MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess our results of operations and financial condition for the fiscal year ended December 31, 2012. This MD&A should be read in conjunction with our 2012 annual consolidated financial statements and related notes and is dated March 28, 2013. Unless the context indicates otherwise, references in this Report to the "Corporation" refer to Brookfield Asset Management Inc., and references to "Brookfield," "us," "we," "our" or "the company" refer to the Corporation and its direct and indirect subsidiaries and consolidated entities. All amounts are in U.S. dollars, and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board unless otherwise noted.

Additional information about the company, including our 2012 Annual Information Form, is available free of charge on our website at www.brookfield.com, on the Canadian Securities Administrators' website at www.sedar.com and on the EDGAR section of the U.S. Securities and Exchange Commission's ("SEC") website at www.sec.gov.

Organization of the MD&A

PART 1 – Overview and Outlook
- Our Business 14
- Strategy and Value Creation 15
- Economic and Market Review and Outlook 16
- Basis of Presentation and Key Financial Measures 19

PART 2 – Financial Performance Review
- Selected Annual Financial Information 22
- Annual Financial Performance 23
- Financial Profile 30
- Quarterly Financial Performance 32
- Corporate Dividends 33

PART 3 – Business Segment Results
- Results by Business Segment 37
- Asset Management and Other Services 39
- Property 43
- Renewable Power 49
- Infrastructure 54
- Private Equity and Residential Development 57

PART 4 – Capitalization and Liquidity
- Financing Strategy 61
- Capitalization 61
- Liquidity 67
- Contractual Obligations 70
- Exposures to Selected Financial Instruments 70

PART 5 – Operating Capabilities, Environment and Risks
- Operating Capabilities 71
- Business Environment and Risks 71

PART 6 – Additional Information
- Accounting Policies and Internal Controls 80
- Related Party Transactions 82

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

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

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

Part 4 reviews our capitalization and liquidity profile.

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

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

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

This Report to Shareholders contains forward-looking information within the meaning of Canadian provincial securities laws and applicable regulations and "forward-looking statements" within the meaning of the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995. We may make such statements in the Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications. See "Cautionary Statement Regarding Forward-Looking Statements" on page 145.

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

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

PART 1 – OVERVIEW AND OUTLOOK

OUR BUSINESS

Brookfield is a global alternative asset manager with over $175 billion in assets under management. For more than 100 years we have owned and operated assets on behalf of shareholders and clients with a focus on property, renewable power, infrastructure and private equity.

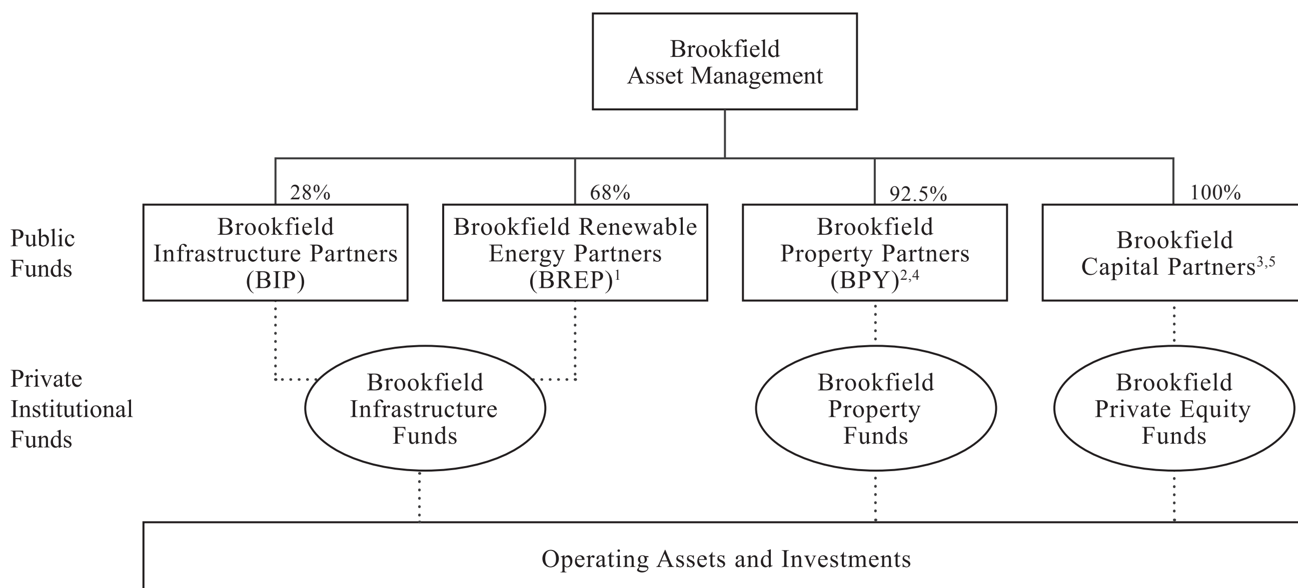
Our business model is simple: utilize our global reach to identify and acquire high-quality real assets at favourable valuations, finance them on a long-term basis, and enhance the cash flows and values of these assets through our operating platforms to earn reliable, attractive long-term total returns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

We have a range of public and private investment products and services which allow investees and clients to benefit from our expertise and experience by investing alongside us. These include entities that are listed on major stock exchanges as well as private funds that are available to accredited investors, typically pension funds, endowments and other institutional investors. We also manage public securities through a series of segregated accounts and mutual funds.

