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, 2012, 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 concludes that, as of December 31, 2012, Brookfield's internal control over financial reporting is effective. Management excluded from its design and assessment of internal control over financial reporting Paradise Island Holdings Limited, Inexus Group Limited, Sociedad Concesionaria Vespucio Norte Express S.A., Verde Realty and Thakral Holdings Group, which were acquired during 2012, and whose total assets, net assets, total revenues and net income on a combined basis constitute approximately 7%, 5%, 4% and (1%), respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2012.

Brookfield's internal control over financial reporting as of December 31, 2012, has been audited by Deloitte LLP, the Independent Registered Chartered Accountants, who also audited Brookfield's consolidated financial statements for the year ended December 31, 2012. As stated in the Report of Independent Registered Chartered Accountants, Deloitte LLP expressed an unqualified opinion on the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2012.

Toronto, Canada	J. Bruce Flatt	Brian D. Lawson
March 28, 2013	Chief Executive Officer	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, 2012, 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 Paradise Island Holdings Limited ("Atlantis"), Inexus Group Limited ("Inexus"), Sociedad Concesionaria Vespucio Norte Express S.A. ("VNE"), Verde Realty ("Verde") and Thakral Holdings Group ("Thakral"), which were acquired during 2012, and whose total assets, net assets, total revenues and net income on a combined basis constitute approximately 7%, 5%, 4% and (1%), respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2012. Accordingly, our audit did not include the internal control over financial reporting at Atlantis, Inexus, VNE, Verde and Thakral. 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, 2012, 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, 2012 of the Company and our report dated March 28, 2013 expressed an unqualified opinion on those financial statements.

Toronto, Canada — Independent Registered Chartered Accountants
March 28, 2013 — 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 as issued by the International Accounting Standards Board and, where appropriate, reflect estimates based on management's judgment. The financial information presented throughout this Annual Report is generally consistent with the information contained in the accompanying consolidated financial statements.

Deloitte LLP, the Independent Registered Chartered Accountants appointed by the shareholders, have audited the consolidated financial statements set out on pages 87 through 144 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	J. Bruce Flatt	Brian D. Lawson
March 28, 2013	Chief Executive Officer	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, 2012 and December 31, 2011, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 judgment, 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 Brookfield Asset Management Inc. and subsidiaries as at December 31, 2012 and December 31, 2011, and their financial performance and their cash flows for the years then ended 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, 2012, 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 28, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

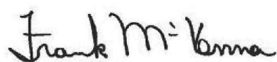
Toronto, Canada — Independent Registered Chartered Accountants
March 28, 2013 — Licensed Public Accountants

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(MILLIONS)	Note	**Dec. 31, 2012**	Dec. 31, 2011
Assets			
Cash and cash equivalents	28	**$ 2,844**	$ 2,027
Other financial assets	5	**3,111**	3,773
Accounts receivable and other	6	**6,945**	6,723
Inventory	7	**6,579**	6,060
Investments	8	**11,689**	9,401
Investment properties	9	**33,161**	28,366
Property, plant and equipment	10	**31,114**	22,832
Sustainable resources	11	**3,283**	3,155
Intangible assets	12	**5,764**	3,968
Goodwill	13	**2,490**	2,607
Deferred income tax assets	14	**1,664**	2,110
Total Assets		**$ 108,644**	$ 91,022
Liabilities and Equity			
Accounts payable and other	15	**$ 11,599**	$ 9,266
Corporate borrowings	16	**3,526**	3,701
Non-recourse borrowings			
Property-specific mortgages	17	**33,648**	28,415
Subsidiary borrowings	17	**7,585**	4,441
Deferred income tax liabilities	14	**6,419**	5,817
Capital securities	18	**1,191**	1,650
Interests of others in consolidated funds	19	**425**	333
Equity			
Preferred equity	20	**2,901**	2,140
Non-controlling interests	20	**23,190**	18,516
Common equity	20	**18,160**	16,743
Total equity		**44,251**	37,399
Total Liabilities and Equity		**$ 108,644**	$ 91,022

On behalf of the Board:



Frank J. McKenna, Director

George S. Taylor, Director

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	Note	**2012**	2011
Revenues	3, 29	**$ 18,697**	$ 15,921
Direct costs	21	**(13,909)**	(11,906)
Equity accounted income	8	**1,243**	2,205
Expenses			
Interest		**(2,497)**	(2,352)
Corporate costs		**(158)**	(168)
Valuation items			
Fair value changes	22	**1,150**	1,386
Depreciation and amortization		**(1,263)**	(904)
Income taxes	14	**(516)**	(508)
Net income		**$ 2,747**	$ 3,674
Net income attributable to:			
Shareholders		**$ 1,380**	$ 1,957
Non-controlling interests		**1,367**	1,717
		$ 2,747	$ 3,674
Net income per share:			
Diluted	20	**$ 1.97**	$ 2.89
Basic	20	**$ 2.02**	$ 3.00

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31 (MILLIONS)	Note	2012	2011
Net income		**$ 2,747**	$ 3,674
Other comprehensive income (loss)			
Valuation items			
Revaluations of property, plant and equipment		**1,491**	2,650
Financial contracts and power sale agreements		**(17)**	(855)
Available-for-sale securities		**7**	(68)
Equity accounted investments	8	**145**	193
		1,626	1,920
Foreign currency translation		**(111)**	(837)
Income taxes	14	**(434)**	(147)
Other comprehensive income		**1,081**	936
Comprehensive income		**$ 3,828**	$ 4,610
Attributable to:			
Shareholders			
Net income		**$ 1,380**	$ 1,957
Other comprehensive income		**517**	795
Comprehensive income		**$ 1,897**	$ 2,752
Non-controlling interests			
Net income		**$ 1,367**	$ 1,717
Other comprehensive income		**564**	141
Comprehensive income		**$ 1,931**	$ 1,858

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Common Share Capital	Contributed Surplus	Retained Earnings	Ownership Changes[1]	Accumulated Other Comprehensive Income: Revaluation Surplus	Accumulated Other Comprehensive Income: Currency Translation	Accumulated Other Comprehensive Income: Other Reserves	Common Equity	Preferred Equity	Non-controlling Interests	Total Equity
Balance as at December 31, 2011	$ 2,816	$ 125	$ 5,982	$ 475	$ 6,399	$ 1,456	$ (510)	$16,743	$ 2,140	$18,516	$37,399
Changes in year											
Net income	—	—	1,380	—	—	—	—	1,380	—	1,367	2,747
Other comprehensive income	—	—	—	—	491	(51)	77	517	—	564	1,081
Comprehensive income	—	—	1,380	—	491	(51)	77	1,897	—	1,931	3,828
Shareholder distributions											
Common equity	—	—	(340)	—	—	—	—	(340)	—	—	(340)
Preferred equity	—	—	(129)	—	—	—	—	(129)	—	—	(129)
Non-controlling interests	—	—	—	—	—	—	—	—	—	(708)	(708)
Other items											
Equity issuances, net of redemptions	39	—	(111)	—	—	—	—	(72)	761	2,896	3,585
Share-based compensation	—	24	—	—	—	—	—	24	—	41	65
Ownership changes	—	—	25	12	—	—	—	37	—	514	551
Total change in year	39	24	825	12	491	(51)	77	1,417	761	4,674	6,852
Balance as at December 31, 2012	$ 2,855	$ 149	$ 6,807	$ 487	$ 6,890	$ 1,405	$ (433)	$18,160	$ 2,901	$23,190	$44,251

1. Includes gains or losses on changes in ownership interests of consolidated subsidiaries

YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Common Share Capital	Contributed Surplus	Retained Earnings	Ownership Changes[1]	Accumulated Other Comprehensive Income: Revaluation Surplus	Accumulated Other Comprehensive Income: Currency Translation	Accumulated Other Comprehensive Income: Other Reserves	Common Equity	Preferred Equity	Non-controlling Interests	Total Equity
Balance as at December 31, 2010	$ 1,334	$ 97	$ 4,627	$ 187	$ 4,680	$ 1,899	$ (29)	$12,795	$ 1,658	$14,739	$29,192
Changes in accounting policies[2]	—	—	(8)	—	—	—	—	(8)	—	—	(8)
Changes in year											
Net income	—	—	1,957	—	—	—	—	1,957	—	1,717	3,674
Other comprehensive income	—	—	—	—	1,719	(443)	(481)	795	—	141	936
Comprehensive income	—	—	1,957	—	1,719	(443)	(481)	2,752	—	1,858	4,610
Shareholder distributions											
Common equity	—	—	(319)	—	—	—	—	(319)	—	—	(319)
Preferred equity	—	—	(106)	—	—	—	—	(106)	—	—	(106)
Non-controlling interests	—	—	—	—	—	—	—	—	—	(639)	(639)
Other items											
Equity issuances, net of redemptions	1,482	—	(169)	—	—	—	—	1,313	482	1,166	2,961
Share-based compensation	—	28	—	—	—	—	—	28	—	13	41
Ownership changes	—	—	—	228	—	—	—	288	—	1,379	1,667
Total change in year	1,482	28	1,363	288	1,719	(443)	(481)	3,956	482	3,777	8,215
Balance as at December 31, 2011	$ 2,816	$ 125	$ 5,982	$ 475	$ 6,399	$ 1,456	$ (510)	$16,743	$ 2,140	$18,516	$37,399

1. Includes gains or losses on changes in ownership interests of consolidated subsidiaries
2. See financial statement Note 2(c)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31 (MILLIONS)	Note	2012	2011
Operating activities			
Net income		$ 2,747	$ 3,674
Share of undistributed equity accounted earnings		(868)	(2,001)
Fair value changes		(1,150)	(1,386)
Depreciation and amortization		1,263	904
Deferred income taxes		381	411
		2,373	1,602
Investments in residential development		(861)	(543)
Net change in non-cash working capital balances		(15)	(279)
		1,497	780
Financing activities			
Corporate borrowings arranged		852	—
Corporate borrowings repaid		(782)	—
Commercial paper and bank borrowings, net		(321)	851
Property-specific mortgages arranged		6,698	5,393
Property-specific mortgages repaid		(6,539)	(5,298)
Other debt of subsidiaries arranged		5,655	2,373
Other debt of subsidiaries repaid		(3,641)	(1,645)
Capital securities redeemed		(506)	—
Capital provided by fund partners		103	142
Capital provided from non-controlling interests		3,681	1,913
Capital repaid to non-controlling interests		(785)	(889)
Distributions to non-controlling interests		(708)	(639)
Preferred equity issuances		737	468
Common shares issued		54	592
Common shares repurchased		(106)	(186)
Shareholder distributions		(469)	(425)
		3,923	2,650
Investing activities			
Acquisitions of investment properties		(2,123)	(1,423)
Dispositions of investment properties		1,037	1,462
Investments in property, plant and equipment		(3,544)	(1,952)
Dispositions of property, plant and equipment		106	45
Sustainable resources acquired		(21)	(95)
Sustainable resources disposed		2	2
Investments acquired		(1,585)	(1,715)
Investments disposed		373	121
Investments in other financial assets		(1,327)	(996)
Dispositions of other financial assets		2,215	1,287
Restricted cash and deposits		(13)	68
Acquisitions of subsidiaries, net of dispositions		318	115
		(4,562)	(3,081)
Cash and cash equivalents			
Change in cash and cash equivalents		858	349
Foreign exchange revaluation		(41)	(35)
Balance, beginning of year		2,027	1,713
Balance, end of year	29	$ 2,844	$ 2,027

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Brookfield Asset Management Inc. ("Brookfield" or the "company") is a global alternative asset management company. The company owns and operates assets with a focus on property, renewable power, infrastructure and private equity and residential development. 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 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These financial statements were authorized for issuance by the Board of Directors of the company on March 28, 2013.

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(s).

i. Subsidiaries

The consolidated financial statements include the accounts of the company and its subsidiaries, which are the entities over which the company exercises control. Subsidiaries are consolidated from the date 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 within equity on the Consolidated Balance Sheets. All intercompany balances, transactions, unrealized gains and losses are eliminated in full. Gains or losses resulting from 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 within ownership changes as a component of equity other than gains accumulated within revaluation surplus, a component of accumulated other comprehensive income, which are transferred directly to retained earnings.

The following is a list of the company's principal subsidiaries, which in the opinion of management significantly affects its financial position, indicating the jurisdiction of incorporation or formation and the percentage of voting securities owned, or over which control or direction is otherwise exercised directly or indirectly, by the company as at December 31, 2012:

	Jurisdiction of Formation	Voting Control (%)	Ownership (%)
Brookfield Office Properties Inc.	Canada	50.7%	50.7%
Brookfield Renewable Energy Partners L.P.	Bermuda	100.0%	68.0%
Brookfield Infrastructure Partners L.P.	Bermuda	100.0%	28.5%

ii. Associates

Associates are entities over which the company exercises significant influence. Significant influence is the ability to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. The company accounts for investments over which it has significant influence using the equity method of accounting within Investments on the Consolidated Balance Sheets.

Interests in investments accounted for using the equity method are initially recognized at cost. At the time of initial recognition, 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. Profit and losses resulting from transactions with an associate are recognized in the consolidated financial statements based on the interests of unrelated investors in the associate.

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 Investments on the Consolidated Balance Sheets.

c) Adoption of Accounting Standard

Income Taxes

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, effective for annual periods beginning on or after January 1, 2012, introduced 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 company has determined that the rebuttable presumption introduced by the amendments to IAS 12 has been overcome for most of its investment properties and has continued to measure deferred taxes on these assets on the basis that the carrying amount of investment properties will be recovered through use. The impact of these amendments on the consolidated financial statements was a reduction in retained earnings of $8 million as at January 1, 2011.

d) 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 accumulated as a component of equity. On the disposal of a foreign operation, or the loss of control or significant influence, the component of accumulated 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 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.

e) 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.

f) Related Party Transactions

In the normal course of operations, the company enters into various transactions on market terms with related parties, which have been measured at their exchange value and are recognized in the consolidated financial statements. Related party transactions are further described in Note 28. The company's principal subsidiaries are described in Note 2(b)(i) and its associates and jointly controlled entities are described in Note 8.

g) Operating Assets

i. Investment Properties

The company uses the fair value method to account for real estate classified as an investment property. A property is determined to be an investment property when it is principally held to earn either rental income or capital appreciation, or both. Investment properties also include properties that are under development or redevelopment 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 internal valuations. The company uses external valuations to assist in determining fair value, but external valuations are not necessarily indicative of fair value.

ii. Revaluation Method for Property, Plant and Equipment

The company uses the revaluation method of accounting for certain classes of property, plant and equipment as well as certain assets which are under development for future use as property, plant and equipment. 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 performed on an annual basis. Where the carrying amount of an asset increases 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 decreases, 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. Depreciation of an asset commences when it is available for use. On loss of control of an asset which utilizes the revaluation method, all accumulated revaluation surplus is transferred into retained earnings.

iii. Renewable Power Generation

Renewable power generating assets, including assets under development, 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 generating assets using a discounted cash flow model, which include 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 20 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
Dams	Up to 115
Penstocks	Up to 60
Powerhouses	Up to 115
Hydroelectric generating units	Up to 115
Wind generating units	Up to 22
Other assets	Up to 60

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

iv. Sustainable Resources

Sustainable resources consist of standing timber and other agricultural assets and are measured at fair value after deducting the estimated selling costs and are recorded in Sustainable resources 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 using the present value of anticipated future cash flows for standing timber before tax and an annual terminal date of 90 years. 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 of its standing timber using external valuations on an annual basis.

