fund	47%	47%	1,806	934	2,078
General Growth Properties	10%	—	1,014	—	—
245 Park Avenue	51%	51%	580	616	635
Other commercial properties <sup>1</sup>	20-51%	20-51%	1,421	1,101	796
<b>Infrastructure</b>					
Natural gas pipeline company	26%	—	384	—	—
Transelec S.A.	28%	28%	373	348	373
Powerco	42%	—	280	—	—
Euroports	40%	—	115	—	—
Prime Infrastructure <sup>2</sup>	—	40%	—	656	—
Other	25-50%	25-45%	390	535	481
<b>Total</b>			<b>\$ 6,629</b>	<b>\$ 4,466</b>	<b>\$ 4,646</b>

1. Other commercial properties include investments in Darling Park Trust, E&Y Centre Sydney and Four World Financial Center

2. The company acquired a controlling interest in Prime and commenced consolidation at December 8, 2010, as noted in Note 4

In November 2010, a Brookfield-led consortium sponsored the recapitalization of General Growth Properties (“GGP”) and acquired a 27% ownership interest in the reorganized GGP on a fully diluted basis. Brookfield holds an indirect 10% interest in GGP, and is entitled to appoint three of the nine directors to GGP’s board. The consortium members have entered into a voting agreement regarding the control over their combined investment in GGP which deems the consortium, as a whole, to exercise significant influence over GGP. In January 2011, the company acquired an additional 11% ownership interest in GGP for consideration of \$1.7 billion.

The following table presents the change in the balance of investments in associates and equity-accounted joint ventures:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 4,466	\$ 4,646
Additions	1,738	239
Acquisitions through business combinations	922	238
Disposals	(1,100)	(254)
Share of net income (loss)	765	(426)
Share of other comprehensive income (loss)	(16)	(130)
Distributions received	(374)	(61)
Foreign exchange	228	214
Balance at end of year	\$ 6,629	\$ 4,466

The following table presents the gross assets and liabilities of our investments in associates and equity accounted joint ventures:

(MILLIONS)	Dec. 31, 2010		Dec. 31, 2009		Jan. 1, 2009	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Renewable power generation						
Bear Swamp Power Co. LLC	\$ 498	\$ 322	\$ 499	\$ 274	\$ 602	\$ 315
Other renewable power generation	566	251	514	230	463	160
Commercial properties						
U.S. Office Fund	7,802	5,804	7,308	6,012	8,385	5,289
General Growth Properties	32,367	21,953	—	—	—	—
245 Park Avenue	987	407	773	228	783	232
Other commercial properties <sup>1</sup>	2,534	673	2,569	1,232	3,279	1,720
Infrastructure						
Natural gas pipeline company	4,950	3,504	—	—	—	—
Transelec S.A.	4,142	2,803	4,182	2,838	3,520	2,367
Powerco	1,511	846	—	—	—	—
Euroports	1,045	761	—	—	—	—
Prime Infrastructure <sup>2</sup>	—	—	13,740	10,091	—	—
Other	2,474	1,815	1,924	1,347	1,661	1,043
	<b>\$ 58,876</b>	<b>\$ 39,139</b>	<b>\$ 31,509</b>	<b>\$ 22,252</b>	<b>\$ 18,693</b>	<b>\$ 11,126</b>

1. Other commercial properties include investment in Darling Park Trust, E&Y Centre Sydney and Four World Financial Center
2. The company acquired a controlling interest in Prime and commenced consolidation at December 8, 2010, as noted in Note 4

Certain of our investments in associates are subject to restrictions over the extent to which they can remit funds to the company in the form of cash dividends, or repayment of loans and advances as a result of borrowing arrangements, regulatory restrictions and other contractual requirements.

The following table presents the gross and net income of our investments in associates and equity accounted joint ventures:

AS AT DECEMBER 31 (MILLIONS)	Year ended Dec. 31, 2010			Year ended Dec. 31, 2009		
	Revenue	Net Income (Loss)	Share of Net Income (Loss)	Revenue	Net Income (Loss)	Share of Net Income (Loss)
<b>Renewable power generation</b>						
Bear Swamp Power Co. LLC	\$ 69	\$ 29	\$ 14	\$ 81	\$ 22	\$ 11
Other renewable power generation	42	1	1	48	11	5
<b>Commercial properties</b>						
U.S. Office Fund	863	779	366	844	(1,111)	(522)
General Growth Properties	—	—	—	—	—	—
245 Park Avenue	63	306	156	122	(6)	(3)
Other commercial properties <sup>1</sup>	328	232	140	500	48	49
<b>Infrastructure</b>						
Natural gas pipeline company	61	(18)	(6)	—	—	—
Transelec S.A.	351	44	16	331	14	2
Powerco	21	2	1	—	—	—
Euroports	57	(5)	(3)	—	—	—
Prime Infrastructure <sup>2</sup>	—	—	—	205	44	18
Other	386	65	80	170	19	14
<b>Total</b>	<b>\$ 2,241</b>	<b>\$ 1,435</b>	<b>\$ 765</b>	<b>\$ 2,301</b>	<b>\$ (959)</b>	<b>\$ (426)</b>

1. Other commercial properties include investment in Darling Park Trust, E&Y Centre Sydney and FourWorld Financial Center

2. The company acquired a controlling interest in Prime and commenced consolidation at December 8, 2010, as noted in Note 4

Certain of our investments are publicly listed entities with active pricing in a liquid market. The publicly listed price of these investments in comparison to the company's carrying value is as follows:

(MILLIONS)	Dec. 31, 2010		Dec. 31, 2009		Jan. 1, 2009	
	Public Price	Carrying Value	Public Price	Carrying Value	Public Price	Carrying Value
General Growth Properties	\$ 1,176	\$ 1,014	\$ —	\$ —	\$ —	\$ —
Prime Infrastructure	—	—	580	656	—	—
Other	72	87	103	99	91	114
	<b>\$ 1,248</b>	<b>\$ 1,101</b>	<b>\$ 683</b>	<b>\$ 755</b>	<b>\$ 91</b>	<b>\$ 114</b>

## 9. PROPERTY, PLANT AND EQUIPMENT

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 12,026	\$ 8,911	\$ 7,534
Accumulated fair value changes	7,417	8,373	8,063
Accumulated depreciation	(1,295)	(561)	—
<b>Total</b>	<b>\$ 18,148</b>	<b>\$ 16,723</b>	<b>\$ 15,597</b>

Accumulated fair value changes include unrealized revaluations of property, plant and equipment using the revaluation method which are recorded in revaluation surplus as a component of equity, as well as unrealized impairment losses recorded in net income.

The company's property, plant and equipment relates to our business platforms as shown in the following table:

(MILLIONS)	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Renewable power generation	(a)	\$ 12,443	\$ 13,166	\$ 12,413
<b>Infrastructure</b>				
Utilities	(b)	723	209	219
Transport and energy	(c)	1,727	298	—
Timberlands	(d)	688	737	809
Private equity and finance	(e)	2,497	2,114	1,940
Other property, plant and equipment	(f)	70	199	216
		<b>\$ 18,148</b>	<b>\$ 16,723</b>	<b>\$ 15,597</b>

## (a) Renewable Power Generation

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 5,533	\$ 5,035	\$ 4,350
Accumulated fair value changes	7,804	8,531	8,063
Accumulated depreciation	(894)	(400)	—
Total	\$ 12,443	\$ 13,166	\$ 12,413

Renewable power generation assets include the cost of the company's hydroelectric generating stations, wind energy, pumped storage and natural gas-fired cogeneration facilities. The company's hydroelectric power facilities operate under various agreements for water rights which extend to or are renewable over terms through the years up to 2046.

Renewable power generation assets are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2010.

The key valuation metrics of our hydro and wind generating facilities at the end of 2010 and 2009 are summarized below. The valuations are impacted primarily by the discount rate and long-term power prices.

	United States		Canada		Brazil	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Discount rate	7.7%	8.2%	6.1%	7.2%	10.8%	11.0%
Terminal capitalization rate	7.9%	8.4%	7.1%	7.9%	11.0%	11.0%
Exit date	2030	2029	2030	2029	2029	2029

The following table presents the changes to the cost of the company's renewable power generation assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 5,035	\$ 4,350
Additions	335	146
Foreign currency translation	163	539
Balance at end of year	\$ 5,533	\$ 5,035

As at December 31, 2010, the cost of generating facilities under development includes \$239 million of capitalized costs (December 31, 2009 – \$231 million; January 1, 2009 – \$253 million).

The following table presents the changes to the accumulated fair value changes of the company's power generation assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 8,531	\$ 8,063
Accumulated fair value changes	(929)	(278)
Foreign currency translation	202	746
Balance at end of year	\$ 7,804	\$ 8,531

The following table presents the changes to the accumulated depreciation of the company's power generation assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ (400)	\$ —
Depreciation expense	(488)	(379)
Foreign currency translation	(6)	(21)
Balance at end of year	\$ (894)	\$ (400)

## (b) Utilities

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 746	\$ 220	\$ 219
Accumulated depreciation	(23)	(11)	—
Total	\$ 723	\$ 209	\$ 219

The company's utilities assets are primarily comprised of power transmission and distribution networks, and an Australian coal terminal, which are operated primarily under regulated rate base arrangements.

Utilities assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2010. The company determined fair value to be the current replacement cost. The Australasian and European operations were valued based on fair values attributed in connection with the Prime merger.