Our strategy includes having a flagship listed entity within each of our property, renewable power and infrastructure segments, which will serve as the primary vehicles through which we will invest in each respective segment. As well as owning assets directly, these entities serve as the cornerstone investors in our institutional private funds, alongside capital committed by institutional investors. For example, within our infrastructure operations, we have established Brookfield Infrastructure Partners L.P. ("BIP"), a publicly listed entity that currently has an $7.6 billion market capitalization, which is, in turn, the cornerstone investor in our Brookfield Americas Infrastructure Fund, a private investment partnership with $2.7 billion of committed capital from BIP and institutional investors. These two entities are supplemented from time to time with additional listed and unlisted niche entities, such as our Latin American country-specific infrastructure funds and timber funds. Brookfield Renewable Energy Partners L.P., a $7.8 billion market capitalization publicly listed pure-play renewable energy company, performs a similar function in our renewable power segment. We recently announced the launch of Brookfield Property Partners L.P., ("BPY") through which we will invest in our commercial property operations, with an estimated initial capitalization of approximately $12 billion based on the IFRS carrying values of the assets and liabilities contributed to BPY by us.

This approach enables us to attract a broad range of public and private investment capital and the ability to match our various investment strategies with the most appropriate form of capital. Given the nature of our investment strategies, we do not currently envisage the formation of a listed entity within our private equity operations; however we are giving consideration to forming a listed entity that will invest in our timber and agricultural resource operations.

The following chart is intended to illustrate the strategy behind our organization structure.



1. In March 2013, we sold 8.1 million units of BREP via a secondary offering decreasing our ownership to 65%
2. Privately held. A 7.5% interest to be spun-off to Brookfield shareholders through a special distribution on April 15, 2013
3. Privately held
4. Also owns our interests in Brookfield Office Properties and General Growth Properties
5. Includes our interests in Brookfield Residential Properties Inc., Brookfield Incorporações SA and Norbord Inc.

STRATEGY AND VALUE CREATION

We focus on assets and businesses that form the critical backbone of economic activity, whether they provide high quality office space and retail malls in major urban markets, generate reliable clean electricity, or transport goods and resources to or from key locations. These assets and businesses typically benefit from some form of barrier to entry, regulatory regime or other competitive advantage that provides stability in cash flows, strong operating margins and value appreciation over the longer term.

As an asset manager we establish investment products through which our clients can invest in the assets that we own and operate. These products consist of both listed entities and private funds. We invest alongside our clients with capital from our balance sheet. This generates management fees and performance-based income that increases the value to our business and adds further value to the company by providing us with additional capital to grow the business and compete for larger transactions.

We are active managers of capital. We strive to add value by judiciously and opportunistically reallocating capital among our businesses to continuously increase returns.

Our operating platforms include over 24,000 employees worldwide who are instrumental in maximizing the value and cash flows from our assets. Our track record shows that we can add meaningful value and cash flow through "hands-on" operational expertise, through the negotiation of property leases, energy contracts or regulatory agreements, asset development, operations and other activities.

We finance our operations on a long-term, investment-grade basis, with most of our operations financed on a stand-alone asset-by-asset basis with minimal recourse to other parts of the organization. We also strive to maintain excess liquidity at all times in order to be in a position to respond to opportunities. This provides us with considerable stability and enables our management teams to focus on operations and other growth initiatives. It also improves our ability to weather financial cycles and provides the strength and flexibility to react to opportunities.

We prefer to invest in times of distress and in situations which are more multi-faceted and intensive. We believe these situations provide much more attractive valuations than competitive auctions and we have considerable experience in this specialized field.

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

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

- We offer attractive investment opportunities to our clients that will, in turn, enable us to earn base management fees based on the amount of capital that we manage for them, and additional returns such as incentive distributions and carried interests based on our performance. Accordingly, we create value by increasing the amount of capital under management and by achieving strong investment performance that leads to increased cash flows and asset values.
- We invest significant amounts of our own capital, alongside our clients in the same assets. This differentiates us from many of our competitors, creates a strong alignment of interest with our clients and enables us to create value by directly participating in the cash flows and value increases generated by these assets, in addition to the performance returns that we earn as the manager.
- Our operating capabilities enable us to increase the value of the assets within our businesses, and the cash flows they produce, through our operating expertise, development capabilities and effective financing. We believe this is one of our most important competitive advantages as an asset manager.
- We aim to finance assets effectively, using a prudent amount of leverage. We believe the majority of our assets are well suited to support a relatively high level of investment-grade secured debt with long maturity dates given the predictability of the cash flows and tendency of these assets to retain substantial value throughout economic cycles. This is reflected in our return on net capital deployed, our overall return on capital and our cost of capital. While we tend to hold our assets for extended periods of time, we endeavour to maximize our ability to realize the value and liquidity of our assets on short notice and without disrupting our operations.
- Finally, as an investor and capital allocator with a value investing culture and expertise in recapitalizations and operational turnarounds, we strive to invest at attractive valuations, particularly in situations that create opportunities for superior valuation gains and cash flow returns.