The fair value of agricultural assets is determined using discounted future cash flows, generally over a term of 10 years.

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 and other agricultural assets are accounted for using the revaluation method and included in property, plant and equipment.

v. Utilities, Transport and Energy

Utilities, transport and energy assets as well as assets under development 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 using a discounted cash flow model, which includes estimates of forecasted revenue, operating costs, maintenance and other capital expenditures. 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.

Public service concessions that provide the right to charge users for a service in which the service and fee is regulated by the grantor are accounted for as intangible assets.

vi. Other Property, Plant and Equipment

The company accounts for its other property, plant and equipment using the revaluation method or the cost model, depending on the nature of the asset and the operating segment. Other 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. Under the cost method, 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.

vii. Residential Development

Residential development lots, homes and residential condominium projects 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.

viii. 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 recognized on their trade date and initially recorded at fair value with changes in fair value recorded in net income or other comprehensive income in accordance with their classification. The company assesses the carrying value of available-for-sale securities for impairment when there is objective evidence that the asset is impaired. When an impairment is recorded, the cumulative loss in other comprehensive income is reclassified to net income.

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 recorded for in net income in the period in which they arise.

h) Asset Impairment

At each balance sheet date the company assesses whether its assets, other than those measured at fair value with changes in value recorded in net income, have any indication of impairment. 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 the Consolidated Statements of Operations and within accumulated depreciation or cost for depreciable and non-depreciable assets, respectively, in the Consolidated Balance Sheets. 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 its recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

i) 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.

j) 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.

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.

Intangible assets are evaluated for impairment annually or more often if events or circumstances indicate there may be an impairment. Any impairment of the company's intangible assets is recorded in net income in the period in which the impairment is identified. Impairment losses on intangible assets may be subsequently reversed in net income.

k) Goodwill

Goodwill represents the excess of the price paid 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 an 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 and 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 recorded in income in the period in which the impairment is identified. Impairment losses on goodwill are not subsequently reversed.

l) Interests of others in consolidated funds

Interest of others in limited life funds and redeemable fund units are classified as liabilities and recorded at fair value within Interests of Others in Consolidated Funds on the Consolidated Balance Sheets. Changes in the fair value are recorded in net income in the period of the change.

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 fund partners 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.

Redeemable fund units represent interests of others in consolidated subsidiaries that have a redemption feature that requires the company to deliver cash or other financial assets to the holders of the units upon receiving a redemption notice.

m) Revenue and Expense Recognition

i. Asset Management and Other Services

Asset management and other services revenues consist of base management fees, advisory fees, incentive distributions, performance-base incentive fees and construction and property service fees and arise from the rendering of services. Revenues from base management fees, advisory fees, property service fees and incentive distributions are recorded on an accrual basis based on the amounts receivable at the balance sheet date and are recorded within revenue in the Consolidated Statements of Operations.

Revenues from performance-based incentive fees are recorded on the accrual basis based on 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 recorded within revenue in the Consolidated Statements of Operations.

Revenues from construction contracts are 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.

ii. Properties Operations

Property revenues primarily consist of rental revenues from leasing activities and, to a lesser degree, hospitality revenues and interest and dividends from unconsolidated real estate investments.

Property rental income is recognized when the property is ready for its intended use. Office and retail 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 amount of 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 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.

Revenue from hospitality operations are recognized when the services are provided and collection is reasonably assured.

iii. Renewable Power Operations

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

iv. Sustainable Resources Operations

Revenue from timberland operations 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. Revenue from agricultural development operations is recognized at the time that the risks and rewards of ownership have transferred.

v. Utility Operations

Revenue from utility operations 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 Operations

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

vii. Private Equity and Residential Development Operations

Revenue from our private equity operations primarily consists of revenues from the sale of goods and rendering of services. Sales are recognized when the product is shipped, title passes and collectability is reasonably assured. Services revenues are recognized when the services are provided.

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.

viii. Other Financial Assets

Dividend and interest income from other financial assets are recorded within revenues when declared or on an accrual basis using the effective interest method.

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

n) 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 assets or liabilities relating to unrealized mark-to-market gains and losses on derivative financial instruments is 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 or an associate 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 their 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 their estimated fair value, and gains and losses arising from changes in fair value are recognized in net income in the period in which the change occurs. 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 Revenues, Direct Costs or Corporate costs, as applicable. Realized and unrealized gains and losses on derivatives which are considered economic hedges, and where hedge accounting is not able to be elected, are recorded in Fair value changes in the Consolidated Statements of Operations.

o) 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 using 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.

p) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of a business 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 are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale 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.

When 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, other than amounts transferred directly to retained earnings. 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. Acquisition costs are recorded as an expense in net income as incurred.

q) 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 share options, restricted shares and escrowed shares, is determined as the fair value of the award on the grant date using a fair value model. The cost of equity-settled share-based transactions 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 Appreciation 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.

r) Critical Judgments and Estimates

The preparation of financial statements requires management to make estimates and judgments 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 judgments management relies on external information and observable conditions where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties that the company believes will materially affect the methodology or assumptions utilized in making these estimates in these financial statements.

i. Critical Estimates

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

a. Investment Properties

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

Further information on investment property estimates is provided in Note 9.

b. Revaluation Method for Property, Plant and Equipment

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

Further information on estimates used in the revaluation method for property, plant and equipment is provided in Note 10.

c. Sustainable Resources

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

Further information on estimates used for sustainable resources is provided in Note 11.

d. Financial Instruments

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

e. Inventory

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

f. Other

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

ii. Critical Judgments

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

a. Level of Control

When determining the appropriate basis of accounting for the company's investments, the company uses the following judgments and assumptions: the degree of control or influence that the company exerts directly or through an arrangement; the amount of potential voting rights which provide the company or unrelated parties voting powers; the ability to appoint directors, the ability of other investors to remove the company as a manager or general partner in a controlled partnership; and the amount of benefit that the company receives relative to other investors.

b. Investment Properties

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

c. Property, Plant and Equipment

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

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

d. Common Control Transactions

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

e. Indicators of Impairment

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

f. Other

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

s) Future Changes in Accounting Standards

i. Consolidated Financial Statements, Joint Ventures and Disclosures

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

IFRS 10 replaces IAS 27 and SIC–12, *Consolidation-Special Purpose Entities* (“SIC–12”). The consolidation requirements previously included in IAS 27 have been included in IFRS 10, whereas the amended IAS 27 sets standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC–12. An investor must possess the following three elements to conclude if it controls an investee: power over the investee’s financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee and its exposure or rights to variable returns. IFRS 10 requires continuous reassessment of changes in an investor’s power over the investee and changes in the investor’s exposure or rights to variable returns. The company is currently evaluating the impact of IFRS 10 and the amendments to IAS 27 on its consolidated financial statements.

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC–13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses in accordance with applicable IFRS. In a joint venture, the parties to the arrangement have rights to the net assets of the arrangement and account for their interest using the equity method of accounting under IAS 28. IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.The company is currently evaluating the impact of IFRS 11 and the amendments to IAS 28 on its consolidated financial statements.

IFRS 12 integrates the disclosure requirements on interests in other entities and requires a parent company to disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect the entity’s conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in IFRS 12 into their financial statements without early adopting of IFRS 12. The company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

ii. Fair Value Measurements

In May 2011, the IASB issued IFRS 13, *Fair Value Measurements* (“IFRS 13”). IFRS 13 establishes a single source of fair value measurement guidance and sets out fair value measurement disclosure requirements. The standard requires that information be provided in the financial statements that enables the user to assess the methods and inputs used to develop fair value measurements, and for reoccurring fair value measurements that use significant unobservable inputs, and the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

iii. Presentation of Items of Other Comprehensive Income

In June 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements* (“IAS 1”). The amendments require that items of other comprehensive income are grouped into two categories: items that will be reclassified subsequently to profit or loss; and items that will be reclassified subsequently directly to equity. Income tax on items of other comprehensive income are required to be allocated on the same basis. The amendments to lAS 1 are effective for annual periods beginning on or after July 1, 2012. The company is currently evaluating the impact of the amendments to IAS 1 on its consolidated financial statements.

iv. Financial Instruments

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

3. SEGMENTED INFORMATION

a) Operating Segments

For management purposes, the business is organized into five operating segments in which the company makes operating and capital allocation decisions and assesses performance. In late 2012, the company combined the oversight of its timber and agricultural development business lines and reallocated the results of the agricultural development operations business line from Private Equity and Residential Development to Infrastructure. The comparative results have been revised to conform to the new basis of segment presentation.

i. Asset Management and Services comprises our asset management, construction and property services businesses. These operations generate contractual service fees earned from consolidated entities included in our other segments and third parties for performing management services, including management of our institutional private funds and listed entities, management of construction projects and residential relocation, franchise and brokerage operations. These operations are also characterized by utilizing relatively low levels of tangible assets relative to our other business segments.

ii. Property operations are predominantly office properties, retail properties, real estate finance, opportunistic investing and office developments located primarily in major North American, Australian, Brazilian and European cities. Income from property operations is primarily comprised of property rental income and, to a lesser degree, interest and dividend income. Virtually all of these operations will be held through Brookfield Property Partners L.P., in which we will own a 92.5% interest following the distribution of a 7.5% interest to our shareholders in April, 2013.

iii. Renewable power operations consist primarily of hydroelectric power generating facilities on river systems in North America and Brazil and wind power generating facilities in North America. The company's power operations are owned and operated through our 68% interest in Brookfield Renewable Energy Partners L.P. ("BREP") and a wholly owned subsidiary of the company which engages in the purchase and sale of energy, primarily on behalf of BREP.

iv. Infrastructure operations are predominantly utilities, transport and energy, timberland and agricultural development operations located in Australia, North America, Europe and South America, and are primarily owned and operated through a 28% interest in Brookfield Infrastructure Partners L.P. and direct investments in certain of the company's sustainable resources operations.

v. Private equity and residential development operations include the investments and activities overseen by our private equity group. These include direct investments as well as investments in our private equity funds. Our private equity funds have a mandate to invest in a broad range of industries, although currently the portfolios contain a number of investments whose performance is significantly impacted by the North American home building industry. Direct investments include interests in Norbord Inc., a panelboard manufacturer, and two publicly listed residential development businesses: which are predominantly a North American homebuilder and land developer, Brookfield Residential Properties Inc. and a Brazilian condominium developer, Brookfield Incorporações S.A. The operations in this segment are generally characterized by an investment approach that is more opportunistic in nature. Furthermore, these businesses are not integrated into core operating platforms, unlike the assets within our property, renewable power or infrastructure operations.

All other company level activities that are not allocated to these five operating segments are included within Corporate/ Unallocated operations, such as the company's cash and financial assets, non-recourse corporate borrowings and preferred shares and net working capital.

b) Basis of Measurement

i. Funds from Operations

The company considers Funds from Operations ("FFO") to be a key measure of its financial performance and defines FFO as net income prior to fair value changes, depreciation and amortization, and deferred income taxes, and includes certain disposition gains that are not otherwise included in net income as determined under IFRS. FFO includes the company's proportionate share of FFO from equity accounted investments and excludes transaction costs incurred on business combinations, which are required to be expensed as incurred under IFRS. FFO includes disposition gains because the purchase and sale of assets is a normal part of the company's business. Brookfield uses FFO to assess its operating results and the value of its business. The company does not use FFO as a measure of cash generated from its operations.

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

ii. Other Segment Information – Valuation Items

In assessing performance, the company also makes use of financial information pertaining to the revaluation of assets and liabilities such as fair value changes and depreciation and amortization which are included in consolidated net income and valuation items which are included in other comprehensive income, as well as the company's share of these items that are recorded by equity accounted investments. These amounts are collectively referred to as valuation items.

iii. Segment Balance Sheet Information

Segment balance sheet information considered by the company includes: segment assets, which are total assets other than investments in associates, less accounts payable and other liabilities and deferred tax liabilities; investments in associates; the aggregate amount of segment borrowings including capital securities; segment non-controlling interests, segment preferred shares and common equity by segment.

iv. Segment Allocation and Measurement

Segment measures include amounts earned from consolidated entities that are eliminated on consolidation. The two principal adjustments are to include asset management revenues charged to consolidated entities as revenues within the company's asset management and other services segment with the corresponding expense recorded as corporate costs within the relevant segment; and interest charged on loans between consolidated entities, which are presented as revenues and interest expense within the relevant segments. These amounts are based on the terms of the asset management contracts and loan agreements amongst the consolidated entities. The company allocates the costs of shared functions, which would otherwise be included within the corporate operation segment such as information technology and internal audit, pursuant to formal policies.

c) Segment Operating Results

FOR THE YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Operating Segments: Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate/ Unallocated	Adjustments	Note	Consolidated
Revenues	$ 4,520	$ 3,982	$ 1,179	$ 2,109	$ 6,900	$ 230	$ (223)	i	$ 18,697
Direct costs	(4,171)	(1,812)	(475)	(1,138)	(6,105)	(114)	(94)	ii	(13,909)
Equity accounted FFO	4	386	13	223	15	25	(666)	iii	—
Disposition gains	—	(49)	214	63	31	100	(359)	iv	—
Interest expenses	—	(1,076)	(412)	(399)	(276)	(369)	35	v	(2,497)
Corporate/ unallocated costs	—	(172)	(36)	(144)	(28)	(160)	382	vi	(158)
Current income taxes	—	(9)	(12)	(16)	(79)	(19)	135	vii	—
Non-controlling interests in FFO	—	(713)	(158)	(474)	(197)	(25)	1,567	viii	—
Funds from operations	$ 353	$ 537	$ 313	$ 224	$ 261	$ (332)			
Net income	$ 297	$ 2,687	$ (268)	$ 276	$ 44	$ (289)			

FOR THE YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Operating Segments: Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate/ Unallocated	Adjustments	Note	Consolidated
Revenues	$ 3,535	$ 2,760	$ 1,128	$ 1,725	$ 6,740	$ 311	$ (278)	i	$ 15,921
Direct costs	(3,280)	(1,077)	(379)	(908)	(6,129)	(46)	(87)	ii	(11,906)
Equity accounted FFO	14	428	25	193	23	(9)	(674)	iii	—
Disposition gains	—	433	25	—	177	(83)	(552)	iv	—
Interest expenses	—	(1,014)	(394)	(340)	(263)	(367)	26	v	(2,352)
Corporate/ unallocated costs	—	(144)	(2)	(118)	(22)	(172)	290	vi	(168)
Current income taxes	—	(10)	(13)	(4)	(45)	(25)	97	vii	—
Non-controlling interests in FFO	—	(689)	(158)	(376)	(233)	(6)	1,462	viii	—
Funds from operations	$ 269	$ 687	$ 232	$ 172	$ 248	$ (397)			
Net income	$ 232	$ 3,652	$ (439)	$ 451	$ (30)	$ (192)			

i. Revenues

The adjustment to revenues consists of management fees earned from consolidated entities totalling $288 million (2011 – $203 million) and interest income on loans between consolidated entities totalling $35 million (2011 – $26 million), which were eliminated on consolidation to arrive at the company's consolidated revenues.