The following table presents the changes to the cost of the company's utilities assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 220	\$ 219
Additions	12	12
Acquisitions through business combinations	513	4
Disposals	—	(45)
Foreign currency translation	1	30
Balance at end of year	\$ 746	\$ 220

The following table presents the changes to the accumulated depreciation of the company's utilities assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ (11)	\$ —
Depreciation expense	(11)	(10)
Foreign currency translation	(1)	(1)
Balance at end of year	\$ (23)	\$ (11)

## (c) Transport and Energy

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 1,776	\$ 299	\$ —
Accumulated fair value changes	(32)	—	—
Accumulated depreciation	(17)	(1)	—
Total	\$ 1,727	\$ 298	\$ —

The following table presents the changes to the cost of the company's transport and energy assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 299	\$ —
Additions	26	—
Acquisitions through business combinations	1,419	297
Foreign currency translation	32	2
Balance at end of year	\$ 1,776	\$ 299

The increase in transport and energy assets during 2010 relates primarily to the acquisition of Prime Infrastructure in December. Further details are included in Note 4.

The following table presents the changes to the accumulated fair value changes of the company's transport and energy assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ —	\$ —
Accumulated fair value changes	(33)	—
Foreign currency translation	1	—
Balance at end of year	\$ (32)	\$ —

The following table presents the changes to the accumulated depreciation of the company's transport and energy assets:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ (1)	\$ —
Depreciation expense	(15)	(1)
Foreign currency translation	(1)	—
Balance at end of year	\$ (17)	\$ (1)

#### (d) Timberlands

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 922	\$ 861	\$ 809
Accumulated fair value changes	(224)	(119)	—
Accumulated depreciation	(10)	(5)	—
Total	\$ 688	\$ 737	\$ 809

The following table presents the change in the balance of property, plant and equipment within the company's timberlands business.

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 861	\$ 809
Additions	40	33
Disposals	(3)	(11)
Foreign currency translation	24	30
Balance at end of year	\$ 922	\$ 861

Timberland assets are accounted for under the revaluation model and the most recent date of revaluations was December 31, 2010.

The following table presents the changes to the accumulated fair value changes of the company's timberland assets:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009
Balance at beginning of year	\$ (119)	\$ —
Accumulated fair value changes	(104)	(119)
Foreign currency translation	(1)	—
Balance at end of year	\$ (224)	\$ (119)

The following table presents the changes to the accumulated depreciation of the property, plant and equipment within the company's timberlands business:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ (5)	\$ —
Depreciation expense	(5)	(5)
Balance at end of year	\$ (10)	\$ (5)

## (e) Private Equity and Finance

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 2,951	\$ 2,288	\$ 1,940
Accumulated fair value changes	(131)	(39)	—
Accumulated depreciation	(323)	(135)	—
Total	\$ 2,497	\$ 2,114	\$ 1,940

Private equity and finance includes capital assets owned by the company's investees held directly or consolidated through funds.

These assets are accounted for under the cost model, which requires the asset to be carried at its cost less any accumulated depreciation and any accumulated impairment losses. The following table presents the changes to the carrying value of the company's property, plant and equipment assets included in the company's private equity and finance operations:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 2,288	\$ 1,940
Additions	184	216
Acquisitions through business combinations	538	21
Disposals	(123)	(70)
Foreign currency translation	64	181
Balance at end of year	\$ 2,951	\$ 2,288

The following table presents the changes to the accumulated fair value changes of the company's property, plant and equipment within its private equity and finance operations:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ (39)	\$ —
Accumulated fair value changes	(92)	(39)
Balance at end of year	\$ (131)	\$ (39)

The following table presents the changes to the accumulated depreciation of the company's other property, plant and equipment within its private equity and finance operations:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ (135)	\$ —
Depreciation expense	(185)	(180)
Disposals	—	53
Foreign currency translation	(3)	(8)
Balance at end of year	\$ (323)	\$ (135)

## (f) Other Property, Plant and Equipment

Other property, plant and equipment includes construction in progress and development properties and totalled \$70 million at December 31, 2010 (December 31, 2009 – \$199 million; January 1, 2009 – \$216 million).

## 10. INVESTMENT PROPERTIES

(MILLIONS)	2010	2009
Fair value at beginning of year	\$ 19,219	\$ 16,719
Additions	689	1,480
Acquisitions through business combinations	1,416	321
Disposals	(859)	(360)
Fair value adjustments	835	(888)
Foreign currency translation	863	1,947
Fair value at end of year	\$ 22,163	\$ 19,219

The fair value of investment properties is generally determined by discounting the expected cash flows of the properties based upon internal or external valuations. All properties are externally valued on a three year rotation plan. Certain adjustments have been made to external valuations conducted by third parties as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Properties where fair value is determined by external valuers	\$ 5,161	\$ 7,177	\$ 3,587
Adjustment for straight-line rentals	(1)	87	12
	5,160	7,264	3,599
Internal appraisals	17,003	11,955	13,120
Fair value recorded in financial statements	\$ 22,163	\$ 19,219	\$ 16,719

The key valuation metrics of our commercial office properties are presented in the following table:

	United States		Canada		Australia	
	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009
Discount rate	8.1%	8.8%	6.9%	7.4%	9.1%	9.3%
Terminal capitalization rate	6.7%	6.9%	6.3%	6.7%	7.4%	7.8%
Investment horizon (years)	10	10	11	10	10	10

## 11. TIMBER

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Timber	\$ 2,807	\$ 2,610	\$ 2,604
Other agricultural assets	399	358	235
Total	\$ 3,206	\$ 2,968	\$ 2,839

The company held 1,447 million acres of consumable freehold timber at December 31, 2010 (December 31, 2009 – 1,445 million), of which approximately 854 million (December 31, 2009 – 855 million) acres were classified as mature and available for harvest.

The following table presents the change in the balance of standing timber within the company's timber business:

(MILLIONS)	2010	2009
Balance at beginning of year	\$ 2,610	\$ 2,604
Additions	52	—
Fair value adjustments	282	54
Decrease due to harvest	(139)	(88)
Foreign currency changes	2	40
Balance at end of year	\$ 2,807	\$ 2,610

The carrying values are based on external appraisals that are completed annually. Key valuation assumptions include a weighted average discount and terminal capitalization rate of 6.6% (2009 – 6.5%) and an average terminal valuation date of 75 years. Timber prices were based on a combination of forward prices available in the market and the price forecasts of each appraisal firm.

## 12. INTANGIBLE ASSETS

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 3,969	\$ 1,150	\$ 667
Accumulated amortization and impairment losses	(164)	(102)	(48)
Net intangible assets	\$ 3,805	\$ 1,048	\$ 619



Intangible assets are allocated to the following cash generating units:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Utilities – Australian coal terminal	\$ 2,571	\$ —	\$ —
Construction	408	376	308
Transport and energy – UK port operations	332	306	—
Private equity and finance	180	89	91
Timber – Western North America	133	112	94
Renewable power generation	125	119	89
Other	56	46	37
<b>Total</b>	<b>\$ 3,805</b>	<b>\$ 1,048</b>	<b>\$ 619</b>

The following table presents the change in the balance of the intangible assets:

(MILLIONS)	2010	2009
Cost at beginning of year	\$ 1,150	\$ 667
Additions	34	5
Acquisitions through business combinations	2,564	306
Disposals	—	(14)
Foreign currency translation	221	186
<b>Cost at end of year</b>	<b>\$ 3,969</b>	<b>\$ 1,150</b>

The following table presents the accumulated amortization and accumulated impairment losses to the company's intangible assets:

(MILLIONS)	2010	2009
Accumulated amortization at beginning of year	\$ (102)	\$ (48)
Amortization	(43)	(29)
Reversal of impairments	15	8
Foreign currency translation	(34)	(33)
<b>Accumulated amortization at end of year</b>	<b>\$ (164)</b>	<b>\$ (102)</b>

### 13. GOODWILL

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Cost	\$ 2,561	\$ 2,370	\$ 1,995
Accumulated impairment losses	(15)	(7)	(3)
<b>Total</b>	<b>\$ 2,546</b>	<b>\$ 2,363</b>	<b>\$ 1,992</b>

Goodwill is allocated to the following cash generating units:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Construction	\$ 862	\$ 756	\$ 599
Timber – Western North America	591	591	591
Residential – Brazil	474	446	334
Retail – Brazil	169	162	121
Asset management	194	194	173
Other	256	214	174
<b>Total</b>	<b>\$ 2,546</b>	<b>\$ 2,363</b>	<b>\$ 1,992</b>

The following table presents the change in the balance of goodwill:

(MILLIONS)	2010	2009
Cost at beginning of year	\$ 2,370	\$ 1,995
Acquisitions through business combinations	22	—
Disposals	—	(12)
Foreign currency translation and other	169	387
Cost at end of year	\$ 2,561	\$ 2,370

The following table reconciles the accumulated goodwill impairments:

(MILLIONS)	2010	2009
Accumulated impairment at beginning of year	\$ (7)	\$ (3)
Impairment losses	(8)	(4)
Accumulated impairment at end of year	\$ (15)	\$ (7)

## 14. INCOME TAXES

The major components of income tax expense for the year ended December 31, 2010 and December 31, 2009 are set out below:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2010	2009
Total current income tax	\$ 97	\$ (5)
Deferred income tax expense / (recovery)		
Origination and reversal of temporary differences	\$ 60	\$ (292)
Expense / (recovery) arising from previously unrecognized tax assets	(15)	13
Change of tax rates and imposition of new legislation	(2)	(8)
Total deferred income tax	\$ 43	\$ (287)

The company's effective tax rate is different from the company's domestic statutory income tax rate due to the differences set out below:

	2010	2009
Statutory income tax rate	31%	33%
Increase (reduction) in rate resulting from:		
Portion of income not subject to tax	(7)	(4)
International operations subject to different tax rates	(14)	(3)
Change in tax rates on temporary differences	1	(2)
Derecognition of future tax assets/(liabilities)	(6)	2
Non-recognition of the benefit of current year's tax losses	1	(5)
Other	(1)	(2)
Effective income tax rate	5%	19%

The following chart details the expiry date, if applicable, of the unrecognized deferred tax assets:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
2010	\$ —	\$ 5	\$ —
2011	—	—	5
2012	—	—	—
2013	—	—	—
2014	1	29	—
2015	8	15	29
After 2020	284	257	205
Do not expire	519	432	432
Total	\$ 812	\$ 738	\$ 671

The dividend payment on certain preferred shares of the company results in the payment of cash taxes and the company obtaining a deduction based on the amount of these taxes.