ECONOMIC AND MARKET REVIEW AND OUTLOOK

(As at March 7, 2013)

Overview and Outlook

Despite ongoing macroeconomic volatility and geopolitical uncertainty, 2012 generally represented a year of stabilization within the global economy. Confidence improved as the year progressed, as central banks around the world eased monetary policy in order to support a budding economic recovery. Positive catalysts emerged across the globe, with the U.S. housing market continuing to heal, sovereign debt concerns in Europe beginning to subside, and evidence of stability appearing in China. With liquidity continuing to flood the market and interest rates remaining near historic lows, the world economy ended the year poised for a return to normalcy and moderate levels of growth.

Against this backdrop, demand for income-producing asset classes with upside potential accelerated, as investors sought the unique combination of yield, stability and growth offered by these alternatives. Real Assets, including infrastructure and real estate, emerged as a particularly compelling investment option, offering attractive current yields, stable bond-like cash flows, equity-like upside and an important hedge against future inflation. Moving forward, we expect demand for Real Assets to continue to rise, as investors recognize the ability of the asset class to help navigate the current investment landscape and position existing portfolios for future growth.

United States

U.S. economic growth decelerated in the fourth quarter of 2012, with Gross Domestic Product ("GDP") declining by an annualized rate of 0.1%, compared with growth of 3.1% in the prior quarter, due mainly to fears over the fiscal cliff, the impact of Hurricane Sandy and reduced government spending. For the full year 2012, the pace of economic growth accelerated, but remained moderate, with GDP increasing by 2.2% up from 1.8% in 2011. Industrial production continued to recover, increasing by 3.6% in 2012, bringing it nearly level with the 2007 pre-crisis peak. Importantly, the U.S. housing sector showed preliminary signs of recovery as housing starts increased steadily throughout the year, averaging a 28% increase compared to 2011. We expect continued strength in this market during 2013, which should provide a positive catalyst for the rest of the U.S. economy.

On the employment front, 1.8 million new jobs were created in 2012, the same rate as in 2011. As a result, the unemployment rate declined to 7.8% by the end of 2012, from 8.5% in December 2011. Inflation remained low, averaging 2.1%, leaving room for the Federal Reserve to maintain the current zero interest rate policy as well as recent asset purchase programs.

Looking ahead, we anticipate the U.S. economy will produce moderate GDP growth of 2.0% in 2013, before re-accelerating to nearly 3.0% growth in 2014. However, fiscal policy remains uncertain, with mandated spending reductions due to take effect in March 2013 absent action by the U.S. government to alter the timing or size of the cutbacks. Current forecasts estimate these cuts may dampen economic growth by as much as one percentage point, should they be enacted as scheduled.

Canada

Canadian economic growth remained sluggish at the end of 2012, due to weaker exports and a cooling housing market. GDP is estimated to have grown by 1.7% in the fourth quarter, following a tepid increase of 0.6% in the third quarter. On an annual basis, the pace of GDP growth is expected to have eased to 2.0% in 2012 from 2.6% in 2011. Despite this moderation, employment growth accelerated over the course of the year, with 312,000 new jobs created in 2012 compared to an increase of 190,000 in 2011. As a result, the unemployment rate ended the year at 7.1%, down from 7.5% at the end of 2011. While the housing sector began to rebound in 2012, a contraction occurred during the fall, triggered by more restrictive mortgage rules and high levels of consumer debt. In the fourth quarter, housing starts dropped by 9% compared to the third quarter. However, the pace of inflation has been dropping and currently stands below the Bank of Canada's target level, indicating that interest rates will likely remain low in the near-term to stimulate the economy.

Australia

The Australian economy remained healthy throughout 2012 despite moderately weakening fundamentals. GDP growth decelerated throughout the year, due to softening consumer demand and a restrained housing market. Nevertheless, full year GDP growth is forecast to reach 3.5%, with expectations for a decline to 2.7% growth in 2013. The multi-speed nature of Australia's economy, with weakening domestic demand offset by a booming mining sector, creates unique challenges for the Reserve Bank of Australia ("RBA"), as monetary policy seeks to maintain low inflation and unemployment levels. Full year inflation of 2.2% remains comfortably within the RBA's target band, providing room for further cuts to the current cash rate of 3.0% should the labour market continue to soften. Looking ahead, positive catalysts are apparent, as the recent rebound in coal and iron ore pricing, as well as stabilization of the Chinese economy, should translate into favourable trade balance readings in the near term and provide support for the Australian economy.