The adjustment to revenues also includes disposition losses totalling $100 million (2011 – $49 million of disposition gains) that are recorded as disposition gains in the segment results.

ii. Direct costs

The adjustment to direct costs consists of the reallocation of unallocated segment costs totalling $94 million (2011 – $87 million) that are included in direct costs in the Consolidated Statements of Operations.

iii. Equity accounted FFO

The company defines equity accounted FFO to be the company's share of FFO from its investments in associates (equity accounted investments), determined by applying the same methodology utilized in adjusting net income of consolidated entities. Equity accounted FFO is combined with the equity accounted fair value changes in the company's Consolidated Statements of Operations. The following table disaggregates equity accounted income into equity accounted FFO and non-FFO items:

FOR THE YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate	Consolidated
Funds from operations	$ 4	$ 386	$ 13	$ 223	$ 15	$ 25	$ 666
Fair value changes and other	—	810	(19)	(210)	(1)	(3)	577
Equity accounted income	$ 4	$ 1,196	$ (6)	$ 13	$ 14	$ 22	$ 1,243

FOR THE YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate	Consolidated
Funds from operations	$ 14	$ 428	$ 25	$ 193	$ 23	$ (9)	$ 674
Funds from operations – gains	—	2	—	—	—	—	2
Fair value changes and other	—	1,620	(13)	(78)	—	—	1,529
Equity accounted income	$ 14	$ 2,050	$ 12	$ 115	$ 23	$ (9)	$ 2,205

iv. Disposition gains

Disposition gains include gains and losses recorded in net income arising from transactions during the current year adjusted to include fair value changes and revaluation surplus recorded in prior periods. Disposition gains also include amounts that are recorded directly in equity as changes in ownership as opposed to net income because they result from a change in ownership of a consolidated entity.

The adjustment to disposition gains consists of amounts that are included in the following components of the company's financial statements:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Net income		
Revenues	**$ 100**	$ (49)
Equity		
Fair value changes recorded in prior period	**(47)**	420
Revaluation surplus	**277**	13
Changes in ownership	**29**	13
Other	**—**	155
	259	601
	$ 359	$ 552

Other gains in 2011 of $155 million ($61 million net of non-controlling interests) represents a distribution of capital from a consolidated private equity investment that is reflected in the company's Consolidated Balances Sheets as the excess of liabilities over the assets of the private equity investment.

v. Interest expense

The adjustment to interest expense consists of interest on loans between consolidated entities totalling $35 million (2011 – $26 million) that is eliminated on consolidation, along with the associated revenue.

vi. Corporate/unallocated costs

The adjustment to corporate/unallocated costs consists of management fee expenses in respect of services provided between consolidated entities totalling $288 million (2011 – $203 million) that were eliminated on consolidation and $94 million (2011 – $87 million) of costs that are unallocated in the context of a particular segment or business line but which are included in the company's direct costs in the company's Consolidated Statements of Operations.

vii. Current income taxes

Current income taxes are included in segment FFO, but are aggregated with deferred income taxes in income taxes on the company's Consolidated Statements of Operations.

viii. Non-controlling interests in FFO

The company defines non-controlling interests in FFO to be non-controlling interests less the non-controlling interests' share of adjustments required to convert net income attributable to shareholders to FFO. The following table disaggregates non-controlling interests into non-controlling interests in FFO and the principal reconciling items.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Non-controlling interests in:		
Funds from operations	**$ (1,567)**	$ (1,462)
Disposition gains	**76**	311
Fair value changes	**(725)**	(865)
Equity accounted income – fair value changes and other	**56**	(261)
Depreciation and amortization	**680**	245
Income tax	**113**	315
Net income attributable to non-controlling interests	**$ (1,367)**	$ (1,717)

ix. Reconciliation of total entity FFO to net income

The following table reconciles the sum of FFO for each operating segment and corporate/unallocated FFO ("total entity FFO") to net income:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Total entity FFO	**$ 1,356**	$ 1,211
Adjustments		
Less: FFO measures		
Gains not recorded in net income	**(259)**	(601)
Equity accounted FFO	**(666)**	(674)
Current income taxes	**135**	97
Non-controlling interests in FFO	**1,567**	1,462
Add: financial statement components not included in FFO		
Equity accounted income	**1,243**	2,205
Fair value changes	**1,150**	1,386
Depreciation and amortization	**(1,263)**	(904)
Income taxes	**(516)**	(508)
Total adjustments	**1,391**	2,463
Net income	**$ 2,747**	$ 3,674

d) Other Segment Information – Valuation Items

The following table aggregates significant items relating to the periodic revaluation of assets and liabilities, including the company's share of such items included in equity accounted income, and the share of these items that is attributable to non-controlling interests and amounts recorded in equity. Equity accounted items in the following table include the company's share of fair value changes and depreciation and amortization that are included in equity accounted income as presented in Note 3(c)(iii). These items are presented net of non-controlling interests and income taxes in the Consolidated Statements of Changes in Equity, but are presented prior to non-controlling interests and income taxes in the following table.

FOR THE YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Operating Segments						
	Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate	Consolidated
Recorded in net income							
Fair value changes	$ (25)	$ 1,258	$ (79)	$ 139	$ (116)	$ (27)	$ 1,150
Equity accounted fair value changes and other	—	810	(19)	(210)	(1)	(3)	577
Depreciation and amortization	(31)	(225)	(499)	(248)	(251)	(9)	(1,263)
	(56)	1,843	(597)	(319)	(368)	(39)	464
Recorded in other comprehensive income	—	35	896	720	(34)	9	1,626
Total revaluation items	(56)	1,878	299	401	(402)	(30)	2,090
Non-controlling interests in above[1]	—	(724)	(35)	(240)	222	1	(776)
Valuation items	$ (56)	$ 1,154	$ 264	$ 161	$ (180)	$ (29)	$ 1,314

1. Includes non-controlling interests on valuation items recorded in net income and other comprehensive income and excludes non-controlling interests in FFO as outlined in 3(c)(viii)

FOR THE YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Operating Segments						
	Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate	Consolidated
Recorded in net income							
Fair value changes	$ —	$ 1,547	$ (305)	$ 282	$ (80)	$ (58)	$ 1,386
Equity accounted fair value changes and other	—	1,620	(13)	(78)	—	—	1,529
Depreciation and amortization	(34)	(33)	(455)	(148)	(226)	(8)	(904)
	(34)	3,134	(773)	56	(306)	(66)	2,011
Recorded in other comprehensive income	—	(238)	1,828	486	(55)	(101)	1,920
Total valuation items	(34)	2,896	1,055	542	(361)	(167)	3,931
Non-controlling interests in above[1]	—	(973)	(435)	(259)	112	—	(1,555)
Valuation items	$ (34)	$ 1,923	$ 620	$ 283	$ (249)	$ (167)	$ 2,376

1. Includes non-controlling interests on valuation items recorded in net income and other comprehensive income and excludes non-controlling interests in FFO as outlined in 3(c)(viii)

e) Segment Financial Position Information

AS AT DEC. 31, 2012 (MILLIONS)	Operating Segments							
	Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate	Total Reportable Segments	Note
Segment assets	$ 1,855	$ 37,622	$ 14,325	$ 14,463	$ 9,476	$ 1,196	$ 78,937	i
Investments	67	8,143	344	2,606	236	293	11,689	
Borrowings	(351)	(21,471)	(6,119)	(7,988)	(5,030)	(4,991)	(45,950)	ii
Segment non-controlling interests	(1)	(11,336)	(3,559)	(6,510)	(2,107)	(102)	(23,615)	iii
Preferred shares	—	—	—	—	—	(2,901)	(2,901)	
Common equity by segment	$ 1,570	$ 12,958	$ 4,991	$ 2,571	$ 2,575	$ (6,505)	$ 18,160	

AS AT DEC. 31, 2011 (MILLIONS)	Operating Segments							
	Asset Management and Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate	Total Reportable Segments	Note
Segment assets	$ 1,930	$ 31,268	$ 12,775	$ 10,079	$ 8,894	$ 1,592	$ 66,538	i
Investments	2	6,905	358	1,696	261	179	9,401	
Borrowings	(439)	(17,433)	(5,520)	(4,918)	(4,445)	(5,452)	(38,207)	ii
Segment non-controlling interests	(1)	(9,797)	(2,504)	(4,350)	(2,094)	(103)	(18,849)	iii
Preferred shares	—	—	—	—	—	(2,140)	(2,140)	
Common equity by segment	$ 1,492	$ 10,943	$ 5,109	$ 2,507	$ 2,616	$ (5,924)	$ 16,743	

The following tables reconcile the company's total reportable segments to the Consolidated Balance Sheets as at December 31, 2012 and 2011, for those financial statement line items which differ:

i. Segment assets

The company defines segment assets to be total assets for each segment less investments, deferred income tax liabilities and accounts payable and other attributable to that segment.

AS AT DECEMBER 31 (MILLIONS)	**2012**	2011
Total assets	**$ 108,644**	$ 91,022
Investments	**(11,689)**	(9,401)
Accounts payable and other	**(11,599)**	(9,266)
Deferred income tax liabilities	**(6,419)**	(5,817)
Segment assets	**$ 78,937**	$ 66,538

ii. Borrowings

The company defines borrowings to include the following liabilities attributable to each segment: corporate borrowings, property-specific mortgages, subsidiary borrowings and capital securities.

AS AT DECEMBER 31 (MILLIONS)	**2012**	2011
Corporate borrowings	**$ 3,526**	$ 3,701
Non-recourse borrowings		
Property specifics borrowings	**33,648**	28,415
Subsidiary borrowings	**7,585**	4,441
Capital securities	**1,191**	1,650
Borrowings	**$ 45,950**	$ 38,207

iii. Segment Non-controlling interests

The company aggregates interests of others in consolidated funds together with non-controlling interests in determining segment financial position information.

AS AT DECEMBER 31 (MILLIONS)	**2012**	2011
Consolidated balances		
Interests of others in consolidated funds	**$ 425**	$ 333
Non-controlling interests in net assets	**23,190**	18,516
	$ 23,615	$ 18,849

f) Geographic Allocation

Revenues and consolidated assets by geographic segments are as follows:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**		2011	
	Revenue	**Assets**	Revenue	Assets
United States	**$ 6,206**	**$ 44,291**	$ 4,715	$ 38,191
Canada	**3,290**	**21,415**	2,809	19,848
Australia	**4,528**	**16,781**	3,470	15,066
Brazil	**1,614**	**12,941**	2,519	12,202
Europe	**1,432**	**6,750**	1,364	4,352
Other	**1,627**	**6,466**	1,044	1,363
	$ 18,697	**$ 108,644**	$ 15,921	$ 91,022

Intangible assets and goodwill by geographic segments are included in Note 12 and 13, respectively.

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 2012

The following table summarizes the balance sheet impact as a result of business combinations that occurred in 2012 by operating segment:

(MILLIONS)	Property	Renewable Power	Infrastructure	**Total**
Cash and cash equivalents	$ 142	$ 50	$ 120	**$ 312**
Accounts receivable and other	418	13	77	**508**
Inventory	393	—	—	**393**
Investments	11	—	—	**11**
Investment properties	2,793	—	—	**2,793**
Property, plant and equipment	2,446	1,374	2,728	**6,548**
Intangible assets	376	—	1,540	**1,916**
Goodwill	15	—	45	**60**
Total Assets	6,594	1,437	4,510	**12,541**
Less:				
Accounts payable and other	(534)	(96)	(529)	**(1,159)**
Non-recourse borrowings	(3,576)	(449)	(1,693)	**(5,718)**
Deferred income tax liabilities	—	—	(488)	**(488)**
Non-controlling interests[1]	(281)	(695)	(854)	**(1,830)**
Non-controlling interests net to Brookfield[2]	(1,199)	(63)	(676)	**(1,938)**
Equity	$ 1,004	$ 134	$ 270	**$ 1,408**
Consideration[3]	$ 2,203	$ 197	$ 946	**$ 3,346**

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Non-controlling interests determined on application of consolidation principles
3. Aggregate of equity and non-controlling interests net to Brookfield

As a result of the acquisitions made during the year, Brookfield recorded $1,144 million of revenue and $38 million in net losses from the acquired operations. Total revenue and net losses, including fair value changes, that would have been recorded if the acquisitions had occurred at the beginning of the year would have been $2,095 million and $130 million, respectively. Certain of the current year business combinations were completed in close proximity to the year ended December 31, 2012 and accordingly, the fair values of the acquired assets, liabilities and goodwill for these operations have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the acquired net assets.

i. Property

In December 2011, a subsidiary of Brookfield commenced acquiring debentures secured by a 39% ownership interest in Thakral Holdings Group ("Thakral") shares. Brookfield converted its debentures into shares of Thakral and acquired all of the remaining shares outstanding for total consideration of $507 million in October 2012 and commenced consolidation of Thakral. Thakral's assets include prime office assets, a multi-family property portfolio and various industrial properties within Australia.

In April 2012, a subsidiary of Brookfield acquired a 100% interest in Paradise Island Holdings Limited ("Atlantis"), a hotel and casino resort located in the Bahamas, through a financial restructuring whereby Brookfield converted its $175 million of previously held debt instruments for equity. The transaction was measured at fair value on the date of acquisition. Brookfield completed the acquisition and commenced consolidating Atlantis in the second quarter.