Deferred income tax assets and liabilities as at December 31, 2010, December 31, 2009 and January 1, 2009 relate to the following:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Non-capital losses (Canada)	\$ 578	\$ 433	\$ 215
Capital losses (Canada)	171	129	82
Losses (U.S.)	360	165	177
Losses (International)	634	273	237
Difference in basis	(4,929)	(4,778)	(4,475)
Total net deferred tax liability	\$ (3,186)	\$ (3,778)	\$ (3,764)

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Deferred income tax asset	\$ 1,784	\$ 1,454	\$ 984
Deferred income tax liability	(4,970)	(5,232)	(4,748)
Total net deferred tax liability	\$ (3,186)	\$ (3,778)	\$ (3,764)

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2010 is \$4,164 million (December 31, 2009 – \$2,497 million; January 1, 2009 – \$5,999 million).

The company regularly assesses the status of open tax examinations and its historical tax filing positions for the potential for adverse outcomes to determine the adequacy of the provision for income and other taxes. The company believes that it has adequately provided for any tax adjustments that are more likely than not to occur as a result of ongoing tax examinations or historical filing positions.

## 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Accounts payable	\$ 4,581	\$ 3,697	\$ 3,912
Other liabilities	5,753	4,130	3,065
Total	\$ 10,334	\$ 7,827	\$ 6,977

The current and non-current balances of accounts payable and other liabilities are as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current	\$ 6,482	\$ 4,567	\$ 3,812
Non-current	3,852	3,260	3,165
Total	\$ 10,334	\$ 7,827	\$ 6,977

Included in accounts payable and other liabilities are \$1,286 million (2009 – \$946 million) and \$633 million (2009 – \$592 million) of accounts payable and deferred revenue, respectively, related to the company's residential development operations. Accounts payable includes \$598 million (2009 – \$826 million) of insurance deposits, claims and other liabilities incurred by the company's insurance subsidiaries. Other liabilities also includes the consolidation of Prime Infrastructure's \$1,859 million of liabilities associated with assets that are classified as held-for-sale (see Note 4 and Note 6).

## 16. CORPORATE BORROWINGS

(MILLIONS)	Maturity	Annual Rate	Currency	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
<b>Term debt</b>						
Public – U.S.	Mar. 1, 2010	5.75%	US\$	\$ —	\$ 200	\$ 200
Public – U.S.	Jun. 15, 2012	7.13%	US\$	350	350	350
Private – U.S.	Oct. 23, 2012	6.40%	US\$	75	75	75
Private – U.S.	Oct. 23, 2013	6.65%	US\$	75	75	75
Private – Canadian	Apr. 30, 2014	6.26%	C\$	33	35	—
Private – Canadian	Jun. 2, 2014	8.95%	C\$	501	475	—
Public – Canadian	Sept. 8, 2016	5.20%	C\$	301	—	—
Public – U.S.	Apr. 25, 2017	5.80%	US\$	240	240	250
Public – Canadian	Apr. 25, 2017	5.29%	C\$	250	238	205
Public – Canadian	Mar. 1, 2021	5.30%	C\$	351	—	—
Public – U.S.	Mar. 1, 2033	7.38%	US\$	250	250	250
Public – Canadian	Jun. 14, 2035	5.95%	C\$	301	285	246
Commercial paper through bank borrowings		L + 50 b.p.	US\$/C\$	199	388	649
Deferred financing costs <sup>1</sup>				(21)	(18)	(16)
<b>Total</b>				<b>\$ 2,905</b>	<b>\$ 2,593</b>	<b>\$ 2,284</b>

1. Deferred financing costs are amortized to interest expense over the term of the borrowing following the effective interest method  
L-One month LIBOR, b.p. - Basis Points

Corporate borrowings have a weighted average interest rate of 5.5% (2009 – 5.9%), and include \$1,832 million (2009 – \$1,099 million) repayable in Canadian dollars of C\$1,829 million (2009 – C\$1,157 million).

## 17. NON-RECOURSE BORROWINGS

### (a) Property-Specific Mortgages

Principal repayments on property-specific mortgages due over the next five calendar years and thereafter are as follows:

(MILLIONS)	Renewable Power Generation	Commercial Properties	Infrastructure	Development Activities	Other	Total Annual Payments
2011	\$ 127	\$ 2,091	\$ 643	\$ 1,289	\$ 181	\$ 4,331
2012	—	1,862	314	497	395	3,068
2013	603	2,357	750	413	89	4,212
2014	236	1,155	491	221	333	2,436
2015	475	259	433	90	6	1,263
Thereafter	2,393	2,965	1,832	116	838	8,144
<b>Total – Dec. 31, 2010</b>	<b>\$ 3,834</b>	<b>\$ 10,689</b>	<b>\$ 4,463</b>	<b>\$ 2,626</b>	<b>\$ 1,842</b>	<b>\$ 23,454</b>
Total – Dec. 31, 2009	\$ 3,861	\$ 9,481	\$ 1,978	\$ 2,377	\$ 2,015	\$ 19,712
Total – Jan. 1, 2009	\$ 3,353	\$ 8,977	\$ 1,582	\$ 2,438	\$ 1,458	\$ 17,808

The current and non-current balances of property-specific mortgages are as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current	\$ 4,331	\$ 2,639	\$ 2,626
Non-current	19,123	17,073	15,182
<b>Total</b>	<b>\$ 23,454</b>	<b>\$ 19,712</b>	<b>\$ 17,808</b>

Property-specific mortgages by currency include:

(MILLIONS)	Dec. 31, 2010	Local Currency	Dec. 31, 2009	Local Currency	Jan. 1, 2009	Local Currency
U.S. dollars	\$ 9,490	US\$ 9,490	\$ 9,641	US\$ 9,641	\$ 10,622	US\$ 10,622
Australian dollars	5,320	A\$ 5,199	2,865	A\$ 3,192	2,021	A\$ 2,867
Canadian dollars	3,785	C\$ 3,779	3,433	C\$ 3,612	2,861	C\$ 3,493
Brazilian reais	3,215	R\$ 5,356	2,397	R\$ 4,174	1,431	R\$ 3,344
British pounds	1,380	£ 884	1,201	£ 743	725	£ 496
New Zealand dollars	257	N\$ 329	120	N\$ 166	101	N\$ 171
European Union euros	7	€ 5	55	€ 38	47	€ 32
<b>Total</b>	<b>\$ 23,454</b>		<b>\$ 19,712</b>		<b>\$ 17,808</b>	

## (b) Subsidiary Borrowings

Principal repayments on subsidiary borrowings due over the next five calendar years and thereafter are as follows:

(MILLIONS)	Renewable Power Generation	Commercial Properties	Infrastructure	Development Activities	Other	Total Annual Payments
2011	\$ 56	\$ 308	\$ 25	\$ 191	\$ 40	\$ 620
2012	—	10	112	—	283	405
2013	—	261	1	87	134	483
2014	—	—	1	—	1	2
2015	—	—	—	—	1,149	1,149
Thereafter	1,096	—	9	—	243	1,348
<b>Total – Dec. 31, 2010</b>	<b>\$ 1,152</b>	<b>\$ 579</b>	<b>\$ 148</b>	<b>\$ 278</b>	<b>\$ 1,850</b>	<b>\$ 4,007</b>
Total – Dec. 31, 2009	\$ 1,144	\$ 551	\$ —	\$ 475	\$ 1,630	\$ 3,800
Total – Jan. 1, 2009	\$ 652	\$ 831	\$ 140	\$ 462	\$ 1,576	\$ 3,661

The current and non-current balances of subsidiary borrowings are as follows:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current	\$ 620	\$ 867	\$ 1,175
Non-current	3,387	2,933	2,486
<b>Total</b>	<b>\$ 4,007</b>	<b>\$ 3,800</b>	<b>\$ 3,661</b>

Subsidiary borrowings by currency include:

(MILLIONS)	Dec. 31, 2010	Local Currency	Dec. 31, 2009	Local Currency	Jan. 1, 2009	Local Currency
U.S. dollars	\$ 1,907	US\$ 1,907	\$ 1,860	US\$ 1,860	\$ 1,933	US\$ 1,933
Canadian dollars	1,301	C\$ 1,298	1,191	C\$ 1,253	955	C\$ 1,166
Australian dollars	511	A\$ 499	588	A\$ 655	760	A\$ 1,078
British pounds	157	£ 100	161	£ 100	9	£ 6
New Zealand dollars	112	N\$ 144	—	N\$ —	—	N\$ —
Brazilian reais	19	R\$ 32	—	R\$ —	4	R\$ 9
<b>Total</b>	<b>\$ 4,007</b>		<b>\$ 3,800</b>		<b>\$ 3,661</b>	

## 18. CAPITAL SECURITIES

Capital securities are classified as liabilities and consist of the following:

(MILLIONS)	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Corporate preferred shares	(a)	\$ 669	\$ 632	\$ 543
Subsidiary preferred shares	(b)	1,038	1,009	882
<b>Total</b>		<b>\$ 1,707</b>	<b>\$ 1,641</b>	<b>\$ 1,425</b>

## (a) Corporate Preferred Shares

(MILLIONS EXCEPT SHARE INFORMATION)	Shares Outstanding	Description	Cumulative Dividend Rate	Currency	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class A preferred shares	10,000,000	Series 10	5.75%	C\$	\$ 251	\$ 238	\$ 205
	4,032,401	Series 11	5.50%	C\$	101	96	83
	7,000,000	Series 12	5.40%	C\$	175	166	143
	6,000,000	Series 21	5.00%	C\$	150	142	123
Deferred financing costs					(8)	(10)	(11)
<b>Total</b>					<b>\$ 669</b>	<b>\$ 632</b>	<b>\$ 543</b>