Latin America

The divergence in the pace of economic growth between Brazil and other South American countries remained prominent throughout 2012. Despite Banco Central do Brasil's reduction in the SELIC monetary policy rate to a record low 7.25% and a weakening of the Brazilian real, efforts to spur stronger growth have yet to trigger a significant acceleration of economic

activity. While the Brazilian economy grew 1.7% year-over-year in the fourth quarter of 2012, full year GDP growth was more muted at approximately 1%, compared with growth rates of 4% to 6% for Colombia, Chile and Peru. Efforts in Brazil to support growth via a combination of easing monetary policy and direct intervention in the foreign exchange market weakened the real by around 10% in 2012, with the currency now trading in a band from 2.0 to 2.1 real to the U.S. dollar. The Chilean and Colombian pesos remained relatively stable against the dollar while the Peruvian Nuevo Sol continued a long-term trend of appreciation.

Although falling since 2011, fourth quarter data indicated inflation increased in Brazil to a level near 6%, whereas Colombia, Chile and Peru continued to experience slowing inflation in a range of 2% to 3%. Labour markets in all four countries remained healthy, with Brazil and Chile continuing a downward trend in unemployment (5.3% and 6.2%, respectively) while Colombia (9.3%) and Peru (5.7%) remained stable. Moving forward, we expect the combination of low unemployment and rising inflation will lead to accelerating economic growth in Brazil through 2013 and 2014.

Europe and the United Kingdom

Authorities took additional steps to combat the Euro zone sovereign debt crisis during 2012, including increased credit market intervention by the European Central Bank ("ECB") to provide liquidity to indebted governments and banks. This intervention, combined with the implementation of the European Stability Mechanism ("ESM"), a new 500 billion Euro rescue fund, lowered sovereign bond spreads and provided support for European equity markets. However, despite favourable developments in financial markets, recessionary conditions persisted in many European countries. Euro zone GDP contracted by 0.6% on an annualized rate during the fourth quarter of 2012, following a contraction of 0.3% in the third quarter. For the full year of 2012, GDP is expected to contract by 0.4%. The employment situation remained difficult, as the Euro zone unemployment rate ended 2012 at a record high level of 11.8%, up from 10.6% a year before. While inflation is muted and interest rates are supportive of growth, we believe the Euro zone economy will remain challenged in 2013. We expect flat to modest declines in GDP, as continued budget cuts and limited credit availability extend the current recession.

The UK experienced a second year of economic stagnation during 2012, as the nation weathered the dual challenges of fiscal austerity and above-target inflation. GDP growth was essentially flat on the year, as the economic growth spurred by the London Olympics and Queen's Jubilee celebration was offset by ongoing pressures on real income levels. Additionally, inflation continued to trend above the Bank of England's target levels, ending the year at a 2.7% rate. Despite these challenges, the labour market remained resilient, as 300,000 new jobs were forecast to have been created during the year, driving the unemployment rate down to 7.7% as of November 2012. Moreover, credit markets began to re-open, as banks worked through legacy loan issues and government lending initiatives took effect. While still well below previous levels, mortgage approvals improved and the housing market appeared to stabilize. Moving forward, while the economy is anticipated to grow modestly in 2013, we expect any recovery to be slow and grinding. Further monetary and fiscal measures appear likely, as the UK government and Bank of England attempt to combat below-trend economic growth while containing above-target inflation.

Asia

Following seven consecutive quarters of slowing growth, China's economy began to rebound in the fourth quarter, supported by an improving manufacturing environment and strong retail sales. Fourth quarter GDP growth of 7.9% represented a sequential improvement over the third quarter and resulted in full year 2012 GDP growth of 7.8%. While results have slowed from the 9.3% GDP growth produced in 2011, the Chinese economy appears to have successfully weathered a soft landing. Conversely, the Japanese economy remained stagnant, with fourth quarter GDP declining by 0.5% following a 3.5% decline in the third quarter. However, the election of a new government, with a mandate to push through aggressive economic reform, boosted the Japanese stock market by 14% during the fourth quarter. The Yen depreciated by approximately 11% over the quarter, but is expected to rally should the Bank of Japan announce further measures to support economic growth, including higher targets for inflation.

Property

Global property markets continued to benefit from improving capital liquidity and low costs of financing throughout 2012, leading transaction activity to accelerate. New supply remained relatively benign during the year, providing a strong foundation for real estate fundamentals, while demand is anticipated to slowly rise as employment growth recovers.

Within the retail property sector, leasing fundamentals remain strong in the U.S., with particular demand from international retailers seeking to expand in the market. New store openings are at a four-year high, with minimal new supply coming online over the next decade. Despite concerns of secular changes impacting lower productivity malls, this segment of the retail sector continues to experience strong tenant demand. Furthermore, attractive opportunities remain to enhance the value of lower productivity malls through tailored business plans, targeted capital upgrades and improved merchandizing mix.