In July 2012, a subsidiary of Brookfield entered into a merger agreement resulting in the acquisition of Verde Realty ("Verde"), a privately-owned industrial real estate investment trust with assets located in the United States and Mexico. A subsidiary of Brookfield acquired 81% of the outstanding equity for total consideration of $275 million, and commenced consolidation of Verde in the fourth quarter.

ii. Infrastructure

In November 2012, a subsidiary of Brookfield acquired a 100% equity interest in Inexus Group Limited ("Inexus"), a UK based regulated distribution operation, for total consideration of $468 million and commenced consolidation of Inexus in the fourth quarter.

In December 2011, Brookfield acquired a 55% interest in Sociedad Concesionario Vespucio Norte Express S.A. ("VNE"), a Chilean toll road, but as a result of an agreement limiting the company's control, did not consolidate the investment. In October 2012, Brookfield acquired the remaining 45% equity interest of VNE it did not already own for $170 million, increasing its total consideration to $333 million, and commenced consolidation. The transaction was measured at fair value on the date of acquisition.

During the year, the company also acquired a Canadian sustainable energy service provider, a North American gas storage business, a Colombian regulated distribution operation, a U.S. residential development business, a property development in London, England and various wind and hydroelectric generating assets, of which the largest investment was $204 million.

The following table shows the balance sheet impact as a result of the significant business combinations that occurred during the 2012.

	Property			Infrastructure	
(MILLIONS)	Thakral	Atlantis	Verde	Inexus	VNE
Cash and cash equivalents	$ 5	$ 85	$ 37	$ 5	$ 69
Accounts receivable and other	33	282	36	14	53
Inventory	65	—	—	—	—
Investments	—	—	10	—	—
Investment properties	240	—	911	—	—
Property, plant and equipment	688	1,758	—	1,410	—
Intangible assets	—	359	17	97	1,443
Goodwill	—	—	—	27	—
Total assets	1,031	2,484	1,011	1,553	1,565
Less:					
Accounts payable and other	(52)	(170)	(48)	(393)	(32)
Non-recourse borrowings	(472)	(2,139)	(571)	(545)	(772)
Deferred income tax liability	—	—	—	(147)	(108)
Non-controlling interests[1]	—	—	(117)	—	(320)
Non-controlling interests net to Brookfield[2]	(309)	(117)	(168)	(335)	(238)
Equity	$ 198	$ 58	$ 107	$ 133	$ 95
Consideration[3]	$ 507	$ 175	$ 275	$ 468	$ 333

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Non-controlling interests determined on application of consolidation principles
3. Aggregate of equity and non-controlling interests net to Brookfield

The following table provides details of the business combinations achieved in stages during 2012:

FOR THE YEAR ENDED DECEMBER 31 (MILLIONS)	2012		
	VNE	Other	**Total**
Carrying value of investment immediately before acquisition	$ (171)	$ (63)	**$ (234)**
Fair value of investment immediately before acquiring control	163	59	**222**
Amounts recognized in other comprehensive income[1]	16	11	**27**
Remeasurement gain recorded in net income	$ 8	$ 7	**$ 15**
Remeasurement gain recorded in retained earnings	$ —	$ 5	**$ 5**

1. Included in the carrying value of the investment immediately before acquisition

b) Completed During 2011

The following table summarizes the balance sheet impact as a result of business combinations that occurred in 2011 by operating segment:

(MILLIONS)	Property	Renewable Power	Private Equity and Residential Development	**Total**
Cash and cash equivalents	$ 40	$ 32	$ 66	**$ 138**
Accounts receivable and other	148	6	306	**460**
Investments	685	—	—	**685**
Property, plant and equipment	640	446	299	**1,385**
Investment properties	5,846	—	—	**5,846**
Intangible assets	180	—	24	**204**
Goodwill	—	20	124	**144**
Total assets	7,539	504	819	**8,862**
Less:				
Accounts payable and other	(270)	(5)	(134)	**(409)**
Non-recourse borrowings	(4,437)	(190)	(351)	**(4,978)**
Deferred income tax liabilities	—	—	(28)	**(28)**
Non-controlling interests[1]	(404)	(101)	(96)	**(601)**
Non-controlling interests net to Brookfield[2]	(1,176)	—	(71)	**(1,247)**
Equity	$ 1,252	$ 208	$ 139	**$ 1,599**
Consideration[3]	$ 2,429	$ 208	$ 210	**$ 2,847**

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Non-controlling interests determined on application of consolidation principles
3. Aggregate of equity and non-controlling interests net to Brookfield

As a result of the acquisitions made during the year, Brookfield recorded $430 million of revenue and $122 million in net income from the operations. Total revenue and net income, including fair value changes, that would have been recorded if the acquisitions had occurred at the beginning of the year would have been $1,005 million and $881 million, respectively.

i. Property

In October 2006, Brookfield formed a joint venture to purchase a portfolio of office properties ("U.S. Office Fund"). Under the terms of the joint venture agreement, Brookfield's venture partner had an option to acquire its interest in certain of the U.S. Office Fund's properties which it managed, and to sell its interest in the properties that the company managed to Brookfield. In August 2011, Brookfield's venture partner exercised its option and sold the company its interest in the properties that it managed, resulting in the company's interest increasing to 83% and the U.S. Office Fund being consolidated. Prior to the acquisition, Brookfield jointly controlled the properties of the U.S. Office Fund and accounted for its investment using the equity method. The company recorded a $212 million gain on the revaluation of its previously held interest in the U.S. Office Fund at the time of acquisition. No cash consideration was paid in connection with the company's venture partner's exercise of its option and the company's consolidation of the U.S. Office Fund, with the exception of the settlement of consideration payable under the joint venture agreement.

Other acquisitions consisted of the acquisition of a controlling interest in certain office properties, a wind power generation business, a real estate and relocation services business and a coal bed methane producer. Brookfield paid total consideration of $673 million for its interest in the other assets of which the largest investment was $190 million.

The following table shows the balance sheet impact as a result of the acquisition of the U.S. Office Fund that occurred during the 2011.

(MILLIONS)	U.S. Office Fund
Cash and cash equivalents	$ 32
Accounts receivable and other	84
Investments	685
Investment properties	4,953
Total Assets	5,754
Less:	
Accounts payable and other	(225)
Non-recourse borrowings	(3,293)
Non-controlling interests[1]	(366)
Non-controlling interests net to Brookfield[2]	(944)
Equity	$ 926
Consideration[3]	$ 1,870

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Non-controlling interests determined on application of consolidation principles
3. Aggregate of equity and non-controlling interests net to Brookfield

The following table provides details of the business combinations achieved in stages:

FOR THE YEAR ENDED DECEMBER 31, 2011 (MILLIONS)	Total
Carrying value of investment immediately before acquisition	$ 1,658
Fair value of investment immediately before acquiring control	1,870
Remeasurement gain recorded in net income	$ 212

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 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, 2012, $52 million of net deferred gains (2011 – $6 million) previously recognized in accumulated other comprehensive income were reclassified to net income as a result of the disposition of available-for-sale securities.

Available-for-sale securities are recorded on the balance sheet at fair value, and are assessed for impairment at each reporting date. As at December 31, 2012, the net unrealized gain relating to the fair value of available-for-sale financial instruments amounted to $49 million (2011 – net unrealized loss of $18 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 in the period in which they arise. Dividends on fair value through profit or loss and available-for-sale financial assets are recognized when the company's right to receive payment is established. Interest on available-for-sale financial assets is calculated using the effective interest method.

Carrying Value and Fair Value of Financial Instruments

The following table provides the allocation of financial instruments and their associated financial instrument classification as at December 31, 2012:

AS AT DEC. 31, 2012 (MILLIONS) FINANCIAL INSTRUMENT CLASSIFICATION	FVTPL[1]	Available-for-Sale	Held-to-Maturity	Loans and Receivables/ Other Financial Liabilities	
MEASUREMENT BASIS	(Fair Value)	(Fair Value)	(Amortized Cost)	(Amortized Cost)	**Total**
Financial assets					
Cash and cash equivalents	$ —	$ —	$ —	$ 2,844	**$ 2,844**
Other financial assets					
Government bonds	92	86	—	—	**178**
Corporate bonds	58	180	—	—	**238**
Fixed income securities	51	94	—	—	**145**
Common shares	1,794	240	—	—	**2,034**
Loans and notes receivable	35	—	261	220	**516**
	2,030	600	261	220	**3,111**
Accounts receivable and other[2]	768	—	—	4,450	**5,218**
	$ 2,798	$ 600	$ 261	$ 7,514	**$ 11,173**
Financial liabilities					
Corporate borrowings	$ —	$ —	$ —	$ 3,526	**$ 3,526**
Property-specific mortgages	—	—	—	33,648	**33,648**
Subsidiary borrowings	—	—	—	7,585	**7,585**
Accounts payable and other[2]	1,287	—	—	10,312	**11,599**
Capital securities	—	—	—	1,191	**1,191**
Interests of others in consolidated funds	425	—	—	—	**425**
	$ 1,712	$ —	$ —	$ 56,262	**$ 57,974**

1. Financial instruments classified as fair value through profit or loss
2. Includes derivative instruments which are elected for hedge accounting totalling $499 million included in accounts receivable and other and $850 million of derivative instruments included in accounts payable and other, of which changes in fair value are recorded in other comprehensive income

The following table provides the allocation of financial instruments and their associated financial instrument classifications as at December 31, 2011:

AS AT DEC. 31, 2011 (MILLIONS) FINANCIAL INSTRUMENT CLASSIFICATION	FVTPL[1]	Available-for-Sale	Held-to-Maturity	Loans and Receivables/ Other Financial Liabilities	
MEASUREMENT BASIS	(Fair Value)	(Fair Value)	(Amortized Cost)	(Amortized Cost)	Total
Financial assets					
Cash and cash equivalents	$ —	$ —	$ —	$ 2,027	$ 2,027
Other financial assets					
Government bonds	263	261	—	—	524
Corporate bonds	—	202	—	—	202
Fixed income securities	70	152	—	—	222
Common shares	1,235	131	—	—	1,366
Loans and notes receivable	—	—	762	697	1,459
	1,568	746	762	697	3,773
Accounts receivable and other[2]	783	—	—	4,085	4,868
	$ 2,351	$ 746	$ 762	$ 6,809	$ 10,668
Financial liabilities					
Corporate borrowings	$ —	$ —	$ —	$ 3,701	$ 3,701
Property-specific mortgages	—	—	—	28,415	28,415
Subsidiary borrowings	—	—	—	4,441	4,441
Accounts payable and other[2]	1,123	—	—	8,143	9,266
Capital securities	—	—	—	1,650	1,650
Interests of others in consolidated funds	333	—	—	—	333
	$ 1,456	$ —	$ —	$ 46,350	$ 47,806

1. Financial instruments classified as fair value through profit or loss
2. Includes derivative instruments which are elected for hedge accounting totalling $107 million included in accounts receivable and other and $1,053 million of derivative instruments included in accounts payable and other, of which changes in fair value are recorded in other comprehensive income

The following table provides the carrying values and fair values of financial instruments as at December 31, 2012 and December 31, 2011:

	Dec. 31, 2012		Dec. 31, 2011	
(MILLIONS)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial assets				
Cash and cash equivalents	**$ 2,844**	**$ 2,844**	$ 2,027	$ 2,027
Other financial assets				
Government bonds	**178**	**178**	524	524
Corporate bonds	**238**	**238**	202	202
Fixed income securities	**145**	**145**	222	222
Common shares	**2,034**	**2,034**	1,366	1,366
Loans and notes receivable	**516**	**516**	1,459	1,375
	3,111	**3,111**	3,773	3,689
Accounts receivable and other	**5,218**	**5,218**	4,868	4,868
	$ 11,173	**$ 11,173**	$ 10,668	$ 10,584
Financial liabilities				
Corporate borrowings	**$ 3,526**	**$ 3,793**	$ 3,701	$ 3,906
Property-specific mortgages	**33,648**	**34,981**	28,415	29,173
Subsidiary borrowings	**7,585**	**7,781**	4,441	4,567
Accounts payable and other	**11,599**	**11,599**	9,266	9,266
Capital securities	**1,191**	**1,232**	1,650	1,734
Interests of others in consolidated funds	**425**	**425**	333	333
	$ 57,974	**$ 59,811**	$ 47,806	$ 48,979

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

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Current	**$ 380**	$ 1,143
Non-current	**2,731**	2,630
Total	**$ 3,111**	$ 3,773

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. 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, 2012, pre-tax net unrealized gains or losses of $nil million (2011 – losses of $6 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, 2012, there were no derivative contracts designated as fair value hedges (2011 – net unrealized derivative asset balance of $7 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 or future 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, 2012, pre-tax net unrealized losses of $36 million (2011 – $855 million) were recorded in other comprehensive income for the effective portion of the cash flow hedges. As at December 31, 2012, there was a net unrealized derivative liability balance of $272 million relating to derivative contracts designated as cash flow hedges (2011 – $899 million). Unrealized losses on cash flow hedges are expected to be realized in net income by 2024.

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. For the year ended December 31, 2012, unrealized pre-tax net losses of $207 million (2011 – gains of $159 million) were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations. As at December 31, 2012, there was a net unrealized derivative liability balance of $79 million relating to derivative contracts designated as net investment hedges (2011 – $47 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 in 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 $2,334 million (2011 – $1,820 million) of financial assets and $680 million (2011 – $618 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, 2012 Level 1	Dec. 31, 2012 Level 2	Dec. 31, 2012 Level 3	Dec. 31, 2011 Level 1	Dec. 31, 2011 Level 2	Dec. 31, 2011 Level 3
Financial assets						
Other financial assets						
Government bonds	**$ 52**	**$ 126**	**$ —**	$ 225	$ 299	$ —
Corporate bonds	**59**	**179**	**—**	8	194	—
Fixed income securities	**88**	**—**	**57**	108	—	114
Common shares	**423**	**—**	**1,611**	329	—	1,037
Loans and notes receivables	**—**	**25**	**10**	—	—	—
Accounts receivable and other	**—**	**112**	**656**	1	113	669
	$ 622	**$ 442**	**$ 2,334**	$ 671	$ 606	$ 1,820
Financial liabilities						
Accounts payable and other	**$ 262**	**$ 697**	**$ 328**	$ —	$ 778	$ 345
Interests of others in consolidated funds	**—**	**73**	**352**	—	60	273
	$ 262	**$ 770**	**$ 680**	$ —	$ 838	$ 618

The following table presents the change in the balance of financial assets and liabilities classified as Level 3 as at December 31, 2012 and December 31, 2011.