Subject to 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 common shares at a price equal to the greater of 95% of the market price at the time of conversion and C\$2.00, at the option of either the company or the holder, at any time after the following dates:

CLASS A PREFERRED SHARES	Earliest Permitted Redemption Date	Company's Conversion Option	Holder's Conversion Option
Series 10	Sept. 30, 2008	Sept. 30, 2008	Mar. 31, 2012
Series 11	Jun. 30, 2009	Jun. 30, 2009	Dec. 31, 2013
Series 12	Mar. 31, 2014	Mar. 31, 2014	Mar. 31, 2018
Series 21	Jun. 30, 2013	Jun. 30, 2013	Jun. 30, 2013

## (b) Subsidiary Preferred Shares

(MILLIONS, EXCEPT SHARE INFORMATION)	Shares Outstanding	Description	Cumulative Dividend Rate	Currency	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class AAA preferred shares of Brookfield Office Properties	8,000,000	Series F	6.00%	C\$	\$ 200	\$ 190	\$ 164
	4,400,000	Series G	5.25%	US\$	110	110	110
	8,000,000	Series H	5.75%	C\$	200	190	164
	7,130,228	Series I	5.20%	C\$	179	190	164
	8,000,000	Series J	5.00%	C\$	200	190	164
	6,000,000	Series K	5.20%	C\$	151	143	123
Deferred financing costs					(2)	(4)	(7)
<b>Total</b>					<b>\$ 1,038</b>	<b>\$ 1,009</b>	<b>\$ 882</b>

The subsidiary preferred shares are redeemable at the option of either the issuer or the holder, at any time after the following dates:

CLASS AAA PREFERRED SHARES	Earliest Permitted Redemption Date	Company's Conversion Option	Holder's Conversion Option
Series F	Sept. 30, 2009	Sept. 30, 2009	Mar. 31, 2013
Series G	Jun. 30, 2011	Jun. 30, 2011	Sept. 30, 2015
Series H	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2015
Series I	Dec. 31, 2008	Dec. 31, 2008	Dec. 31, 2010
Series J	Jun. 30, 2010	Jun. 30, 2010	Dec. 31, 2014
Series K	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2016

## 19. INTERESTS OF OTHERS IN FUNDS

Interests of others in funds is classified outside of equity and is comprised of the following:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Redeemable fund units	\$ 1,355	\$ 899	\$ 283
Limited life funds	207	122	265
	<b>\$ 1,562</b>	<b>\$ 1,021</b>	<b>\$ 548</b>

Redeemable fund units represent the interests of others in the company's Canadian Renewable Power Fund, whose units have a redemption feature allowing holders to redeem their units from the Fund for an amount based on the market price of the units. These interests are measured at the redemption amount at the balance sheet date with changes in value recorded in net income in the period of change. A maximum of \$0.3 million may be redeemed in one single month for cash cumulatively by all holders and the Fund may satisfy additional redemptions through the issuance of notes in lieu of cash which are redeemable at the option of the Fund.

Limited life funds represent the interests of others in the company's consolidated funds that have a defined maximum fixed life where the company has an obligation to distribute the residual interests of the fund to non-controlling interests based on their proportionate share of the fund's equity in the form of cash or other financial assets at cessation of the fund's life. The increase or decrease in the amount of the liability resulting from the operations of the fund that is attributable to others is recorded in net income in the period of the change.

## 20. EQUITY

Equity is comprised of the following:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Preferred equity	\$ 1,658	\$ 1,144	\$ 870
Non-controlling interests	14,739	10,186	8,038
Common equity	12,795	11,809	11,267
	<b>\$ 29,192</b>	<b>\$ 23,139</b>	<b>\$ 20,175</b>

### (a) Preferred Equity

Preferred equity represents perpetual preferred shares and consists of the following:

(MILLIONS, EXCEPT SHARE INFORMATION)	Rate	Issued and Outstanding		Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
		2010	2009			
Class A preferred shares						
Series 2	70% P	10,465,100	10,465,100	\$ 169	\$ 169	\$ 169
Series 4	70% P/8.5%	2,800,000	2,800,000	45	45	45
Series 8	Variable up to P	1,805,948	1,805,948	29	29	29
Series 9	4.35%	2,194,052	2,194,052	35	35	35
Series 13	70% P	9,297,700	9,297,700	195	195	195
Series 15	B.A. + 40 b.p. <sup>1</sup>	2,000,000	2,000,000	42	42	42
Series 17	4.75%	8,000,000	8,000,000	174	174	174
Series 18	4.75%	8,000,000	8,000,000	181	181	181
Series 22	7.00%	12,000,000	12,000,000	274	274	—
Series 24	5.40%	11,000,000	—	269	—	—
Series 26	4.50%	10,000,000	—	245	—	—
Total				<b>\$ 1,658</b>	<b>\$ 1,144</b>	<b>\$ 870</b>

1. Rate determined in a quarterly auction  
P – Prime Rate, B.A. – Bankers' Acceptance Rate, b.p. – Basis Points

The company is authorized to issue an unlimited number of Class A preferred shares and an unlimited number of Class AA preferred shares, issuable in series. No Class AA preferred shares have been issued.

The Class A preferred shares have preference over the Class AA preferred shares, which in turn are entitled to preference over the Class A and Class B common shares on the declaration of dividends and other distributions to shareholders. All series of the outstanding preferred shares have a par value of C\$25 per share.

In February 2011, the company issued 9,400,000 Class A Series 28, 4.6% preferred shares for cash proceeds of C\$235 million, and incurred transaction costs of C\$7 million.

### (b) Non-controlling interests

Non-controlling interests represent the common and preferred equity in consolidated entities that is owned by other shareholders.

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Common equity	\$ 13,802	\$ 9,798	\$ 7,916
Preferred equity	937	388	122
<b>Total</b>	<b>\$ 14,739</b>	<b>\$ 10,186</b>	<b>\$ 8,038</b>

Non-controlling interests in common and preferred equity increased by \$4,553 and \$2,148 million during 2010 and 2009 respectively, primarily as a result of equity issuances in the company's consolidated subsidiaries, the consolidation of net assets acquired through business combinations and the non-controlling interests' share of comprehensive income.

### (c) Common Equity

The company's common share capital is comprised of the following:

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class A and B common shares	\$ 1,334	\$ 1,289	\$ 1,278
Contributed surplus	97	67	49
Retained earnings	4,627	3,560	4,760
Disposition gains	187	117	—
Accumulated other comprehensive income	6,550	6,776	5,180
<b>Common equity</b>	<b>\$ 12,795</b>	<b>\$ 11,809</b>	<b>\$ 11,267</b>

The company is authorized to issue an unlimited number of Class A Limited Voting Shares ("Class A common shares") and 85,120 Class B Limited Voting Shares ("Class B common shares"), together referred to as common shares. The company's common shares have no stated par value. The holders of Class A common shares and Class B common shares rank on parity with each other with respect to the payment of dividends and the return of capital on the liquidation, dissolution or winding up of the company or any other distribution of the assets of the company among its shareholders for the purpose of winding up its affairs. With respect to the Class A and Class B common shares, there are no dilutive factors, material or otherwise, that would result in different diluted earnings per share between the classes. This relationship holds true irrespective of the number of dilutive instruments issued in either one of the respective classes of common stock, as both classes of common shares participate equally, on a pro rata basis, in the dividends, earnings and net assets of the company, whether taken before or after dilutive instruments, regardless of which class of common shares is diluted.

The number of shares issued and outstanding and unexercised options at December 31, 2010, December 31, 2009 and January 1, 2009 are as follows:

	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Class A common shares	577,578,573	572,782,819	572,479,652
Class B common shares	85,120	85,120	85,120
	<b>577,663,693</b>	<b>572,867,939</b>	<b>572,564,772</b>
Unexercised options	38,401,076	34,883,426	27,761,269
<b>Total diluted common shares</b>	<b>616,064,769</b>	<b>607,751,365</b>	<b>600,326,041</b>



The authorized common share capital consists of an unlimited number of common voting shares. Common shares issued and outstanding changed as follows:

	Dec. 31, 2010	Dec. 31, 2009
Outstanding at beginning of year	572,867,939	572,564,772
Shares issued (repurchased)		
Dividend reinvestment plan	112,876	178,962
Management share option plan	4,681,614	1,622,444
Repurchases	—	(1,498,249)
Other	1,264	10
Outstanding at end of year	577,663,693	572,867,939

In January 2011, the company issued 27,500,000 Class A common shares in connection with the \$1.7 billion acquisition of General Growth Properties common shares. In February 2011, the company issued 17,595,000 Class A common shares for cash proceeds of C\$578 million pursuant to a public equity offering.

## (i) 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)	2010	2009
Net income (loss) available to common shareholders	\$ 1,454	\$ (836)
Preferred share dividends	(75)	(43)
Net income (loss) available to common shareholders – basic	1,379	(879)
Capital securities dividends <sup>1</sup>	36	—
Net income (loss) available for common shareholders – diluted	\$ 1,415	\$ (879)

(MILLIONS)

Weighted average – common shares	574.9	572.2
Dilutive effect of the conversion of options using treasury stock method	9.6	—
Dilutive effect of the conversion of capital securities <sup>1,2</sup>	23.0	—
Common shares and common share equivalents	607.5	572.2

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 common shares at a price equal to the greater of 95% at the market price at the time of conversion and C\$2.00, at the option of either the company or the holder
2. The number of shares is based on 95% of the quoted market price at year-end

## (ii) Stock-Based Compensation

The expense recognized for stock-based compensation is summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2010	2009
Expense arising from equity-settled share-based payment transactions	\$ 46	\$ 34
Expense arising from cash-settled share-based payment transactions	163	81
Total expense arising from share-based payment transactions	209	115
Effect of hedging program	(149)	(82)
Total expense included in consolidated results	\$ 60	\$ 33

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2010.