Within the office property sector there is reluctance among larger scale tenants to make leasing decisions unless pressured by pending large expirations or consolidation needs, due largely to lingering concerns over the health of the global economy and uncertainty over U.S. fiscal policy. Property fundamentals continue to rebound, particularly in markets focused upon technology and energy industries. Transaction activity continues to favour premier assets in gateway markets, leading to a widening valuation gap between prime and secondary assets and property markets. We expect this gap to narrow in the medium term, as investors recognize the potential value creation opportunity available in certain secondary markets.

The multi-family sector is benefiting from several key secular and fundamental trends, including declining home ownership rates, demand from echo-boomers and limited mortgage credit provision, which have resulted in strong rent and occupancy growth. Although permits for new multi-family developments are beginning to rise, historical evidence demonstrates that multi-family demand is driven largely by employment growth, which is expected to accelerate in the near term.

Leasing velocity in the industrial sector is also demonstrating strength, driven by the reconfiguration of supply chains as e-commerce tenants build their delivery platforms and as tenants consolidate into more efficient space to reduce costs.

In our view, real estate assets should perform well in an environment of rising interest rates and inflation caused by an improving economic climate. Such an environment should translate into meaningful employment growth, providing support for real estate fundamentals through higher levels of consumption and leasing activity.

Power

Despite indications of a strengthening economic recovery in the U.S., 2012 drew to a close with no significant increase in electricity demand over 2011. The substantial gains in gas-fired generation observed in the first half of the year began to recede through the latter half, with a reversal in fuel switching trends evident by year-end due to higher natural gas prices. On a weather-adjusted basis, 2012 demand mirrored that of the prior year, while actual demand was fractionally lower, due largely to the exceptionally mild conditions of the first quarter.

Over the full year, wholesale power markets in New York and New England were significantly down relative to 2011, recording the lowest average prices in over a decade. However, the markets began to recover in the fourth quarter, reflecting the return of natural gas prices to mid-$3/MMBtu levels at Henry Hub. From a capacity perspective, both markets are expected to remain more than comfortably supplied for several years.

Renewable power continued to enjoy a pricing premium over the levels implied by the gas price curve throughout 2012. Consumers and utility companies are recognizing the benefits of renewable power sources, including lower price volatility, eco-friendly production methods and protection against future policy initiatives, including potential CO2 pricing and enhanced regulation surrounding environmental emissions. Moving forward, we expect demand for renewable power to continue to rise, particularly as recent natural disasters have revived efforts within the U.S. to combat climate change.

Power demand in Brazil rebounded during 2012, growing at 4.5% year-over-year. However, industrial demand was stagnant, increasing by only 0.3% year-over-year from January through October. A severe drought reduced hydro inflows and storage, leading power prices higher. As a result, demand for thermal generation has increased, with much of the incremental supply coming from high-cost imported liquefied natural gas.

Growth in the incentivized free market, where power from small (<30 megawatt capacity) hydro plants can be sold, has been rapid. Broker quotes in the free market for conventional power to be delivered in 2014 and 2015 now reach a range of R$130 to $135 per megawatt hour (“MWh”) compared to R$100/MWh one quarter ago.

Infrastructure

The infrastructure asset class witnessed further privatization activity during 2012, as governments across the world sought to raise capital and introduce private sector discipline into asset operations. This trend is likely to continue, due to a combination of austerity measures in Europe, rating agency pressures, and budgetary constraints. A secondary trend of diversified conglomerates selling infrastructure assets such as pipelines, airports and toll roads is also likely to accelerate moving forward, as management teams recognize the benefits of placing pure-play infrastructure assets into the hands of dedicated infrastructure investors.

Global infrastructure markets continued to benefit from the economic recovery in most regions. Further developments in the U.S. energy sector resulted in significant change among North American energy infrastructure assets. This was driven primarily by shale gas exploration and production growth, as well as ongoing growth in the oil sands of western Canada, resulting in significant investment opportunities. Publicly listed infrastructure companies in the U.S., were active in this market during the year, and enjoy a favourable cost of capital advantage, as investors are attracted to the income and growth potential offered by these securities.

The performance of transportation assets was more mixed in 2012, as local economic activity drove operational performance. In southern Europe, many toll roads experienced significant traffic declines after having weathered the 2008-2009 crisis relatively well. Other assets in regions with stronger economic activity experienced relatively robust operational and financial metrics. These mixed results across the globe have been a powerful reminder that not all infrastructure assets are created equally and regional as well as asset-specific factors can vary significantly.

Regulation and government policies impacted infrastructure assets to varying degrees during the year. Some of the more noteworthy policy changes in recent years include proposed tax changes for European utilities and concessions and proposed changes to concession renewal terms for power assets in Brazil.

Private Equity and Residential Development

Our private equity portfolio companies operate in a number of sectors, primarily in North America, and with a particular concentration in businesses whose performance is correlated with the U.S. homebuilding sector and the Alberta energy sector, while our residential development businesses operate primarily in select U.S. markets, the Alberta market in Canada, and in Brazil a number of major markets. Economic conditions continue to improve, driven primarily by recovery in the U.S. housing market. Additionally, the low interest rate environment and ongoing strength of the credit markets has enabled businesses to recapitalize their balance sheets, lowering overall borrowing costs and extending debt maturity profiles and favourable equity capital markets are permitting monetization of investments at attractive returns.