(MILLIONS)	Financial Assets 2012	Financial Assets 2011	Financial Liabilities 2012	Financial Liabilities 2011
Balance at beginning of year	**$ 1,820**	$ 2,087	**$ 618**	$ 580
Fair value changes in net income	**20**	237	**(17)**	22
Fair value changes in other comprehensive income[1]	**111**	(340)	**(21)**	(63)
Additions, net of disposals	**383**	(164)	**100**	79
Balance at end of year	**$ 2,334**	$ 1,820	**$ 680**	$ 618

1. Includes foreign currency translation

6. ACCOUNTS RECEIVABLE AND OTHER

(MILLIONS)	Note	Dec. 31, 2012	Dec. 31, 2011
Accounts receivable	(a)	**$ 4,372**	$ 4,149
Prepaid expenses and other assets		**1,727**	1,855
Restricted cash	(b)	**846**	719
Total		**$ 6,945**	$ 6,723

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

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Current	**$ 4,989**	$ 4,515
Non-current	**1,956**	2,208
Total	**$ 6,945**	$ 6,723

a) Accounts Receivable

Accounts receivable includes $647 million (2011 – $669 million) of unrealized mark-to-market gains on energy sales contracts and $994 million (2011 – $944 million) of completed contracts and work-in-progress 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 its consolidated subsidiaries of $5 million (2011 – $6 million).

b) Restricted Cash

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

7. INVENTORY

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Residential properties under development	**$ 2,700**	$ 2,351
Land held for development	**2,676**	2,395
Completed residential properties	**477**	567
Pulp, paper and other	**726**	747
Total carrying value	**$ 6,579**	$ 6,060

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

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Current	**$ 2,706**	$ 2,373
Non-current	**3,873**	3,687
Total	**$ 6,579**	$ 6,060

During the year ended December 31, 2012, the company recognized as an expense $5,449 million (2011 – $4,579 million) of inventory relating to cost of goods sold and $4 million (2011 – $7 million) relating to impairments of inventory. The carrying amount of inventory pledged as security at December 31, 2012 was $1,060 million (December 31, 2011 – $1,154 million).

8. INVESTMENTS

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

AS AT (MILLIONS)	Investment Type	Voting Interest Dec. 31 2012	Voting Interest Dec. 31 2011	Carrying Value Dec. 31 2012	Carrying Value Dec. 31 2011
Property					
General Growth Properties	Associate	**23%**	23%	**$ 4,831**	$ 4,099
245 Park Avenue	Joint Venture	**51%**	51%	**657**	619
Grace Building	Joint Venture	**41%**	41%	**625**	618
Rouse Properties	Associate	**43%**	—	**381**	—
Other property investments[1,2]	Various	**20 – 75%**	20 – 75%	**1,636**	1,578
Renewable power					
Bear Swamp Power	Joint Venture	**50%**	50%	**155**	130
Other power investments	Various	**50%**	50%	**189**	228
Infrastructure					
Natural gas pipeline	Associate	**26%**	26%	**594**	395
South American transmission operations	Associate	**28%**	28%	**669**	584
Brazilian toll road	Associate	**49%**	—	**335**	—
Australian energy distribution	Associate	**42%**	42%	**384**	296
Other infrastructure investments[3]	Various	**30 – 50%**	30 – 50%	**615**	423
Other	Various	**25 – 50%**	25 – 50%	**618**	431
Total				**$ 11,689**	$ 9,401

1. Other property investments include Darling Park Trust and E&Y Centre Sydney
2. Investments in which the company's ownership interest is greater than 50% represent investments in equity accounted joint ventures where control is either shared or does not exist resulting in the investment being equity accounted
3. Other infrastructure investments include a European port operation, a Texas electricity transmission project and other social infrastructure assets

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 9,401**	$ 6,629
Additions, net of disposals	**1,221**	(100)
Acquisitions through business combinations	**11**	685
Share of net income	**1,243**	2,205
Share of other comprehensive income	**145**	193
Distributions received	**(375)**	(204)
Foreign exchange	**43**	(7)
Balance at end of year	**$ 11,689**	$ 9,401

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

	Dec. 31, 2012		Dec. 31, 2011	
(MILLIONS)	Assets	Liabilities	Assets	Liabilities
Property				
General Growth Properties	**$ 38,319**	**$ 18,888**	$ 35,835	$ 20,368
245 Park Avenue	**1,067**	**410**	1,027	408
Grace Building	**813**	**188**	814	196
Rouse Properties	**2,239**	**1,337**	—	—
Other property investments[1]	**4,964**	**1,791**	4,222	2,541
Renewable power				
Bear Swamp Power Co. LLC	**669**	**360**	673	353
Other Power	**655**	**278**	531	260
Infrastructure				
Natural gas pipeline company	**7,623**	**6,429**	7,650	6,432
South American transmission operation	**5,637**	**3,240**	4,828	2,853
Brazilian toll road	**5,215**	**2,857**	—	—
Australian energy distribution	**2,314**	**1,402**	1,909	1,208
Other infrastructure investments[2]	**3,471**	**2,736**	2,659	1,751
Other	**3,119**	**1,528**	2,381	1,569
	$ 76,105	**$ 41,444**	$ 62,529	$ 37,939

1. Other property investments include Darling Park Trust and E&Y Centre Sydney
2. Other infrastructure investments include a European port operation, a Texas electricity transmission project and other social infrastructure assets

Certain of the company's 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 revenue and net income of the company's investments in associates and equity accounted joint ventures:

YEARS ENDED DECEMBER 31 (MILLIONS)	2012 Revenue	2012 Net Income	2012 Equity Accounted Income	2011 Revenue	2011 Net Income	2011 Equity Accounted Income
Property						
General Growth Properties	**$ 3,102**	**$ 4,330**	**$ 979**	$ 3,353	$ 6,287	$ 1,401
U.S. Office Fund[1]	**—**	**—**	**—**	475	518	437
245 Park Avenue	**73**	**131**	**67**	67	118	60
Grace Building	**50**	**31**	**13**	19	215	88
Rouse Properties	**258**	**75**	**33**	—	—	—
Other property investments[2]	**540**	**326**	**85**	545	227	68
Renewable power						
Bear Swamp Power Co. LLC	**59**	**1**	**1**	58	16	8
Other power	**47**	**(13)**	**(7)**	43	10	5
Infrastructure						
Natural gas pipeline company	**554**	**(42)**	**(11)**	840	83	22
South American transmission operation	**440**	**55**	**16**	402	318	90
Brazilian toll road	**65**	**11**	**5**	—	—	—
Australian energy distribution	**322**	**45**	**19**	295	27	11
Other infrastructure investments[3]	**1,079**	**(59)**	**(14)**	945	(11)	(8)
Other	**501**	**128**	**57**	538	55	23
Total	**$ 7,090**	**$ 5,019**	**$ 1,243**	$ 7,580	$ 7,863	$ 2,205

1. The company acquired a controlling interest in the U.S. Office Fund on August 9, 2011, resulting in the consolidation of the U.S. Office Fund and its equity accounted investments, as described in Note 4
2. Other property investments include Darling Park Trust and E&Y Centre Sydney
3. Other infrastructure investments include a European port operation, a Texas electricity transmission project and other social infrastructure assets

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

(MILLIONS)	Dec. 31, 2012 Public Price	Dec. 31, 2012 Carrying Value	Dec. 31, 2011 Public Price	Dec. 31, 2011 Carrying Value
General Growth Properties	**$ 4,207**	**$ 4,831**	$ 2,924	$ 4,099
Rouse Properties	**304**	**381**	—	—
Other	**146**	**95**	89	76
	$ 4,657	**$ 5,307**	$ 3,013	$ 4,175

Judgment is applied when assessing the carrying value of the company's investment in General Growth Properties ("GGP") and whether there was an indication of impairment of its investment. Consideration was given to the following: GGP's operating environment; market competition; market share; estimates of future cash flows; financial strength; covenants; public pricing and public price volatility. Additional consideration is applied by the company including: the company's ability and intent to hold its investment, synergies experienced with the company's other businesses, the company's ownership interest relative to other shareholders as well as its internal valuations.

9. INVESTMENT PROPERTIES

(MILLIONS)		**2012**		2011
Fair value at beginning of year	**$**	**28,366**	$	22,163
Additions		**1,715**		1,442
Acquisitions through business combinations		**2,793**		5,846
Disposals		**(1,136)**		(2,150)
Fair value changes		**1,276**		1,477
Foreign currency translation		**147**		(412)
Fair value at end of year	**$**	**33,161**	$	28,366

The fair value of investment properties is generally determined by discounting the expected cash flows of the properties based upon internal valuations. The majority of the company's investment properties are externally valued on a three-year rotation plan.

The key valuation metrics of the company's commercial office properties are presented in the following table on a weighted average basis:

	United States		Canada		Australia	
	Dec. 31, 2012	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011
Discount rate	**7.3%**	7.5%	**6.4%**	6.7%	**8.8%**	9.1%
Terminal capitalization rate	**6.3%**	6.3%	**5.7%**	6.2%	**7.1%**	7.5%
Investment horizon (years)	**11**	12	**11**	11	**10**	10

The key valuation assumptions of the company's Brazilian retail properties include a discount rate of 8.5% (2011 – 9.6%), a terminal capitalization rate of 7.2% (2011 – 7.3%) and an investment horizon of 10 years (2011 – 10 years).

10. PROPERTY, PLANT AND EQUIPMENT

(MILLIONS)		**Dec. 31, 2012**		Dec. 31, 2011
Cost	**$**	**22,823**	$	14,857
Accumulated fair value changes		**11,398**		9,944
Accumulated depreciation		**(3,107)**		(1,969)
Total	**$**	**31,114**	$	22,832

Accumulated fair value changes include 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 the business segments as shown in the following table:

(MILLIONS)	Note		**Dec. 31, 2012**		Dec. 31, 2011
Renewable power	(a)	**$**	**16,532**	$	14,727
Infrastructure					
Utilities	(b)		**3,310**		993
Transport and energy	(c)		**4,014**		2,514
Sustainable resources	(d)		**1,378**		1,162
Property	(e)		**2,968**		640
Private equity and other	(f)		**2,912**		2,796
		$	**31,114**	$	22,832

a) Renewable Power

(MILLIONS)		**Dec. 31, 2012**		Dec. 31, 2011
Cost	**$**	**7,617**	$	6,149
Accumulated fair value changes		**10,712**		9,887
Accumulated depreciation		**(1,797)**		(1,309)
Total	**$**	**16,532**	$	14,727

Renewable power 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 assets are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2012.

The key valuation metrics of the company's hydro and wind generating facilities at the end of 2012 and 2011 are summarized below. The valuations are impacted primarily by the discount rate and long-term power prices.

	United States		Canada		Brazil	
	Dec. 31, 2012	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011
Discount rate	**6.5%**	6.7%	**5.4%**	5.7%	**9.4%**	9.9%
Terminal capitalization rate	**7.0%**	7.2%	**6.5%**	6.8%	**n/a**	n/a
Exit date	**2032**	2031	**2032**	2031	**2029**	2029

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 6,149**	$ 5,533
Additions, net of disposals	**136**	371
Acquisitions through business combinations	**1,374**	446
Foreign currency translation	**(42)**	(201)
Balance at end of year	**$ 7,617**	$ 6,149

As at December 31, 2012, the cost of generating facilities under development includes $8 million of capitalized costs (December 31, 2011 – $9 million).

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 9,887**	$ 7,804
Fair value changes	**830**	2,319
Foreign currency translation	**(5)**	(236)
Balance at end of year	**$ 10,712**	$ 9,887

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ (1,309)**	$ (894)
Depreciation expense	**(489)**	(453)
Foreign currency translation	**1**	38
Balance at end of year	**$ (1,797)**	$ (1,309)

b) Utilities

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Cost	**$ 3,201**	$ 984
Accumulated fair value changes	**214**	49
Accumulated depreciation	**(105)**	(40)
Total	**$ 3,310**	$ 993

The company's utilities assets are primarily comprised of power transmission and distribution networks, 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, 2012. The company determined fair value to be the current replacement cost.

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 984**	$ 746
Additions, net of disposals	**92**	254
Acquisitions through business combinations	**2,040**	—
Foreign currency translation	**85**	(16)
Balance at end of year	**$ 3,201**	$ 984

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 49**	$ —
Fair value changes	**165**	49
Balance at end of year	**$ 214**	$ 49

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ (40)**	$ (23)
Depreciation expense	**(63)**	(24)
Foreign currency translation	**(2)**	7
Balance at end of year	**$ (105)**	$ (40)

c) Transport and Energy

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Cost	**$ 3,562**	$ 2,346
Accumulated fair value changes	**648**	244
Accumulated depreciation	**(196)**	(76)
Total	**$ 4,014**	$ 2,514

Transport and energy assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2012. The company determined fair value to be the current replacement cost. The following table presents the changes to the cost of the company's transport and energy assets:

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 2,346**	$ 1,776
Additions, net of disposals	**469**	572
Acquisitions through business combinations	**685**	—
Foreign currency translation	**62**	(2)
Balance at end of year	**$ 3,562**	$ 2,346

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ 244**	$ (32)
Fair value changes	**399**	276
Foreign currency translation	**5**	—
Balance at end of year	**$ 648**	$ 244

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

(MILLIONS)	**2012**	2011
Balance at beginning of year	**$ (76)**	$ (17)
Depreciation expense	**(118)**	(62)
Foreign currency translation	**(2)**	3
Balance at end of year	**$ (196)**	$ (76)

d) Sustainable Resources

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Cost	**$ 1,426**	$ 1,305
Accumulated fair value changes	**(18)**	(132)
Accumulated depreciation	**(30)**	(11)
Total	**$ 1,378**	$ 1,162

The following table presents the changes to the cost of the company's sustainable resources property, plant and equipment assets:

(MILLIONS)	2012	2011
Balance at beginning of year	**$ 1,305**	$ 1,294
Additions, net of disposals	**138**	81
Foreign currency translation	**(17)**	(70)
Balance at end of year	**$ 1,426**	$ 1,305

Sustainable resources assets are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2012.