### Management Share Option Plan (“MSOP”)

Options issued under the company's Management Share Option Plan (“MSOP”) vest over a period of up to five years, expire 10 years after the grant date, and are settled through issuance of Class A Limited Voting Shares. The exercise price is equal to the market price at the grant date.

The changes in the number of options during 2010 and 2009 were as follows:

	Number of Options (000's) <sup>1</sup>	Weighted Average Exercise Price	Number of Options (000's) <sup>2</sup>	Weighted Average Exercise Price
Outstanding at January 1, 2010	34,883	C\$ 19.11	—	US\$ —
Granted	—	—	8,873	23.39
Exercised	(4,682)	9.51	—	—
Cancelled	(565)	26.83	(108)	23.18
Outstanding at December 31, 2010	29,636	C\$ 20.48	8,765	US\$ 23.39

- Options to acquire TSX listed Class A Common shares
- Options to acquire NYSE listed Class A Common shares

	Number of Options (000's) <sup>1</sup>	Weighted Average Exercise Price
Outstanding at January 1, 2009	27,761	C\$ 17.12
Granted	10,155	17.78
Exercised	(1,623)	7.76
Cancelled	(1,410)	32.37
Outstanding at December 31, 2009	34,883	C\$ 19.11

- Options to acquire TSX listed Class A Common shares

The cost of the options granted during the period was determined using the Black-Scholes model of valuation, with inputs to the model as follows:

	Unit	2010	2009
Weighted average share price	US\$	23.39	14.31
Average term to exercise	Years	7.5	7.5
Share price volatility <sup>1</sup>	%	32.7	32.1
Liquidity discount	%	25.0	25.0
Weighted average expected annual dividend yield	%	2.2	3.7
Risk-free rate	%	3.0	2.3

- Share price volatility was determined based on historical share prices over a similar period to the term exercise

At December 31, 2010, the following options to purchase Class A common shares were outstanding:

Exercise Price	Weighted Average Remaining Life	Options Outstanding (000's)		
		Vested	Unvested	Total
C\$7.61 – C\$9.76	1.4 years	4,715	—	4,715
C\$13.37 – C\$19.03	7.1 years	4,413	7,717	12,130
C\$20.21 – C\$30.22	4.7 years	6,566	760	7,326
C\$31.62 – C\$46.59	6.7 years	2,687	2,778	5,465
US\$23.18 – US\$30.64	9.2 years	—	8,765	8,765
		18,381	20,020	38,401

## Restricted Share Unit (“RSU”) Plan

A Restricted Share Unit Plan provides for the issuance of DSUs, as well as Restricted Share Units (“RSUs”). Under this plan, qualifying employees and directors receive varying percentages of their annual incentive bonus or directors’ fees in the form of DSUs. The DSUs and RSUs vest over periods of up to five years, and DSUs accumulate additional DSUs at the same rate as dividends on common shares based on the market value of the common shares at the time of the dividend. Participants are not allowed to convert DSUs and RSUs into cash until retirement or cessation of employment. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the RSUs, when converted into cash, will be equivalent to the difference between the market price of equivalent number of common shares at the time the conversion takes place and the market price on the date the RSUs are granted. The company uses equity derivative contracts to offset its exposure to the change in share prices in respect of vested and unvested DSUs and RSUs. The fair value of the vested DSUs and RSUs as at December 31, 2010 was \$374 million (December 31, 2009 – \$231 million; January 1, 2009 – \$145 million).

Employee compensation expense for these plans is charged against income over the vesting period of the DSUs and RSUs. The amount payable by the company in respect of vested DSUs and RSUs changes as a result of dividends and share price movements. All of the amounts attributable to changes in the amounts payable by the company are recorded as employee compensation expense in the period of the change, and for the year ended December 31, 2010, including those of operating subsidiaries, totalled \$13 million (2009 – \$1 million), net of the impact of hedging arrangements.

The change in the number of DSUs and RSUs during 2010 and 2009 was as follows:

	DSUs	RSUs	
	Number of Units (000's)	Number of Units (000's)	Weighted Average Exercise Price
Outstanding at January 1, 2010	6,540	8,142	C\$ 13.49
Granted and reinvested	635	—	—
Exercised	(621)	(112)	8.83
Cancelled	(23)	—	—
Outstanding at December 31, 2010	6,531	8,030	C\$ 13.56

	DSUs	RSUs	
	Number of Units (000's)	Number of Units (000's)	Weighted Average Exercise Price
Outstanding at January 1, 2009	6,202	9,331	C\$ 13.59
Granted and reinvested	956	—	—
Exercised	(581)	(949)	13.29
Cancelled	(37)	(240)	18.12
Outstanding at December 31, 2009	6,540	8,142	C\$ 13.49

The fair value of DSUs is equal to the traded price of the company’s common shares.

The fair value of RSUs was determined using the Black-Scholes model of valuation, with inputs to the model as follows:

	Unit	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Share price on date of measurement	C\$	33.20	23.37	18.55
Weighted average exercise price	C\$	13.56	13.49	13.50
Term to exercise	Years	11.2	12.2	13.2
Share price volatility	%	29.3	29.0	29.1
Weighted average of expected annual dividend yield	%	1.3	2.0	2.6
Risk-free rate	%	3.7	4.3	3.3
Weighted average fair value of a unit	C\$	20.62	12.02	7.38

## 21. REVENUES LESS DIRECT OPERATING COSTS

Direct operating costs include all attributable expenses except interest, depreciation and amortization, taxes and fair value changes. The details are as follows:

(MILLIONS)	2010			2009		
	Revenue	Expenses	Net	Revenue	Expenses	Net
Renewable power generation	\$ 1,138	\$ 390	\$ 748	\$ 1,114	\$ 337	\$ 777
Commercial properties	1,829	547	1,282	1,715	656	1,059
Infrastructure	656	435	221	314	219	95
Development activities	2,702	2,175	527	1,880	1,724	156
Private equity and finance	2,000	1,719	281	1,754	1,643	111
Cash, financial assets, fee revenues and other	347	102	245	280	71	209
Construction and property services	2,172	2,052	120	1,477	1,388	89
	<b>\$ 10,844</b>	<b>\$ 7,420</b>	<b>\$ 3,424</b>	<b>\$ 8,534</b>	<b>\$ 6,038</b>	<b>\$ 2,496</b>

## 22. FAIR VALUE CHANGES

Fair value changes consist of mark-to-market gains (losses) and are comprised of the following:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2010	2009
Investment property	\$ 835	\$ (888)
Timber	143	(34)
Infrastructure	405	—
Equity accounted investments	271	(779)
Power contracts	588	3
Redeemable units	(159)	(244)
Interest rate contracts	(58)	74
Other	(160)	(400)
	<b>\$ 1,865</b>	<b>\$ (2,268)</b>

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

The company's activities expose it to a variety of financial risks, including market risk (i.e. currency risk, interest rate risk, and other price risk), credit risk and liquidity risk. The company and its subsidiaries selectively use derivative financial instruments principally to manage these risks.

The aggregate notional amount of the company's derivative positions at December 31, 2010, December 31, 2009 and January 1, 2009 is as follows:

(MILLIONS)	Note	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Foreign exchange	(a)	\$ 6,463	\$ 2,220	\$ 3,607
Interest rates	(b)	9,523	5,287	4,385
Credit default swaps	(c)	84	365	2,465
Equity derivatives	(d)	790	567	417
		<b>\$ 16,860</b>	<b>\$ 8,439</b>	<b>\$ 10,874</b>
Commodity instruments	(e)			
Energy (GWh)		74,022	45,089	18,798
Natural gas (MMBtu – 000s)		16,990	20,811	17,295
Crude oil (bbls)		1,000	—	—

## (a) Foreign Exchange

The company held the following foreign exchange contracts with notional amounts at December 31, 2010, December 31, 2009 and January 1, 2009.

(MILLIONS)	Notional Amount (U.S. Dollars)			Average Exchange Rate		
	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
<b>Foreign exchange contracts</b>						
Australian dollars	\$ 2,282	\$ 389	\$ 1,053	0.96	0.81	0.67
Canadian dollars	984	192	278	1.01	0.95	0.82
British pounds	883	364	960	1.57	1.61	1.48
European Union euros	211	176	121	1.35	1.46	1.49
Danish kroner	164	54	—	0.18	0.19	—
Brazilian reais	181	3	249	1.73	1.75	1.92
New Zealand dollars	74	—	—	0.75	—	—
Japanese yen	28	—	—	79.23	—	—
<b>Cross currency interest rate swaps</b>						
Canadian dollars	366	569	669	0.73	0.79	0.67
Brazilian reais	174	—	136	1.60	—	1.71
Australian dollars	—	24	141	—	0.66	0.77
<b>Foreign exchange options</b>						
Australian dollars	640	449	—	1.05	0.73	—
Canadian dollars	431	—	—	1.14	—	—
British pounds	7	—	—	1.65	—	—
<b>Foreign currency futures</b>						
U.S. dollars	30	—	—	1.01	—	—
European Union euros	5	—	—	1.34	—	—
Japanese yen	3	—	—	80.50	—	—
	<b>\$ 6,463</b>	<b>\$ 2,220</b>	<b>\$ 3,607</b>			

Included in net income, are unrealized net losses on foreign currency derivative balances amounting to \$14 million (2009 – net gain of \$24 million) and included in the cumulative translation adjustment account in other comprehensive income are losses in respect of foreign currency contracts entered into for hedging purposes amounting to \$151 million (2009 – net gain of \$4 million).