The Alberta energy sector, specifically oil and gas production and well servicing, was more challenging during 2012. Persistently high U.S. natural gas production and the absence of winter heating demand resulted in low realized commodity prices. Additionally, Canadian energy producers experienced discounted pricing for crude oil, resulting from steadily increasing continental supply.

Looking ahead, we expect commodity pricing will continue to face headwinds in 2013, although results may be mixed. We believe natural gas pricing is poised to improve, as gas rig counts remain at historical lows, natural gas generated electricity remains robust and North America returns to a normal winter weather cycle. However, we expect Canadian crude oil differentials to face ongoing pressure until infrastructure and export opportunities are realized.

As noted previously, we continue to see improvement in the U.S. housing sector. While regional markets in the U.S. progressed at slightly different rates of recovery, supply generally tightened and demand improved, leading to rising prices. The S&P/Case-Shiller index of U.S. property values in 20 cities posted a year-over-year increase of 6.8% in December 2012, one of the largest gains in home prices since mid-2006. Affordability remains high despite these price gains and we expect extremely low mortgage rates to continue to support home ownership.

Single family residential development operations in both Alberta and Ontario also performed well throughout 2012. Ongoing investment in the energy sector continued to support migration to Alberta, leading the province to the lowest unemployment rate in the country. Similarly, strong migration trends and current supply constraints continued to benefit the low-rise market in Toronto.

Moving forward, we anticipate a much improved U.S. housing market in the year ahead and a generally stable Canadian market. As momentum in the U.S. housing market accelerates and house prices rise, we expect our land assets will continue to appreciate in value. In many of our markets, a 10% increase in house prices may translate into a 20% to 30% increase in the underlying value of finished lots.

BASIS OF PRESENTATION AND KEY FINANCIAL MEASURES

Basis of Accounting

We are a Canadian corporation and are required to prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. We are listed on the Toronto Stock Exchange, New York Stock Exchange and Euronext and recognize that IFRS may not be the generally used accounting methodology for all readers of this report. A particularly notable feature of IFRS is the use of fair value accounting for assets such as commercial properties and other physical assets that are not fair valued under U.S. generally accepted accounting principles ("U.S. GAAP"). Accordingly, the following discussion contains a summary of key features of IFRS that are particularly relevant to our financial statements and key financial measures. A complete summary of our significant accounting policies are described in Note 2 to our consolidated financial statements, which also contains a summary of critical judgments and estimates.

Consolidated Financial Information

Our consolidated financial statements to which this MD&A relates include the accounts of a number of the entities that we manage and invest in on a fully consolidated basis, as well as those which we present using the equity method of accounting.

We consolidate a number of entities even though we hold only a minority economic interest. This is the result of our exercising sufficient control over the affairs of these entities due to contractual arrangements. As a result, we include 100% of the revenues and expenses of consolidated entities in the corresponding line items in our consolidated statement of operations, even though a substantial portion of the net income of the entity is attributable to non-controlling interests. This does not impact net equity or net income attributable to Brookfield shareholders but it can significantly impact the financial statement presentation. For example, a large variance in revenues within a business which is largely owned by non-controlling interests may have a relatively small impact on net income attributable to shareholders.

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

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

Use of Fair Value Accounting

In accordance with IFRS, we account for a number of our assets at fair value. As at December 31, 2012 approximately 70% of our consolidated assets were carried at fair value and the remaining 30% were recorded at amortized historical cost or on another basis of accounting. We utilize a fair value measurement framework for our commercial properties, renewable power assets, and certain of our infrastructure and financial assets. Property, plant and equipment and inventory included within our private equity and residential development operations are recorded at amortized historic cost or the lower of cost and net realizable value. Public service concessions within our infrastructure operations are considered intangible assets and are amortized over the life of the concession. Other intangible assets and goodwill are recorded at cost or amortized cost. Equity accounted investments follow the same accounting principles as our consolidated assets and accordingly, include amounts recorded at fair value and amounts recorded on another basis depending on the nature of the underlying assets. The table on page 30 of this MD&A identifies the assets within our consolidated balance sheet that are carried at fair value.

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

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

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

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

Key Financial Measures

Revenue

Many of the revenues from our asset management activities are not included in consolidated revenues because they are earned from entities that are consolidated in our financial statements and therefore are eliminated under IFRS consolidation principles. In addition, we do not recognize performance income such as carried interests that may have accrued due to investment performance until they are no longer subject to future events (i.e., claw-back provisions). Revenues in our construction business are recognized on a percentage-of-completion basis and include both our revenues as well as revenues derived by costs that are recoverable from sub-contractors which are offset by an equivalent amount recognized within direct costs.