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

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Balance at beginning of year	**$ (132)**	$ (224)
Fair value changes	**142**	99
Foreign currency translation	**(28)**	(7)
Balance at end of year	**$ (18)**	$ (132)

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

(MILLIONS)	2012	2011
Balance at beginning of year	**$ (11)**	$ (10)
Depreciation expense	**(20)**	(2)
Foreign currency translation	**1**	1
Balance at end of year	**$ (30)**	$ (11)

e) Property

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Cost	**$ 3,130**	$ 640
Accumulated fair value changes	**4**	—
Accumulated depreciation	**(166)**	—
Total	**$ 2,968**	$ 640

The company's property assets include hospitality assets accounted for under the revaluation model and the most recent date of revaluation was December 31, 2012. The company generally determines fair value for these assets by discounting the expected future cash flows using internal valuations. The following table presents the changes to the carrying value of the company's property, plant and equipment assets included within its property operations:

(MILLIONS)	2012	2011
Balance at beginning of year	**$ 640**	$ —
Additions, net of disposals	**44**	—
Acquisitions through business combinations	**2,446**	640
Balance at end of year	**$ 3,130**	$ 640

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

(MILLIONS)	2012	2011
Balance at beginning of year	**$ —**	$ —
Fair value changes	**4**	—
Balance at end of year	**$ 4**	$ —

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

(MILLIONS)	2012	2011
Balance at beginning of year	$ —	$ —
Depreciation expense	(166)	—
Balance at end of year	$ (166)	$ —

f) Private Equity and Other

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Cost	$ 3,887	$ 3,433
Accumulated fair value changes	(162)	(104)
Accumulated depreciation	(813)	(533)
Total	$ 2,912	$ 2,796

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

The company's private equity assets are accounted for under the cost model, which requires the assets to be carried at cost less accumulated depreciation and any accumulated fair value changes. 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 other operations:

(MILLIONS)	2012	2011
Balance at beginning of year	$ 3,433	$ 3,049
Additions, net of disposals	405	144
Acquisitions through business combinations	—	299
Foreign currency translation	49	(59)
Balance at end of year	$ 3,887	$ 3,433

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

(MILLIONS)	2012	2011
Balance at beginning of year	$ (104)	$ (131)
Fair value changes	(58)	27
Balance at end of year	$ (162)	$ (104)

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

(MILLIONS)	2012	2011
Balance at beginning of year	$ (533)	$ (351)
Depreciation expense	(283)	(197)
Foreign currency translation	3	15
Balance at end of year	$ (813)	$ (533)

11. SUSTAINABLE RESOURCES

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Timber	$ 3,240	$ 3,119
Other agricultural assets	43	36
Total	$ 3,283	$ 3,155

The company held 1,438 million acres of consumable freehold timber at December 31, 2012 (December 31, 2011 – 1,441 million), of which approximately 850 million acres (December 31, 2011 – 849 million) were classified as mature and available for harvest.

The following table presents the change in the balance of standing timber and other agricultural assets:

(MILLIONS)	2012	2011
Balance at beginning of year	$ 3,155	$ 2,834
Additions, net of disposals	12	54
Fair value adjustments	352	527
Decrease due to harvest	(220)	(235)
Foreign currency changes	(16)	(25)
Balance at end of year	$ 3,283	$ 3,155

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 6.2% (2011 – 6.6%) and an average terminal valuation date of 90 years (2011 – 75 years). Timber prices were based on a combination of forward prices available in the market and the price forecasts.

12. INTANGIBLE ASSETS

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Cost	$ 6,109	$ 4,210
Accumulated amortization and impairment losses	(345)	(242)
Total	$ 5,764	$ 3,968

Intangible assets are allocated to the following cash generating units:

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Property – Opportunity and finance	$ 460	$ 180
Renewable power	106	115
Utilities – Australian Coal Terminal	2,592	2,555
Transport and energy – Chilean toll road	1,421	—
Transport and energy – UK port operations	348	330
Private equity	280	282
Construction	371	386
Other	186	120
Net intangible assets	$ 5,764	$ 3,968

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

(MILLIONS)	2012	2011
Cost at beginning of year	$ 4,210	$ 3,969
Additions, net of disposals	(3)	60
Acquisitions through business combinations	1,916	204
Foreign currency translation	(14)	(23)
Cost at end of year	$ 6,109	$ 4,210

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

(MILLIONS)	2012	2011
Accumulated amortization at beginning of year	$ (242)	$ (164)
Amortization	(124)	(82)
Foreign currency translation	21	4
Accumulated amortization at end of year	$ (345)	$ (242)

The following table presents intangible assets by geography:

(MILLIONS)	2012	2011
United States	$ 614	$ 349
Canada	286	311
Australia	2,963	2,941
Brazil	32	35
Europe	448	332
Chile	1,421	—
	$ 5,764	$ 3,968

13. GOODWILL

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Cost	$ 2,540	$ 2,652
Accumulated impairment losses	(50)	(45)
Total	$ 2,490	$ 2,607

Goodwill is allocated to the following cash generating units:

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Construction	$ 840	$ 860
Sustainable resources – Western North America	591	591
Residential development – Brazil	373	420
Retail property – Brazil	138	150
Property services	102	142
Asset management	205	194
Other	241	250
Total	$ 2,490	$ 2,607

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

(MILLIONS)	2012	2011
Cost at beginning of year	$ 2,652	$ 2,561
Acquisitions through business combinations	60	144
Foreign currency translation and other	(172)	(53)
Cost at end of year	$ 2,540	$ 2,652

The following table reconciles accumulated impairment losses:

(MILLIONS)	2012	2011
Accumulated impairment at beginning of year	$ (45)	$ (15)
Impairment losses	(5)	(30)
Accumulated impairment at end of year	$ (50)	$ (45)

The following table presents goodwill by geography:

(MILLIONS)	2012	2011
United States	$ 819	$ 848
Canada	57	144
Australia	1,052	1,037
Brazil	518	578
Europe	28	—
Other	16	—
	$ 2,490	$ 2,607

14. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2012 and December 31, 2011 are set out below:

(MILLIONS)	2012	2011
Total current income tax	**$ 135**	$ 97
Deferred income tax expense/(recovery)		
Origination and reversal of temporary differences	**476**	409
Recovery arising from previously unrecognized tax assets	**(93)**	(19)
Change of tax rates and imposition of new legislation	**(2)**	21
Total deferred income tax	**381**	411
Income taxes	**$ 516**	$ 508

The company's Canadian domestic statutory income tax rate has decreased from 28% in 2011 to 26% in 2012 because of the decrease in Canadian tax rates. The company's effective tax rate is different from the company's domestic statutory income tax rate due to the differences set out below:

	2012	2011
Statutory income tax rate	**26%**	28%
Increase (reduction) in rate resulting from:		
Portion of income not subject to tax	**(1)**	(6)
International operations subject to different tax rates	**(9)**	(11)
Change in tax rates on temporary differences	**—**	2
Recognition of deferred tax assets	**(1)**	(4)
Non-recognition of the benefit of current year's tax losses	**3**	4
Other	**(2)**	—
Effective income tax rate	**16%**	13%

Deferred income tax assets and liabilities as at December 31, 2012 and December 31, 2011 relate to the following:

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Non-capital losses (Canada)	**$ 834**	$ 771
Capital losses (Canada)	**166**	174
Losses (U.S.)	**408**	316
Losses (International)	**705**	493
Difference in basis	**(6,868)**	(5,461)
Total net deferred tax liability	**$ (4,755)**	$ (3,707)

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Deferred income tax assets	**$ 1,664**	$ 2,110
Deferred income tax liabilities	**(6,419)**	(5,817)
Total net deferred tax liabilities	**$ (4,755)**	$ (3,707)

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2012 is approximately $7 billion (December 31, 2011 – approximately $6 billion).

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.

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.

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

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
2013	**$ 2**	$ 4
2014	**1**	2
2015	**2**	17
After 2021	**311**	302
Do not expire	**589**	591
Total	**$ 905**	$ 916

The components of the income taxes in other comprehensive income for the years ended December 31, 2012 and December 31, 2011 are set out below:

	2012	2011
Revaluation of property, plant and equipment	**$ 433**	$ 283
Financial contracts and power sale agreements	**5**	(169)
Available-for-sale securities	**10**	(6)
Equity accounted investments	**(10)**	40
Foreign currency translation	**(4)**	(1)
Total deferred tax in other comprehensive income	**$ 434**	$ 147

15. ACCOUNTS PAYABLE AND OTHER

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Accounts payable	**$ 7,183**	$ 5,342
Other liabilities	**4,416**	3,924
Total	**$ 11,599**	$ 9,266

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

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Current	**$ 6,192**	$ 5,495
Non-current	**5,407**	3,771
Total	**$ 11,599**	$ 9,266

Included in accounts payable and other liabilities are $2,388 million (2011 – $2,020 million) of accounts payable and other liabilities related to the company's residential development operations. Accounts payable and other liabilities also includes $418 million (2011 – $539 million) of insurance deposits, claims and other liabilities incurred by the company's insurance subsidiaries.

16. CORPORATE BORROWINGS

(MILLIONS)	Maturity	Annual Rate	Currency	Dec. 31, 2012	Dec. 31, 2011
Term debt					
Public – U.S.	Jun. 15, 2012	7.13%	US$	**$ —**	$ 350
Private – U.S.	Oct. 23, 2012	6.40%	US$	**—**	75
Private – U.S.	Oct. 23, 2013	6.65%	US$	**75**	75
Private – Canadian	Apr. 30, 2014	6.26%	C$	**27**	29
Private – Canadian	Jun. 2, 2014	8.95%	C$	**151**	489
Public – Canadian	Sept. 8, 2016	5.20%	C$	**302**	294
Public – U.S.	Apr. 25, 2017	5.80%	US$	**239**	240
Public – Canadian	Apr. 25, 2017	5.29%	C$	**252**	245
Public – Canadian	Apr. 9, 2019	3.95%	C$	**428**	—
Public – Canadian	Mar. 1, 2021	5.30%	C$	**353**	343
Public – Canadian	Mar. 31, 2023	4.54%	C$	**428**	—
Public – U.S.	Mar. 1, 2033	7.38%	US$	**250**	250
Public – Canadian	Jun. 14, 2035	5.95%	C$	**302**	293
				2,807	2,683
Commercial paper and bank borrowings		1.34%	US$/C$/£	**744**	1,042
Deferred financing costs[1]				**(25)**	(24)
Total				**$ 3,526**	$ 3,701

1. Deferred financing costs are amortized to interest expense over the term of the borrowing following the effective interest method

Corporate borrowings have a weighted average interest rate of 4.7% (2011 – 5.2%), and include $2,679 million (2011 – $2,142 million) repayable in Canadian dollars of C$2,658 million (2011 – C$2,187 million) and $165 million (2011 – $158 million) repayable in British pounds of £102 million (2011 – £102 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)	Asset Management and Other Services	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate/ Unallocated	Total
2013	$ 27	$ 2,279	$ 532	$ 668	$ 903	$ 10	$ 4,419
2014	30	5,763	536	1,898	642	—	8,869
2015	294	1,060	110	410	401	—	2,275
2016	—	2,229	132	493	941	—	3,795
2017	—	2,674	497	23	30	—	3,224
Thereafter	—	4,704	2,540	3,529	293	—	11,066
Total – Dec. 31, 2012	**$ 351**	**$ 18,709**	**$ 4,347**	**$ 7,021**	**$ 3,210**	**$ 10**	**$ 33,648**
Total – Dec. 31, 2011	$ 439	$ 15,696	$ 4,197	$ 4,802	$ 3,174	$ 107	$ 28,415

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

(MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Current	**$ 4,419**	$ 3,292
Non-current	**29,229**	25,123
Total	**$ 33,648**	$ 28,415

Property-specific mortgages by currency include the following:

(MILLIONS)	**Dec. 31, 2012**	**Local Currency**		Dec. 31, 2011	Local Currency	
U.S. dollars	**$ 17,783**	**US$**	**17,783**	$ 14,211	US$	14,211
Australian dollars	**4,939**	**A$**	**4,751**	5,406	A$	5,297
Canadian dollars	**4,552**	**C$**	**4,517**	4,148	C$	4,236
Brazilian reais	**3,232**	**R$**	**6,604**	3,445	R$	6,419
British pounds	**2,093**	**£**	**1,288**	1,198	£	770
Chilean unidad de fomento	**754**	**CLF$**	**16**	—	CLF$	—
Colombian pesos	**179**	**COP$**	**316,127**	—	COP$	—
New Zealand dollars	**109**	**N$**	**131**	—	N$	—
European Union euros	**7**	**€$**	**4**	7	€$	5
Total	**$ 33,648**			$ 28,415		

b) Subsidiary Borrowings

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

(MILLIONS)	Property	Renewable Power	Infrastructure	Private Equity and Residential Development	Corporate/ Unallocated	Total
2013	$ 874	$ —	$ 10	$ 155	$ —	$ 1,039
2014	574	268	4	181	—	1,027
2015	25	—	—	233	1,130	1,388
2016	—	302	544	60	—	906
2017	200	—	406	528	—	1,134
Thereafter	223	1,202	3	663	—	2,091
Total – Dec. 31, 2012	**$ 1,896**	**$ 1,772**	**$ 967**	**$ 1,820**	**$ 1,130**	**$ 7,585**
Total – Dec. 31, 2011	$ 743	$ 1,323	$ 116	$ 1,271	$ 988	$ 4,441

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

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Current	**$ 1,039**	$ 499
Non-current	**6,546**	3,942
Total	**$ 7,585**	$ 4,441

Subsidiary borrowings by currency include:

(MILLIONS)	**Dec. 31, 2012**	**Local Currency**		Dec. 31, 2011	Local Currency	
U.S. dollars	**$ 4,113**	**US$**	**4,113**	$ 2,475	US$	2,475
Canadian dollars	**2,569**	**C$**	**2,549**	1,492	C$	1,524
Australian dollars	**882**	**A$**	**849**	359	A$	352
Brazilian reais	**21**	**R$**	**43**	2	R$	4
New Zealand dollars	**—**	**N$**	**—**	113	N$	145
Total	**$ 7,585**			$ 4,441		

18. CAPITAL SECURITIES

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

(MILLIONS)	Note	**Dec. 31, 2012**	Dec. 31, 2011
Corporate preferred shares	(a)	**$ 325**	$ 656
Subsidiary preferred shares	(b)	**866**	994
Total		**$ 1,191**	$ 1,650

a) Corporate Preferred Shares

Corporate preferred shares consist of the company's Class A Preferred Shares as follows:

(MILLIONS, EXCEPT SHARE INFORMATION)	Shares Outstanding	Cumulative Dividend Rate	Currency	**Dec. 31, 2012**	Dec. 31, 2011
Class A preferred shares					
Series 10	—	5.75%	C$	**$ —**	$ 245
Series 11	—	5.50%	C$	**—**	99
Series 12	7,000,000	5.40%	C$	**176**	171
Series 21	6,000,000	5.00%	C$	**151**	147
Deferred financing costs				**(2)**	(6)
Total				**$ 325**	$ 656