## (b) Interest Rates

At December 31, 2010, the company held interest rate swap contracts having an aggregate notional amount of \$700 million (2009 – \$650 million). The company's subsidiaries held interest rate swap contracts having an aggregate notional amount of \$7,550 million (2009 – \$3,953 million). The company's subsidiaries held interest rate cap contracts with an aggregate notional amount of \$556 million (2009 – \$684 million), interest rate swaptions with an aggregate notional value of \$584 million (2009 – \$nil), bond forwards with an aggregate notional value of \$60 million (2009 – \$nil), and interest rate futures with an aggregate notional value of \$73 million (2009 – \$nil).

## (c) Credit Default Swaps

As at December 31, 2010, the company held credit default swap contracts with an aggregate notional amount of \$84 million (2009 – \$365 million). Credit default swaps are contracts which are designed to compensate the purchaser for any change in the value of an underlying reference asset, based on measurement in credit spreads, upon the occurrence of predetermined credit events. The company is entitled to receive payments in the event of a predetermined credit event for up to \$75 million (2009 – \$245 million) of the notional amount and could be required to make payments in respect of \$9 million (2009 – \$120 million) of the notional amount.

## (d) Equity Derivatives

At December 31, 2010, the company and its subsidiaries held equity derivatives with a notional amount of \$790 million (2009 – \$567 million) which includes a \$543 million (2009 – \$366 million) notional amount that hedges long-term compensation arrangements. The balance represents common equity positions established in connection with the company's investment activities. The fair value of these instruments was reflected in the company's consolidated financial statements at year-end.

## (e) Commodity Instruments

The company has entered into energy derivative contracts primarily to hedge the sale of generated power. The company endeavours to link forward electricity sale derivatives to specific periods in which it expects to generate electricity for sale. All energy derivative contracts are recorded at an amount equal to fair value and are reflected in the company's consolidated financial statements at year-end.

## Other Information Regarding Derivative Financial Instruments

The following table classifies derivatives elected for hedge accounting during the years ended December 31, 2010 and 2009 as either: cash flow hedges, net investment hedges or fair value hedges. Changes in the fair value of the effective portion of the hedge are recorded in either other comprehensive income or net income, depending on the hedge classification whereas, changes in the fair value of the ineffective portion of the hedge are recorded in net income:

AS AT AND FOR THE YEARS ENDED (MILLIONS)	2010			2009		
	Notional	Effective Portion	Ineffective Portion	Notional	Effective Portion	Ineffective Portion
Cash flow hedges <sup>1</sup>	\$ 6,192	\$ (41)	\$ 4	\$ 3,359	\$ 118	\$ 1
Net investment hedges	4,695	(151)	—	1,064	4	5
Fair value hedges	649	(5)	—	447	9	2
	<b>\$ 11,536</b>	<b>\$ (197)</b>	<b>\$ 4</b>	<b>\$ 4,870</b>	<b>\$ 131</b>	<b>\$ 8</b>

1. Notional amount does not include 2,476 GWh and 2,267 GWh of commodity derivatives at December 31, 2010 and December 31, 2009, respectively

The following table presents the change in fair values of the company's derivative positions during the years ended December 31, 2010 and 2009, for both derivatives that are fair value through profit or loss and derivatives that qualify for hedge accounting:

(MILLIONS)	Unrealized Gains During 2010	Unrealized Losses During 2010	Net Change During 2010	Net Change During 2009
Foreign exchange derivatives	\$ 40	\$ (205)	\$ (165)	\$ 28
Interest rate derivatives				
Interest rate swaps	66	(182)	(116)	219
Bond forwards	—	(2)	(2)	—
Interest rate caps	—	—	—	3
Interest rate swaptions	—	(1)	(1)	—
	66	(185)	(119)	222
Credit default swaps	1	(5)	(4)	(4)
Equity derivatives	374	(2)	372	19
Commodity derivatives	641	(105)	536	(30)
	<b>\$ 1,122</b>	<b>\$ (502)</b>	<b>\$ 620</b>	<b>\$ 235</b>

The following table presents the notional amounts underlying the company's derivative instruments by term to maturity as at December 31, 2010 and the comparative notional amounts at December 31, 2009 and January 1, 2009, for both derivatives that are fair value through profit or loss and derivatives that qualify for hedge accounting:

(MILLIONS)	Dec. 31, 2010				Dec. 31, 2009	Jan. 1, 2009
	< 1 year	1 to 5 years	> 5 years	Total Notional Amount	Total Notional Amount	Total Notional Amount
<b>Fair value through profit or loss</b>						
Foreign exchange derivatives	\$ 736	\$ 563	\$ 4	\$ 1,303	\$ 789	\$ 352
Interest rate derivatives						
Interest rate swaps	1,446	425	378	2,249	1,474	1,328
Interest rate swaptions	523	61	—	584	—	—
Interest rate caps	214	42	—	256	384	393
Interest rate futures	—	73	—	73	—	—
	2,183	601	378	3,162	1,858	1,721
Credit default swaps	—	75	9	84	365	2,465
Equity derivatives	76	487	212	775	557	409
	\$ 2,995	\$ 1,726	\$ 603	\$ 5,324	\$ 3,569	\$ 4,947
<b>Commodity instruments</b>						
Energy (GWh)	17,336	18,181	36,029	71,546	42,822	14,523
Natural gas (MMBtu – 000s)	4,056	12,934	—	16,990	20,811	17,295
Crude Oil (bbls)	500	500	—	1,000	—	—
<b>Elected for hedge accounting</b>						
Foreign exchange derivatives	\$ 4,975	\$ 185	\$ —	\$ 5,160	\$ 1,431	\$ 3,255
Interest rate derivatives						
Interest rate swaps	362	3,135	2,504	6,001	3,129	2,364
Bond forwards	60	—	—	60	—	—
Interest rate caps	300	—	—	300	300	300
	722	3,135	2,504	6,361	3,429	2,664
Equity derivatives	6	9	—	15	10	8
	\$ 5,703	\$ 3,329	\$ 2,504	\$ 11,536	\$ 4,870	\$ 5,927
<b>Commodity instruments</b>						
Energy (GWh)	1,362	1,114	—	2,476	2,267	4,275

## 24. MANAGEMENT OF RISKS ARISING FROM HOLDING FINANCIAL INSTRUMENTS

The company is exposed to the following risks as a result of holding financial instruments: market risk (i.e. interest rate risk, currency risk and other price risks that impact the fair values of financial instruments); credit risk; and liquidity risk. The following is a description of these risks and how they are managed:

### (a) Market Risk

Market risk is defined for these purposes as the risk that the fair value or future cash flows of a financial instrument held by the company will fluctuate because of changes in market prices. Market risk includes the risk of changes in interest rates, currency exchange rates and changes in market prices due to factors other than interest rates or currency exchange rates, such as changes in equity prices, commodity prices or credit spreads.

The company manages market risk from foreign currency assets and liabilities and the impact of changes in currency exchange rates and interest rates, by funding assets with financial liabilities in the same currency and with similar interest rate characteristics and holding financial contracts such as interest rate and foreign exchange derivatives to minimize residual exposures.

Financial instruments held by the company that are subject to market risk include other financial assets, borrowings, and derivative instruments such as interest rate, currency, equity and commodity contracts.

### ***Interest Rate Risk***

The observable impacts on the fair values and future cash flows of financial instruments that can be directly attributable to interest rate risk include changes in the net income from financial instruments whose cash flows are determined with reference to floating interest rates and changes in the value of financial instruments whose cash flows are fixed in nature.

The company's assets largely consist of long duration interest sensitive physical assets. Accordingly, the company's financial liabilities consist primarily of long-term fixed rate debt or floating rate debt that has been swapped with interest rate derivatives. These financial liabilities are, with few exceptions, recorded at their amortized cost. The company also holds interest rate caps to limit its exposure to increases in interest rates on floating rate debt that has not been swapped and holds interest rate contracts to lock in fixed rates on anticipated future debt issuances and as an economic hedge against the values of long duration interest sensitive physical assets that have not been otherwise matched with fixed rate debt.

The result of a 50-basis point increase in interest rates on the company's net floating rate assets and liabilities would have resulted in a corresponding decrease in net income before tax of \$29 million (2009 – \$33 million) on an annualized basis.

Changes in the value of fair value through profit or loss interest rate contracts are recorded in net income and changes in the value of contracts that are elected for hedge accounting together with changes in the value of available-for-sale financial instruments are recorded in other comprehensive income. The impact of a 10-basis point parallel increase in the yield curve on the aforementioned financial instruments is estimated to result in a corresponding increase in net income of \$6 million (2009 – \$4 million) and an increase in other comprehensive income of \$21 million (2009 – \$9 million), before tax for the year ended December 31, 2010.

### ***Currency Exchange Rate Risk***

Changes in currency rates will impact the carrying value of financial instruments denominated in currencies other than the U.S. dollar.

The company holds financial instruments with net unmatched exposures in several currencies, changes in the translated value of which are recorded in net income. The impact of a 1% increase in the U.S. dollar against these currencies would have resulted in a \$7 million (2009 – \$8 million) increase in the value of these positions on a combined basis, of which \$6 million (2009 – \$12 million) relates to the Canadian dollar. The impact on cash flows from financial instruments would be insignificant. The company holds financial instruments to hedge the net investment in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would increase the value of these hedging instruments by \$52 million (2009 – \$14 million) as at December 31, 2010, which would be recorded in other comprehensive income and offset by changes in the U.S. dollar carrying value of the net investment being hedged.

### ***Other Price Risk***

Other price risk is the risk of variability in fair value due to movements in equity prices or other market prices such as commodity prices and credit spreads.