We account for our office and retail property leases as operating leases and record the total amount of the contractual rent to be received over the life of the lease on a straight-line basis, which may differ from the actual amount of cash received in any given period. Rental revenues also include recoveries of operating expenses (recorded as direct costs), which are recognized in the period that such costs are charged to tenants. We also record certain revenues within our renewable power and infrastructure businesses on a straight-line basis.

Revenue from residential development activities is based on the completed project basis meaning that revenue is not recognized until such time as the risks and rewards of ownership have been transferred and the project is delivered. In the case of larger projects that are completed over several years, such as the residential condominiums developed in our Brazilian business or bulk lot sales, the resultant revenues and associated net income may be more irregular than those derived from the single family development activities that are typical within our North American business.

Direct Costs include costs associated with our asset management activities, notwithstanding that most of the associated income is not included in revenue because the costs are incurred directly or indirectly by Brookfield whereas the revenues are earned from entities that we consolidate and therefore are eliminated on consolidation. Direct costs in our construction and office property lines of business include sub-contractor costs and tenant operating costs, respectively. Direct costs also include subsidiary corporate costs.

Equity Accounted Income represents our share of the components of net income recorded by investments over which we exercise significant influence, such as our investment in General Growth Properties ("GGP"), and is reported as a single line item in our consolidated statement of operations. GGP reports under a U.S. GAAP framework, which differs from IFRS primarily in respect of the accounting treatment of GGP's retail mall portfolio. Under IFRS, we record GGP's retail malls at fair value whereas GGP's U.S. GAAP reporting follows the depreciated historical cost method, which may result in a significantly different net income than is reported by GGP in its standalone financial statements.

Interest Expense includes dividends declared on our capital securities, which are treated as liabilities under IFRS even though they are preferred shares, because they may be redeemed at the holder's option after a specific date for a variable number of Class A Limited Voting Shares.

Corporate Costs represent costs that are not attributable to a specific reportable segment.

Fair Value Changes. As noted under "Use of Fair Value Accounting" on page 20, we carry at fair value our commercial properties, standing timber and agricultural assets, and certain financial instruments and power sales agreements that do not qualify as hedges. Changes in the values of these items are recorded as "fair value changes" in our consolidated statement of operations. We record our share of fair value changes recorded by equity accounted investees as a component of equity accounted income.

Depreciation and Amortization includes the depreciation of property, plant and equipment as well as the amortization of intangible assets. Two of the largest components of depreciation relate to renewable power and infrastructure facilities, which are revalued annually in OCI. Depreciation of these assets is based on their fair value at the beginning of each year. We do not record depreciation on assets that are classified as Investment Properties (i.e., commercial office and retail properties) or Biological Assets (i.e., standing timber and agricultural assets).

Income Taxes recorded in our consolidated statement of operations generally relate to income and expenses presented therein while income taxes in OCI relates to items in that statement such as revaluation of property, plant and equipment, available-for-sale financial assets and financial contracts elected for hedge accounting. Income tax expense includes current and deferred amounts. Current taxes represent amounts that are paid/payable or received/receivable in the current year while deferred taxes represent amounts that are not anticipated to become payable or receivable until subsequent fiscal years. Deferred taxes are typically much larger than current taxes because they relate to timing differences associated with the revaluation of assets in our financial statements (for which there is no corresponding change in the tax value) that will be realized over time in subsequent fiscal years through usage or sale. In addition, we maintain large pools of loss carry forwards and generate other forms of tax attributes each year that are available to reduce current taxes. Deferred tax expense is computed using the applicable local tax rate applied to the excess of an asset's carrying value over its tax value and without discounting.

Non-controlling Interests. As noted above under "Basis of Accounting" we consolidate a number of partially owned entities because of our contractual rights as an asset manager, even though in some cases we own less than 50%. Accordingly, the net income, other comprehensive income and equity of these and other consolidated entities that is attributable to the other investors in these entities are reported on one line as "non-controlling interests" while the associated revenues, expenses, other comprehensive income, assets and liabilities are presented on a "gross" basis within the corresponding line items in our financial statements.

Valuation Items – Other Comprehensive Income include revaluations of property plant and equipment, such as our power generating facilities and certain infrastructure assets, as well as changes in the values of financial contracts and power sales agreements that qualify for hedge treatment, changes in the value of available-for sale securities and equity accounted other comprehensive income, as well as our share of similar items recorded by equity accounted investments.