Subject to approval of the Toronto Stock Exchange, the Class A, Series 12 and 21 preferred shares, unless redeemed by the company for cash, are convertible into Class A Limited Voting Shares at a price equal to the greater of 95% 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:

	Earliest Permitted Redemption Date	Company's Conversion Option	Holder's Conversion Option
Class A preferred shares			
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

Subsidiary preferred shares are composed of Brookfield Office Properties Class AAA preferred shares as follows:

(MILLIONS, EXCEPT SHARE INFORMATION)	Shares Outstanding	Cumulative Dividend Rate	Currency	**Dec. 31, 2012**	Dec. 31, 2011
Class AAA preferred shares					
Series F	8,000,000	6.00%	C$	**$ 202**	$ 196
Series G	4,400,000	5.25%	US$	**110**	110
Series H	8,000,000	5.75%	C$	**202**	196
Series I	—	5.20%	C$	**—**	150
Series J	8,000,000	5.00%	C$	**202**	196
Series K	6,000,000	5.20%	C$	**151**	148
Deferred financing costs				**(1)**	(2)
Total				**$ 866**	$ 994

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

	Earliest Permitted Redemption Date	Company's Conversion Option	Holder's Conversion Option
Class AAA preferred shares			
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 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 CONSOLIDATED FUNDS

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

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Limited life funds	**$ 352**	$ 273
Redeemable fund units	**73**	60
	$ 425	$ 333

20. EQUITY

Equity is comprised of the following:

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Preferred equity	**$ 2,901**	$ 2,140
Non-controlling interests	**23,190**	18,516
Common equity	**18,160**	16,743
	$ 44,251	$ 37,399

a) Preferred Equity

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

		Issued and Outstanding			
(MILLIONS, EXCEPT SHARE INFORMATION)	Rate	**2012**	2011	**Dec. 31, 2012**	Dec. 31, 2011
Class A preferred shares					
Series 2	70% P	**10,465,100**	10,465,100	**$ 169**	$ 169
Series 4	70% P/8.5%	**2,800,000**	2,800,000	**45**	45
Series 8	Variable up to P	**1,652,394**	1,652,394	**29**	29
Series 9	3.80%	**2,347,606**	2,347,606	**35**	35
Series 13	70% P	**9,297,700**	9,297,700	**195**	195
Series 15	B.A. + 40 b.p.[1]	**2,000,000**	2,000,000	**42**	42
Series 17	4.75%	**8,000,000**	8,000,000	**174**	174
Series 18	4.75%	**8,000,000**	8,000,000	**181**	181
Series 22	7.00%	**12,000,000**	12,000,000	**274**	274
Series 24	5.40%	**11,000,000**	11,000,000	**269**	269
Series 26	4.50%	**10,000,000**	10,000,000	**245**	245
Series 28	4.60%	**9,400,000**	9,400,000	**235**	235
Series 30	4.80%	**10,000,000**	10,000,000	**247**	247
Series 32	4.50%	**12,000,000**	—	**304**	—
Series 34	4.20%	**10,000,000**	—	**256**	—
Series 36	4.85%	**8,000,000**	—	**201**	—
Total				**$ 2,901**	$ 2,140

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 Limited Voting 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.

b) Non-controlling interests

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

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Common equity	**$ 20,836**	$ 16,689
Preferred equity	**2,354**	1,827
Total	**$ 23,190**	$ 18,516

c) Common Equity

The company's common equity is comprised of the following:

(MILLIONS)		Dec. 31, 2012		Dec. 31, 2011
Common shares	**$**	**2,855**	$	2,816
Contributed surplus		**149**		125
Retained earnings		**6,807**		5,982
Ownership changes		**487**		475
Accumulated other comprehensive income		**7,862**		7,345
Common equity	**$**	**18,160**	$	16,743

The company is authorized to issue an unlimited number of Class A Limited Voting Shares and 85,120 Class B Limited Voting Shares, together referred to as common shares. The company's common shares have no stated par value. The holders of Class A Limited Voting Shares and Class B Limited Voting 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. Holders of the Class A Limited Voting Common Shares are entitled to elect one-half of the Board of Directors of the company and holders of the Class B Limited Voting Common Shares are entitled to elect the other one-half of the Board of Directors. With respect to the Class A and Class B Limited Voting 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 Limited Voting 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 Limited Voting shares are diluted.

The holders of Class A Limited Voting Shares received dividends of $0.55 per share (2011 – $0.52 per share) and holders of Class B shares received dividends of $0.55 per share (2011 – $0.52 per share).

The number of shares issued and outstanding and unexercised options at December 31, 2012 and December 31, 2011 are as follows:

	Dec. 31, 2012	Dec. 31, 2011
Class A Limited Voting Shares	**619,514,229**	619,203,649
Class B Limited Voting Shares	**85,120**	85,120
Shares outstanding[1]	**619,599,349**	619,288,769
Unexercised options[2]	**38,402,078**	37,873,841
Total diluted Limited Voting shares	**658,001,427**	657,162,610

1. Net of 5,450,000 (2011 – 3,200,000) Class A Limited Voting Shares held by the company to satisfy long-term compensation agreements
2. Includes management share option plan and escrowed stock plan

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

	Dec. 31, 2012	Dec. 31, 2011
Outstanding at beginning of year	**619,288,769**	577,663,693
Shares issued (repurchased)		
Dividend reinvestment plan	**230,916**	128,600
Management share option plan[1]	**2,507,639**	2,545,776
Repurchases	**(2,569,272)**	(6,144,300)
Issuances	**141,297**	45,095,000
Outstanding at end of year[2]	**619,599,349**	619,288,769

1. Includes management share option plan and restricted stock plan
2. Net of 5,450,000 (2011 – 3,200,000) Class A Limited Voting Shares held by the company to satisfy long-term compensation agreements

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)	2012	2011
Net income attributable to shareholders	**$ 1,380**	$ 1,957
Preferred share dividends	**(129)**	(106)
Net income available to shareholders – basic	**1,251**	1,851
Capital securities dividends[1]	**25**	38
Net income available for shareholders – diluted	**$ 1,276**	$ 1,889
Weighted average – common shares	**618.9**	616.2
Dilutive effect of the conversion of options using treasury stock method	**12.1**	10.8
Dilutive effect of the conversion of capital securities[1,2]	**18.0**	26.0
Common shares and common share equivalents	**649.0**	653.0

1. Subject to the approval of the Toronto Stock Exchange, the Series 12 and 21 shares, unless redeemed by the company for cash, are convertible into Class A Limited Voting shares at a price equal to the greater of 95% at the market price at the time of conversion and C$2.00, at the option of either the company or the holder. The Series 10 and 11 shares were redeemed by the company during 2012
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)	2012	2011
Expense arising from equity-settled share-based payment transactions	**$ 59**	$ 46
Expense (income) arising from cash-settled share-based payment transactions	**144**	(54)
Total expense/(income) arising from share-based payment transactions	**203**	(8)
Effect of hedging program	**(136)**	75
Total expense included in consolidated results	**$ 67**	$ 67

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2012 or 2011.

Management Share Option Plan

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 2012 and 2011 were as follows:

	Number of Options (000's)[1]	Weighted Average Exercise Price	Number of Options (000's)[2]	Weighted Average Exercise Price
Outstanding at January 1, 2012	26,995	C$ 21.31	10,879	US$ 25.45
Granted	—	—	3,615	31.35
Exercised	(2,380)	14.97	(128)	24.80
Cancelled	(96)	30.28	(238)	29.24
Converted[3]	(944)	9.37	—	—
Outstanding at December 31, 2012	23,575	C$ 22.40	14,128	US$ 26.90

1. Options to acquire TSX listed Class A Limited Voting Shares
2. Options to acquire NYSE listed Class A Limited Voting Shares
3. Options converted into restricted shares at maturity

	Number of Options (000's)[1]		Weighted Average Exercise Price	Number of Options (000's)[2]		Weighted Average Exercise Price
Outstanding at January 1, 2011	29,636	C$	20.48	8,765	US$	23.39
Granted	—		—	2,727		32.38
Exercised	(2,520)		11.39	(37)		23.18
Cancelled	(121)		23.18	(576)		27.02
Outstanding at December 31, 2011	26,995	C$	21.31	10,879	US$	25.45

1. Options to acquire TSX listed Class A Limited Voting Shares
2. Options to acquire NYSE listed Class A Limited Voting Shares

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

	Unit	**2012**	2011
Weighted average share price	US$	**31.35**	32.38
Weighted average fair value per option	US$	**6.54**	7.92
Average term to exercise	Years	**7.5**	7.5
Share price volatility[1]	%	**32.6**	33.8
Liquidity discount	%	**25.0**	25.0
Weighted average annual dividend yield	%	**1.8**	1.6
Risk-free rate	%	**1.4**	2.8

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

At December 31, 2012, the following options to purchase Class A Limited Voting Shares were outstanding:

		Options Outstanding (000's)		
Exercise Price	Weighted Average Remaining Life	Vested	Unvested	**Total**
C$8.72 – C$8.83	0.1 years	1,071	—	**1,071**
C$13.37 – C$19.03	5.2 years	7,043	3,768	**10,811**
C$20.21 – C$30.22	2.7 years	6,252	129	**6,381**
C$31.62 – C$46.59	4.7 years	4,771	541	**5,312**
US$23.18 – US$35.06	7.9 years	3,713	10,415	**14,128**
		22,850	14,853	**37,703**

At December 31, 2011, the following options to purchase Class A Limited Voting shares were outstanding:

		Options Outstanding (000's)		
Exercise Price	Weighted Average Remaining Life	Vested	Unvested	Total
C$8.51 – C$9.76	0.7 years	3,120	—	3,120
C$13.37 – C$19.03	6.2 years	5,679	5,706	11,385
C$20.21 – C$30.22	3.7 years	6,919	158	7,077
C$31.62 – C$46.59	5.7 years	3,751	1,662	5,413
US$23.18 – US$32.61	8.4 years	1,636	9,243	10,879
		21,105	16,769	37,874

Restricted Share Unit Plan

The Restricted Share Unit Plan provides for the issuance of the Deferred Share Units ("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, 2012 was $436 million (December 31, 2011 – $295 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, 2012, including those of operating subsidiaries, totalled $8 million (2011 – $21 million), net of the impact of hedging arrangements.

The change in the number of DSUs and RSUs during 2012 and 2011 was as follows:

	DSUs	RSUs	
	Number of Units (000's)	Number of Units (000's)	Weighted Average Exercise Price
Outstanding at January 1, 2012	7,255	8,030	C$ 13.56
Granted and reinvested	430	—	—
Exercised and cancelled	(238)	—	—
Outstanding at December 31, 2012	7,447	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, 2011	6,531	8,030	C$ 13.56
Granted and reinvested	834	—	—
Exercised	(110)	—	—
Outstanding at December 31, 2011	7,255	8,030	C$ 13.56

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, 2012**	Dec. 31, 2011
Share price on date of measurement	C$	**36.44**	28.04
Weighted average exercise price	C$	**13.56**	13.56
Term to exercise	Years	**9.2**	10.2
Share price volatility	%	**24.11**	23.93
Weighted average of expected annual dividend yield	%	**1.4**	1.9
Risk-free rate	%	**2.2**	2.3
Weighted average fair value of a unit	C$	**21.47**	13.64

Escrowed Stock Plan

The Escrowed Stock Plan (the "ES Plan") provides executives with increased indirect ownership of Class A Limited Voting Shares. Under the ES Plan, executives are granted common shares (the "ES Shares") in one or more private companies that own the company's Class A Limited Voting Shares. The Class A Limited Voting Shares are purchased on the open market with the purchase cost funded with the proceeds from preferred shares issued to the company. The ES shares vest on, and must be held until, the fifth anniversary of the grant date. At a date no less than five years, and no more than ten years, from the grant date, all outstanding ES Shares will be exchanged for Class A Limited Voting Shares issued by the company, based on the market value of Class A Limited Voting Shares at the time of the exchange.

During 2012, 2.25 million Class A Limited Voting Shares were purchased in respect of ES Shares granted to executives under the ES Plan (2011 – 2.4 million Class A Limited Voting Shares). For the year ended December 31, 2012, the total expense incurred with respect to the ES Plan totalled $6.3 million (December 31, 2011 – $3.5 million).

The cost of the escrowed shares granted during the year was determined using the Black-Scholes model of valuation with inputs to the model as follows:

	Unit	**2012**	2011
Weighted average share price	US$	**31.35**	32.38
Weighted average fair value per share	US$	**6.05**	7.35
Average term to exercise	Years	**7.5**	7.5
Share price volatility[1]	%	**32.6**	33.8
Liquidity discount	%	**30.0**	30.0
Weighted average annual dividend yield	%	**1.8**	1.6
Risk-free rate	%	**1.4**	2.8

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

Restricted Stock Plan

The Restricted Stock Plan awards executives with Class A Limited Voting Shares purchased on the open market ("Restricted Shares"). Under the Restricted Stock Plan, Restricted Shares awarded vest over a period of up to five years, except for Restricted Shares awarded in lieu of a cash bonus which may vest immediately. Vested and unvested Restricted Shares must be held until the fifth anniversary of the award date. Holders of vested Restricted Shares are entitled to vote Restricted Shares and to receive associated dividends. Employee compensation expense for the Restricted Stock Plan is charged against income over the vesting period.

During 2012, Brookfield granted 456,497 Class A Limited Voting Shares pursuant to the terms and conditions of the Restricted Stock Plan, resulting in the recognition of $8.5 million (2011 – $nil) within compensation expense. In addition, Brookfield exchanged 943,625 fully vested, in-the-money options of certain executives for 676,600 Class A Limited Voting Shares under the Restricted Stock Plan.

21. DIRECT COSTS

Direct costs include all attributable expenses except interest, depreciation and amortization, taxes and fair value changes and are primarily related to cost of goods sold and compensation. The following table lists direct costs for 2012 and 2011 by nature:

(MILLIONS)	**2012**	2011
Cost of sales	**$ 10,996**	$ 9,663
Compensation	**822**	575
Selling, general and administrative expenses	**528**	456
Taxes and other	**1,563**	1,212
	$ 13,909	$ 11,906

22. FAIR VALUE CHANGES

Fair value changes recorded in net income represent gains or losses arising from changes in the fair value of assets and liabilities, including derivative financial instruments, accounted for using the fair value method and are comprised of the following:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Investment property	**$ 1,276**	$ 1,477
Sustainable resources	**132**	292
Power contracts	**9**	54
Redeemable units	**(11)**	(376)
Interest rate contracts	**(81)**	(64)
Private equity	**(119)**	(74)
Other	**(56)**	77
	$ 1,150	$ 1,386

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, 2012 and December 31, 2011 is as follows:

(MILLIONS)	Note	**Dec. 31, 2012**	Dec. 31, 2011
Foreign exchange	(a)	**$ 6,159**	$ 4,358
Interest rates	(b)	**18,671**	13,882
Credit default swaps	(c)	**865**	970
Equity derivatives	(d)	**1,112**	650
		$ 26,807	$ 19,860
Commodity instruments	(e)		
Energy (GWh)		**73,902**	77,553
Natural gas (MMBtu – 000's)		**41,922**	22,868

a) Foreign Exchange

The company held the following foreign exchange contracts with notional amounts at December 31, 2012 and December 31, 2011.