Financial instruments held by the company that are exposed to equity price risk include equity securities and equity derivatives. A 5% decrease in the market price of equity securities and equity derivatives held by the company, excluding equity derivatives in respect of compensation arrangements, would have decreased net income by \$55 million (2009 – \$27 million) and decreased other comprehensive income by \$5 million (2009 – \$7 million), prior to taxes. The company's liability in respect of equity compensation arrangements is subject to variability based on changes in the company's underlying common share price. The company holds equity derivatives to hedge almost all of the variability. A 5% change in the common equity price of the company in respect of compensation agreements would increase the compensation liability and compensation expense by \$24 million (2009 – \$16 million). This increase would be offset by a \$25 million (2009 – \$17 million) change in value of the associated equity derivatives of which \$24 million (2009 – \$16 million) would offset the above mentioned increase in compensation expense and the remaining \$1 million (2009 – \$1 million) would be recorded in other comprehensive income.



The company sells power and generation capacity under long-term agreements and financial contracts to stabilize future revenues. Certain of the contracts are considered financial instruments and are recorded at fair value in the financial statements, with changes in value being recorded in either net income or other comprehensive income as applicable. A 5% increase in energy prices would have decreased net income for the year ended December 31, 2010 by approximately \$113 million (2009 – \$21 million) and decreased other comprehensive income by \$6 million (2009 – \$4 million), prior to taxes. The corresponding increase in the value of the revenue or capacity being contracted, however, is not recorded in net income until subsequent periods.

The company held credit default swap contracts with a net notional amount of \$84 million (2009 – \$125 million) at December 31, 2010. The company is exposed to changes in the credit spread of the contracts' underlying reference asset. A 10-basis point increase in the credit spread of the underlying reference assets would have increased net income by \$0.3 million (2009 – \$0.3 million) for the year ended December 31, 2010, prior to taxes.

## **(b) Credit Risk**

Credit risk is the risk of loss due to the failure of a borrower or counterparty to fulfill its contractual obligations. The company's exposure to credit risk in respect of financial instruments relates primarily to counterparty obligations regarding derivative contracts, loans receivable and credit investments such as bonds and preferred shares.

The company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. Management evaluates and monitors counterparty credit risk for derivative financial instruments and endeavours to minimize counterparty credit risk through diversification, collateral arrangements, and other credit risk mitigation techniques. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of the company's derivative financial instruments involve either counterparties that are banks or other financial institutions in North America, the United Kingdom and Australia, or arrangements that have embedded credit risk mitigation features. The company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of loans receivable and credit investments is equal to the carrying value.

## **(c) Liquidity Risk**

Liquidity risk is the risk that the company cannot meet a demand for cash or fund an obligation as it comes due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price.

To ensure the company is able to react to contingencies and investment opportunities quickly, the company maintains sources of liquidity at the corporate and subsidiary level. The primary source of liquidity consists of cash and other financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

The company is subject to the risks associated with debt financing, including the ability to refinance indebtedness at maturity. The company believes these risks are mitigated through the use of long-term debt secured by high quality assets, maintaining debt levels that are in management's opinion relatively conservative, and by diversifying maturities over an extended period of time. The company also seeks to include in its agreements terms that protect the company from liquidity issues of counterparties that might otherwise impact the company's liquidity.

## **25. CAPITAL MANAGEMENT**

The capital of the company consists of the components of equity in the company's consolidated balance sheet (i.e. common and preferred equity) as well as the company's capital securities, which consist of corporate preferred shares that are convertible into common shares at the option of either the holder or the company. As at December 31, 2010, the recorded values of these items in the company's consolidated financial statements totalled \$15.1 billion (2009 – \$13.6 billion).

The company's objectives when managing this capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations, which includes maintaining investment-grade ratings at the corporate level, and providing shareholders with a prudent amount of leverage to enhance returns. Corporate leverage, which consists of corporate debt as well as subsidiary obligations that are guaranteed by

the company or are otherwise considered corporate in nature, totalled \$3.8 billion based on carrying values at December 31, 2010 (2009 – \$3.4 billion). The company monitors its capital base and leverage primarily in the context of its deconsolidated debt-to-total capitalization ratios based on the company's net tangible asset value. The ratio as at December 31, 2010 was 15% (2009 – 14%), which is within the company's target.

The consolidated capitalization of the company includes the capital and financial obligations of consolidated entities, including long-term property-specific financings, subsidiary borrowings, capital securities as well as common and preferred equity held by other investors in these entities. The capital in these entities is managed at the entity level with oversight by management of the company. The capital is managed with the objective of maintaining investment-grade levels in most circumstances and is, except in limited and carefully managed circumstances, without any recourse to the company. Management of the company also takes into consideration capital requirements of consolidated and non-consolidated entities that it has interests in when considering the appropriate level of capital and liquidity on a deconsolidated basis.

The company is subject to limited covenants in respect of its corporate debt and is in full compliance with all such covenants as at December 31, 2010. The company and its consolidated entities are also in compliance with all covenants and other capital requirements related to regulatory or contractual obligations of material consequence to the company.

## 26. POST-EMPLOYMENT BENEFITS

The company offers pension and other post employment benefit plans to employees of certain of its subsidiaries. The company's obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations. The benefit plans' income for 2010 was \$13 million (2009 – expense of \$15 million). The discount rate used was 6% (2009 – 6%) with an increase in the rate of compensation of 3% (2009 – 4%) and an investment rate of 7% (2009 – 8%).

(MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Plan assets	\$ 833	\$ 1,063	\$ 983
Less accrued benefit obligation:			
Defined benefit pension plan	(752)	(1,186)	(1,094)
Other post-employment benefits	(39)	(34)	(62)
Net asset (liability)	42	(157)	(173)
Less: Unamortized transitional obligations and net actuarial losses	27	264	291
Accrued benefit asset	\$ 69	\$ 107	\$ 118

## 27. JOINT OPERATIONS

The following amounts represent the company's proportionate interest in jointly controlled assets that are proportionately consolidated in the company's accounts:

AS AT AND YEARS ENDED (MILLIONS)	Dec. 31, 2010	Dec. 31, 2009	Jan. 1, 2009
Current assets	\$ 53	\$ 180	\$ 135
Long-term assets	3,536	2,016	2,766
Total assets	\$ 3,589	\$ 2,196	\$ 2,901
Current liabilities	\$ 278	\$ 68	\$ 408
Long-term liabilities	768	556	607
Total liabilities	\$ 1,046	\$ 624	\$ 1,015
Revenues	\$ 465	\$ 298	
Expenses	106	458	
Net income (loss)	\$ 359	\$ (160)	

## 28. SEGMENTED INFORMATION

The company's presentation of reportable segments is based on how management has organized the business in making operating and capital allocation decisions and assessing performance. The company has five reportable segments:

- Renewable power generation operations, which are predominantly hydroelectric power generating facilities on river systems in North America and Brazil;
- Commercial property operations, which are principally commercial office properties, retail properties and commercial developments located primarily in major North American, Australian, Brazilian and European cities;
- Infrastructure operations, which are predominantly utilities, transport and energy and timberland operations located in Australia, North America, Europe and South America;
- Development activities operations, which are principally residential development, opportunistic investing and homebuilding operations, located primarily in major North American, Brazilian and Australian cities; and
- Private equity and finance operations include the company's restructuring funds, real estate finance, bridge lending and other investments.

Non-operating assets, liabilities and related revenues, cash flows and net income (loss) are presented as cash, financial assets, fee revenues and other.

The following table disaggregates revenue, net income (loss), assets and liabilities by reportable segments:

AS AT AND FOR THE YEARS ENDED (MILLIONS)	Dec. 31, 2010				Dec. 31, 2009				Jan. 1, 2009	
	Revenue	Net Income	Assets	Liabilities	Revenue	Net Income	Assets	Liabilities	Assets	Liabilities
Renewable power generation	\$ 1,161	\$ 406	\$ 14,738	\$ 9,902	\$ 1,136	\$ (40)	\$ 15,081	\$ 9,771	\$ 14,013	\$ 7,823
Commercial properties	2,085	1,602	27,654	14,055	2,045	(687)	22,600	13,124	21,069	12,830
Infrastructure	867	538	13,695	8,446	420	(106)	6,395	3,039	4,870	2,456
Development activities	2,713	299	9,393	5,336	1,881	(53)	8,987	4,820	6,959	4,258
Private equity and finance	3,802	173	7,554	4,078	3,473	(47)	6,999	3,786	6,284	3,325
Cash, financial assets, fee revenues and other	2,995	177	5,097	7,122	2,263	(43)	4,903	7,286	4,431	6,759
	<b>\$ 13,623</b>	<b>\$ 3,195</b>	<b>\$ 78,131</b>	<b>\$ 48,939</b>	<b>\$ 11,218</b>	<b>\$ (976)</b>	<b>\$ 64,965</b>	<b>\$ 41,826</b>	<b>\$ 57,626</b>	<b>\$ 37,451</b>

Revenues, assets and liabilities by geographic segments are as follows:

AS AT AND FOR THE YEARS ENDED (MILLIONS)	Dec. 31, 2010			Dec. 31, 2009			Jan. 1, 2009	
	Revenue	Assets	Liabilities	Revenue	Assets	Liabilities	Assets	Liabilities
United States	\$ 5,069	\$ 28,122	\$ 18,100	\$ 4,743	\$ 27,083	\$ 19,429	\$ 27,227	\$ 19,437
Canada	2,607	17,440	12,053	2,399	15,917	10,143	14,542	8,732
Australia	2,034	16,813	10,028	1,660	7,706	4,292	5,654	3,820
Brazil	1,688	11,483	6,453	1,212	9,594	5,166	7,015	4,127
Europe	1,283	3,348	1,937	797	3,450	2,450	2,154	1,156
Other	942	925	368	407	1,215	346	1,034	179
	<b>\$ 13,623</b>	<b>\$ 78,131</b>	<b>\$ 48,939</b>	<b>\$ 11,218</b>	<b>\$ 64,965</b>	<b>\$ 41,826</b>	<b>\$ 57,626</b>	<b>\$ 37,451</b>

## 29. SUPPLEMENTAL CASH FLOW INFORMATION

YEARS ENDED DECEMBER 31 (MILLIONS)	2010	2009
<b>Corporate borrowings</b>		
Issuances	\$ 630	\$ 459
Repayments	(203)	(20)
Commercial paper and bank borrowings repayments, net of issuances	(193)	(333)
<b>Net</b>	<b>\$ 234</b>	<b>\$ 106</b>
<b>Property-specific mortgages</b>		
Issuances	\$ 3,141	\$ 2,239
Repayments	(3,455)	(2,810)
<b>Net</b>	<b>\$ (314)</b>	<b>\$ (571)</b>
<b>Other debt of subsidiaries</b>		
Issuances	\$ 744	\$ 1,302
Repayments	(1,104)	(1,661)
<b>Net</b>	<b>\$ (360)</b>	<b>\$ (359)</b>
<b>Common shares</b>		
Issuances	\$ 45	\$ 14
Repayments	—	(18)
<b>Net</b>	<b>\$ 45</b>	<b>\$ (4)</b>
<b>Investment property</b>		
Proceeds of dispositions	\$ 749	\$ 158
Investments	(1,370)	(701)
<b>Net</b>	<b>\$ (621)</b>	<b>\$ (543)</b>
<b>Renewable power generation</b>		
Proceeds of dispositions	\$ —	\$ —
Investments	(348)	(164)
<b>Net</b>	<b>\$ (348)</b>	<b>\$ (164)</b>
<b>Infrastructure</b>		
Proceeds of dispositions	\$ 69	\$ 314
Investments	(58)	(321)
<b>Net</b>	<b>\$ 11</b>	<b>\$ (7)</b>
<b>Private equity and finance</b>		
Proceeds of dispositions	\$ 116	\$ 36
Investments	(247)	(235)
<b>Net</b>	<b>\$ (131)</b>	<b>\$ (199)</b>
<b>Investments</b>		
Proceeds of dispositions	\$ —	\$ —
Investments	(442)	(859)
<b>Net</b>	<b>\$ (442)</b>	<b>\$ (859)</b>
<b>Other financial assets</b>		
Proceeds of disposition	\$ 1,328	\$ 1,160
Investments	(1,719)	(1,268)
<b>Net</b>	<b>\$ (391)</b>	<b>\$ (108)</b>

Cash taxes paid were \$141 million (2009 – \$19 million). Cash interest paid totalled \$1,784 million (2009 – \$1,581 million). Sustaining capital expenditures in the company's power generating operations were \$59 million (2009 – \$70 million), in its property operations were \$47 million (2009 – \$49 million) and in its infrastructure operations were \$22 million (2009 – \$13 million).

Included in cash and cash equivalents is \$1,188 million (December 31, 2009 – \$776 million) of cash and \$525 million of short-term deposits at December 31, 2010 (December 31, 2009 – \$533 million).

### **30. OTHER INFORMATION**

#### **(a) Commitments, Guarantees and Contingencies**

In the normal course of business, the company and its subsidiaries enter into contractual obligations which include commitments to provide bridge financing, letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations. At the end of 2010, the company and its subsidiaries had \$1,338 million (2009 – \$1,285 million) of such commitments outstanding of which \$147 million (2009 – \$244 million) is included in accounts payable and other liabilities in the consolidated balance sheets.

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.

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 further contingent events or circumstances applicable to the counterparty and therefore cannot be determined at this time.

The company and its subsidiaries are contingently liable with respect to litigation and claims that arise in the normal course of business.

The company has \$3.5 billion of insurance for damage and business interruption costs sustained as a result of an act of terrorism. However, a terrorist act could have a material effect on the company's assets to the extent damages exceed the coverage.

The company, through its subsidiaries within the residential properties operations, is contingently liable for obligations of its associates in its land development joint ventures. In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations, with the balance shared among the participants in accordance with predetermined joint venture arrangements.

#### **(b) Insurance**

The company conducts insurance operations as part of its activities. As at December 31, 2010, the company held insurance assets of \$473 million (2009 – \$709 million) in respect of insurance contracts that are accounted for using the deposit method which were offset in each year by an equal amount of reserves and other liabilities. During 2010, net underwriting gains on reinsurance operations were \$3 million (2009 – \$13 million) representing \$59 million (2009 – \$89 million) of premium and other revenues offset by \$56 million (2009 – \$102 million) of reserves and other expenses.

### (c) Compensation of Key Management Personnel

The remuneration of directors and other key management personnel of the company during the years ended December 31, 2010 and 2009 was as follows:

(MILLIONS)	2010	2009
Salaries, incentives and short-term benefits	\$ 4	\$ 3
Share-based payments	14	15
	<b>\$ 18</b>	<b>\$ 18</b>

The remuneration of directors and key executives is determined by the Compensation Committee having regard to the performance of individuals and market funds.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking information within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. The words, “potential,” “intend,” “grow,” “plan,” “seek,” “expect,” “believe,” “predict,” “project,” “estimate,” “anticipate,” “objective,” “continue,” “enable,” “expand,” “likely,” and derivations thereof and other expressions, including conditional verbs such as “will,” “can,” “may,” “might,” “could,” “would” and “should” are predictions of or indicate future events, trends or prospects or identify forward-looking statements. Forward-looking statements in this Annual Report include statements with respect to: our belief that we should record substantially increased cash flows as the recovery gains momentum, our economically sensitive businesses continue to recover and new operations start to fully contribute; our belief in continued growth in 2011, as well as a recovery in employment levels and the impact on our shorter cycle businesses; our objective to increase the intrinsic value of a Brookfield common share at a rate of 12% to 15% per annum when measured over the longer term; our belief that our business strategies should enable our shares to compound at a rate of between 12% and 15%; our expectation of growth opportunities with our investment in General Growth Properties, Inc., and our positive outlook on its long-term prospects; our ability to capitalize on organic growth opportunities over the next decade in Australia, Brazil and Canada, and our belief that such countries will continue to be excellent places to invest our capital; our belief in the recovery of the U.S. economy over the medium to longer term; our ability to organically expand our operations, achieve our goals for return on capital and make acquisitions at highly attractive long-term returns; the ability of Brookfield Infrastructure to increase distributions; our belief that Brookfield Office Properties will become a premier public security in the capital markets over the next five years; our belief that our Brazilian residential homebuilder is on track to achieve its best year ever as the Brazilian real estate market continues to prosper; the closing of the combination of BPO’s residential business with Brookfield Homes, as well as our belief in improvement in North American residential markets over the next few years and the ability of the combined entity to compete with large-scale developers; our ability to expand our agricultural activities in Brazil through our fund, and the long-term upside from our agricultural land operations; our focus on the balance sheet leading to greater stability of operating cash flows and safeguarding of our assets; our ability to raise private capital, including our expectations of availability; our ability to grow our asset management business and increase the level of base management fees, and our belief that our assets should become more appealing to investors over time; our expectation to expand our property, renewable power and infrastructure businesses and future cash flows with internal initiatives and new acquisitions; our expectation of a reduction in energy prices within our renewable power operations over the next few years; the potential growth in capital and fees over the next 10 years as reflected in our assessment of the value of our asset management franchise; our assumptions in valuing our tangible assets, including projected cash flows and discount rates; our unrecognized and deferred performance-based income in our asset management business; our expectation for having seven funds in the market over the next eighteen months for which we will be seeking more than \$4 billion of third-party capital; our development activities, including wind facilities in Canada and the United States and hydro facilities in Brazil; our objective to lock in the current lower yield interest rate environment and extend term to match fund our long-life assets; our ability to complete highly promising investment opportunities; our targeted returns; our expectation on when our development hydroelectric facilities and wind facilities will be commissioned; the scheduled completion of City Square office development in Australia; our ability to maintain or increase our net rental income in the coming years; our expectation for office development in Manhattan; our expectation of continued growth in net operating income and lower interest rates over time to result in favourable total returns for BRREP; our belief that our utilities business allows for stable growth and margin expansion; our expectation of stable revenues and margins that should increase with inflation and operational improvements, and continued growth, in our regulated utilities business; our belief that our transport and energy businesses are well positioned to benefit from increases in commodity demand and the global movement of goods; our ability to structure our financing arrangements to provide sufficient duration and flexibility to manage our investments with a longer-term horizon; our expectation that the receipt of performance-based income from our funds business will not result in any meaningful cash taxes; our assumption of growth in capital under management in our unlisted funds and managed listed issuers growing at a 10% growth rate over the next 10 years; our assumption of annualized gross margin of 150 basis points in our asset management operations, and our belief that we can add meaningfully to managed capital without a commensurate increase in expenses; future determination of our legal proceedings with AIG Financial Products; hedging of currency risks if we believe currency valuations are misaligned and to

protect shorter term capital flows; our belief that our asset management activities and business franchise will contribute to additional cash flow growth and enhancement of existing and future business activities; and other statements with respect to our beliefs, outlooks, plans, expectations, and intentions. Although Brookfield Asset Management believes that its anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: economic and financial conditions in the countries in which we do business; rate of recovery of the current financial crisis; the behaviour of financial markets, including fluctuations in interest and exchange rates; availability of equity and debt financing and refinancing; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; adverse hydrology conditions; the ability to continue to attract institutional investors to our funds; regulatory and political factors within the countries in which the company operates; tenant renewal rates; availability of new tenants to fill office property vacancies; tenant bankruptcies; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; and other risks and factors detailed from time to time in the company's form 40-F filed with the Securities and Exchange Commission as well as other documents filed by the company with the securities regulators in Canada and the United States including Management's Discussion and Analysis of Financial Results under the heading "Business Environment and Risks."

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