	Notional Amount (U.S. Dollars)		Average Exchange Rate	
(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011	**Dec. 31, 2012**	Dec. 31, 2011
Foreign exchange contracts				
Canadian dollars	**$ 1,089**	$ 802	**$ 0.99**	1.02
British pounds	**752**	588	**1.60**	1.56
European Union euros	**199**	337	**1.28**	1.31
Australian dollars	**894**	276	**1.03**	1.01
New Zealand dollars	**321**	218	**0.77**	0.77
Japanese yen	**5**	53	**86.79**	81.05
Brazilian reais	**2**	183	**2.08**	1.84
Cross currency interest rate swaps				
Australian dollars	**895**	612	**1.00**	1.00
Canadian dollars	**655**	223	**0.89**	0.79
Japanese yen	**98**	98	**75.47**	75.47
Brazilian reais	**66**	73	**1.81**	1.81
Foreign exchange options				
Brazilian reais	**219**	322	**1.50**	1.51
Australian dollars	**416**	128	**1.05**	1.05
Japanese yen	**548**	—	**79.25**	—
Canadian dollars	—	441	—	1.13
Foreign currency futures				
U.S. dollars	—	2	—	1.01
European Union euros	—	2	—	1.31
	$ 6,159	$ 4,358		

Included in net income are unrealized net losses on foreign currency derivative balances amounting to $2 million (2011 – net loss of $32 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 $45 million (2011 – net gain of $133 million).

b) Interest Rates

At December 31, 2012, the company held interest rate swap contracts having an aggregate notional amount of $1,351 million (2011 – $1,098 million), bond forwards having an aggregate notional of $nil (2011 – $295 million), and interest rate swaptions with an aggregate notional amount of $263 million (2011 – $211 million). The company's subsidiaries held interest rate swap contracts with an aggregate notional amount of $11,636 million (2011 – $9,780 million). The company's subsidiaries held interest rate cap contracts with an aggregate notional amount of $4,951 million (2011 – $2,374 million), bond forwards with an aggregate notional value of $471 million (2011 – $nil), and interest rate futures with an aggregate notional value of $nil (2011 – $124 million).

c) Credit Default Swaps

As at December 31, 2012, the company held credit default swap contracts with an aggregate notional amount of $865 million (2011 – $970 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 $815 million (2011 – $830 million) of the notional amount and could be required to make payments in respect of $50 million (2011 – $140 million) of the notional amount.

d) Equity Derivatives

At December 31, 2012, the company and its subsidiaries held equity derivatives with a notional amount of $1,112 million (2011 – $650 million) which includes $600 million (2011 – $463 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.

Other Information Regarding Derivative Financial Instruments

The following table classifies derivatives elected for hedge accounting during the years ended December 31, 2012 and 2011 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:

YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**			2011		
	Notional	**Effective Portion**	**Ineffective Portion**	Notional	Effective Portion	Ineffective Portion
Cash flow hedges[1]	**$ 14,872**	**$ (36)**	**$ (80)**	$ 10,598	$ (850)	$ 37
Net investment hedges	**1,787**	**(45)**	**—**	1,194	133	—
Fair value hedges	**—**	**—**	**—**	472	(6)	—
	$ 16,659	**$ (81)**	**$ (80)**	$ 12,264	$ (723)	$ 37

1. Notional amount does not include 41,732 GWh and 42,837 GWh of commodity derivatives at December 31, 2012 and December 31, 2011, respectively

The following table presents the change in fair values of the company's derivative positions during the years ended December 31, 2012 and 2011, for derivatives that are fair valued through profit or loss, and derivatives that qualify for hedge accounting:

(MILLIONS)	**Unrealized Gains During 2012**	**Unrealized Losses During 2012**	**Net Change During 2012**	Net Change During 2011
Foreign exchange derivatives	**$ 39**	**$ (85)**	**$ (46)**	$ 137
Interest rate derivatives				
Interest rate swaps	**69**	**(256)**	**(187)**	(636)
Bond forwards	**1**	**—**	**1**	(23)
Interest rate caps	**—**	**(1)**	**(1)**	—
Interest rate swaptions	**—**	**(5)**	**(5)**	2
	70	**(262)**	**(192)**	(657)
Credit default swaps	**—**	**(16)**	**(16)**	4
Equity derivatives	**223**	**—**	**223**	(88)
Commodity derivatives	**98**	**(116)**	**(18)**	(361)
	$ 430	**$ (479)**	**$ (49)**	$ (965)

The following table presents the notional amounts underlying the company's derivative instruments by term to maturity as at December 31, 2012 and the comparative notional amounts at December 31, 2011, for derivatives that are classified as fair value through profit or loss, and derivatives that qualify for hedge accounting:

	Dec. 31, 2012				Dec. 31, 2011
(MILLIONS)	**< 1 year**	**1 to 5 years**	**> 5 years**	**Total Notional Amount**	Total Notional Amount
Fair value through profit or loss					
Foreign exchange derivatives	**$ 2,584**	**$ 210**	**$ —**	**$ 2,794**	$ 2,254
Interest rate derivatives					
Interest rate swaps	**182**	**656**	**481**	**1,319**	1,076
Interest rate swaptions	**132**	**131**	**—**	**263**	211
Interest rate caps	**3,218**	**581**	**12**	**3,811**	2,325
Interest rate futures	**—**	**—**	**—**	**—**	124
	3,532	**1,368**	**493**	**5,393**	3,736
Credit default swaps	**—**	**865**	**—**	**865**	970
Equity derivatives	**227**	**357**	**512**	**1,096**	636
	$ 6,343	**$ 2,800**	**$ 1,005**	**$ 10,148**	$ 7,596
Commodity instruments					
Energy (GWh)	**20,313**	**9,491**	**2,367**	**32,171**	**34,716**
Natural gas (MMBtu – 000's)	**30,802**	**3,474**	**7,646**	**41,922**	**22,868**
Elected for hedge accounting					
Foreign exchange derivatives	**$ 1,815**	**$ 655**	**$ 895**	**$ 3,365**	$ 2,104
Interest rate derivatives					
Interest rate swaps	**3,265**	**7,370**	**1,032**	**11,667**	9,802
Bond forwards	**471**	**—**	**—**	**471**	295
Interest rate caps	**801**	**339**	**—**	**1,140**	49
	4,537	**7,709**	**1,032**	**13,278**	10,146
Equity derivatives	**—**	**16**	**—**	**16**	14
	$ 6,352	**$ 8,380**	**$ 1,927**	**$ 16,659**	$ 12,264
Commodity instruments					
Energy (GWh)	**3,233**	**10,185**	**28,313**	**41,731**	42,837

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 risk 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 financial assets and liabilities would have resulted in a corresponding decrease in net income before tax of $50 million (2011 – $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 $12 million (2011 – $3 million) and an increase in other comprehensive income of $57 million (2011 – $52 million), before tax for the year ended December 31, 2012.

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 $10 million (2011 – $3 million) increase in the value of these positions on a combined basis. 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 $55 million (2011 – $42 million) as at December 31, 2012, 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 that hedge of compensation arrangements, would have decreased net income by $90 million (2011 – $63 million) and decreased other comprehensive income by $7 million (2011 – $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 $30 million (2011 – $22 million). This increase would be offset by a $30 million (2011 – $23 million) change in value of the associated equity derivatives of which $29 million (2011 – $22 million) would offset the above mentioned increase in compensation expense and the remaining $1 million (2011 – $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, 2012 by approximately $70 million (2011 – decrease of $44 million) and decreased other comprehensive income by $21 million (2011 – $20 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 total notional amount of $865 million (2011 – $970 million) at December 31, 2012. 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 $3 million (2011 – $3 million) for the year ended December 31, 2012, 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, 2012, the recorded values of these items in the company's consolidated financial statements totalled \$21.4 billion (2011 – \$19.5 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 \$4.7 billion based on carrying values at December 31, 2012 (2011 – \$4.7 billion). The company monitors its capital base and leverage primarily in the context of its deconsolidated debt-to-total capitalization ratios. The ratio as at December 31, 2012 was 17% (2011 – 18%).

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, 2012 and 2011. 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' expense for 2012 was \$23 million (2011 – \$19 million). The discount rate used was 5% (2011 – 5%) with an increase in the rate of compensation of 3% (2011 – 3%) and an investment rate of 6% (2011 – 6%).

(MILLIONS)	**Dec. 31, 2012**	Dec. 31, 2011
Plan assets	**\$ 1,141**	\$ 1,093
Less accrued benefit obligation:		
Defined benefit pension plan	**(1,291)**	(1,123)
Other post-employment benefits	**(51)**	(24)
Net liability	**(201)**	(54)
Less: net actuarial losses	**39**	29
Accrued benefit liability	**\$ (162)**	\$ (25)

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 FOR THE YEARS ENDED (MILLIONS)	Dec. 31, 2012	Dec. 31, 2011
Current assets	**$ 56**	$ 60
Long-term assets	**3,057**	2,433
Total assets	**3,113**	2,493
Current liabilities	**315**	130
Long-term liabilities	**824**	697
Total liabilities	**1,139**	827
Net assets	**$ 1,974**	$ 1,666
Revenues	**$ 323**	$ 227
Expenses	**(202)**	(153)
Fair value changes	**216**	68
Net income	**$ 337**	$ 142

28. RELATED PARTY TRANSACTIONS

a) Related Parties

Related parties include subsidiaries, associates, joint arrangements, key management personnel, the Board of Directors (Directors), immediate family members of key management personnel and Directors, and entities which are, directly or indirectly, controlled by, jointly controlled by or significantly influenced by key management personnel, Directors or their close family members.

b) Key management personnel and Directors

Key management personnel are those individuals that have the authority and responsibility for planning, directing and controlling the company's activities, directly or indirectly and consist of the company's Senior Managing Partners. The company's Directors do not plan, direct, or control the activities the company directly, they provide oversight over the business.

The remuneration of Directors and other key management personnel of the company during the years ended December 31, 2012 and 2011 was as follows:

(MILLIONS)	2012	2011
Salaries, incentives and short-term benefits	**$ 21**	$ 15
Share-based payments	**29**	25
	$ 50	$ 40

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

c) Related Party Transactions

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

In December 2012, Brookfield Residential Properties Inc. ("BRP"), the company's 69% owned North American land developer and homebuilder, repaid its C$480 million loan to Brookfield Office Properties Inc. ("BPO"), using the proceeds from the completion of an equity offering of approximately $233 million and a senior unsecured debt offering of $600 million. The company subscribed for $111 million of BRP's equity offering. BRP paid $35 million of interest to BPO during the year ended December 31, 2012 (2011 – $26 million). BPO sold its previously held Canadian residential land development operations to BRP in March 2011 for proceeds of $500 million and provided C$480 million of bridge financings as part of the transaction. The transaction was measured at exchange value.

In October 2012, the company agreed to sell its directly held 10% investment in its South American transmission operations to Brookfield Infrastructure Partners L.P for proceeds of $235 million, subject to satisfaction of customary conditions. The purchase was completed in January 2013 with an effective date of October 1, 2012. The transaction was measured at fair value, as determined by an external appraiser, which approximated the company's carrying value of the investment and, as a result, no gain or loss was recorded on the transaction.

In November 2011, the company completed the combination of its indirectly held wholly-owned renewable power assets and its 34% owned Brookfield Renewable Power Fund, to form Brookfield Renewable Energy Partners L.P. ("BREP"). As part of the combination, the company amended certain power purchase and sale agreements between a wholly-owned subsidiary and BREP to adjust the price of electricity purchased. Additionally, a wholly-owned subsidiary of the company entered into an Energy Revenue Agreement with BREP, whereby the company indirectly guarantees the price for energy delivered by certain power generating facilities in the United States at a price of $75 per MWh adjusted annually by an inflation factor.

The following table lists the related party balances included within the Consolidated Financial Statements as at and for the years ended December 31, 2012 and 2011:

(MILLIONS)	**2012**	2011
Financial assets	**$ 406**	$ 177
Investment and other income, net of interest expense	**111**	12
Management fees received	**20**	20

29. 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 2012, the company and its subsidiaries had $2,731 million (2011 – $1,363 million) of such commitments outstanding of which $297 million (2011 – $300 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 ventures, 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 up to $4 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, 2012, the company held insurance assets of $206 million (2011 – $393 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 2012, net underwriting losses on reinsurance operations were $59 million (2011 – $7 million) representing $5 million (2010 – $22 million) of premium and other revenues offset by $64 million (2011 – $29 million) of reserves and other expenses.

c) Supplemental Cash Flow Information

Cash flow from operating activities includes cash taxes paid of $273 million (2011 - $282 million) and cash interest paid of $2,235 million (2011 – $1,798 million).Sustaining capital expenditures in the company's renewable power generating operations were $55 million (2011 – $66 million), in its property operations were $97 million (2011 – $106 million) and in its infrastructure operations were $79 million (2011 – $92 million).

Included in cash and cash equivalents is $2,096 million (December 31, 2011 – $1,396 million) of cash and $748 million of short-term deposits at December 31, 2012 (December 31, 2011 – $631 million).

d) Revenue

The company's revenues include $12,442 million (2011 – $10,909 million) from the sale of goods, $5,764 million (2011 – $4,674 million) from the rendering of services and $491 million (2011 – $338 million) from other activities.

e) Subsequent Event

On March 15, 2013, the company declared a special dividend of units of a newly created company, Brookfield Property Partners L.P. ("BPY"), to the holders of the company's Class A and Class B Limited Voting Shares. The special dividend will be payable on April 15, 2013 to the Class A and Class B Limited shareholders of record as of March 26, 2013 and will consist of 0.0574 units of BPY for each Class A or Class B Limited Voting Share of the company. BPY has an initial value of approximately $12 billion based on the IFRS carrying values of the assets and liabilities contributed by the company, and represent virtually all of the assets and liabilities within the company's property segment.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A 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 harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could".

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of the Corporation 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, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; changes in tax laws, catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, the Corporation 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.