Use of Non-IFRS Measures

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

PART 2 – FINANCIAL PERFORMANCE REVIEW

SELECTED ANNUAL FINANCIAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)	2012	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
CONDENSED STATEMENT OF OPERATIONS					
Revenues	**$ 18,697**	$ 15,921	$ 13,623	$ 2,776	$ 2,298
Direct costs	**(13,909)**	(11,906)	(9,892)	(2,003)	(2,014)
Equity accounted income	**1,243**	2,205	765	(962)	1,440
Expenses					
Interest	**(2,497)**	(2,352)	(1,829)	(145)	(523)
Corporate costs	**(158)**	(168)	(188)	10	20
Valuation items					
Fair value changes	**1,150**	1,386	1,651	(236)	(265)
Depreciation and amortization	**(1,263)**	(904)	(795)	(359)	(109)
Income taxes	**(516)**	(508)	(140)	(8)	(368)
Net income	**2,747**	3,674	3,195	(927)	479
Non-controlling interests	**(1,367)**	(1,717)	(1,741)	350	24
Net income attributable to shareholders	**$ 1,380**	$ 1,957	$ 1,454	$ (577)	$ 503
Net income per share	**$ 1.97**	$ 2.89	$ 2.33		
CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME					
Valuation items	**$ 1,626**	$ 1,920	$ (906)	$ (294)	$ 2,826
Foreign currency translation	**(111)**	(837)	653	726	(1,490)
Taxes on above items	**(434)**	(147)	448	(287)	(595)
Other comprehensive income	**1,081**	936	195	145	741
Non-controlling interests	**(564)**	(141)	(421)	(423)	280
Other comprehensive income attributable to shareholders	**517**	795	(226)	(278)	1,021
Comprehensive income attributable to shareholders	**$ 1,897**	$ 2,752	$ 1,228	$ (855)	$ 1,524

AS AT DECEMBER 31 (MILLIONS)	2012	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
BALANCE SHEET INFORMATION					
Consolidated assets	**$ 108,644**	$ 91,022	$ 78,131	$ 17,622	$ 12,891
Borrowings and other long-term financial liabilities	**51,782**	42,311	37,487	9,471	4,824
Equity	**44,251**	37,399	29,192	6,852	8,207

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

ANNUAL FINANCIAL PERFORMANCE

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

The financial data in this section has been prepared in accordance with IFRS for each of the three most recently completed financial years. Our presentation currency and functional currency was the U.S. dollar throughout each of these years. There were no changes in accounting principles that have had a material impact on the comparability of the results between financial years.

The condensed statement of operations on page 22 presents the results of consolidated entities on a 100% basis even though in many cases we own a much smaller interest. The amount of the net income of these partially owned entities that accrues to other shareholders is recorded as non-controlling interests. Accordingly, the impact of acquisitions and fair value changes within partially owned entities will often have a disproportionately larger impact on individual line items than it will on net income attributable to shareholders, once changes in non-controlling interests are taken into consideration. Similarly, changes in ownership that give rise to consolidation or deconsolidation can also have a significant impact on variances between reporting periods, as our proportionate share of the revenues and expenses of equity accounted investments are reported on a net basis as equity accounted income, as opposed to consolidation.

Overview

We reported net income attributable to shareholders of $1.38 billion in 2012, compared to $1.96 billion in 2011 and $1.45 billion in 2010. On a per share basis, net income per share was $1.97, $2.89 and $2.33 in those three years, respectively. The most significant contributor to the fluctuations in net income over the three years was the amount of fair value changes recorded in each year, including our proportionate share of fair value gains recorded by equity accounted investments.

2012 vs. 2011

Net income attributable to shareholders decreased by $577 million year-over-year. The decline is due primarily to a lower level of equity accounted income, which in turn reflects a lower amount of fair value changes recorded by the investees. This was partially offset by the contribution from recently acquired property and infrastructure assets, which led to increased revenues and direct costs, as well as increases in interest expense and non-controlling interests attributable to acquisition and development borrowings and capital from non-controlling interests.

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

Fair value changes related to units held by others in our renewable power fund resulted in a $376 million downward fair value change in 2011 following an increase in the quoted market price of the units. These units were recorded as liabilities prior to the reorganization of the fund in late 2011, and were subsequently recorded as non-controlling interests reflecting changes in the terms of the units upon reorganization. Accordingly, there were no such charges in 2012.

Same store rents increased in both our office and retail portfolios by 3% and 6%, respectively, and net income was also positively impacted by the contribution from recently acquired properties and the completion of the 1 million square foot Brookfield Place in Perth beginning in the second quarter of 2012. The contribution from our existing hydroelectric and wind energy generation facilities was negatively impacted by lower generation levels as a result of poor water flows; however this was partially offset by the contribution from recently acquired and commissioned facilities.

Our infrastructure business recorded increased revenues and earnings from several acquisitions and capital expansion projects completed since the beginning of 2011, notably the expansion of our Western Australian rail lines.

Our private equity and residential development operations recorded increased revenues and earnings from operations that have benefitted from the ongoing U.S. housing recovery, notably our operations and North American residential operations; however our Brazilian residential development business reported lower revenues and operating losses as a result of a slowdown in project completions and increased development costs.

2011 vs. 2010

Net income attributable to shareholders increased by $503 million year-over-year. The variance was due mostly to our proportionate share of fair value changes recorded by equity accounted investments.

The largest single factor was the acquisition of GGP in late 2010. We recorded $1,401 million of equity accounted income from GGP in 2011 compared to $nil in 2010, representing an increase of $1.4 billion which was almost entirely attributable to shareholders. The income includes our share of fair value gains recorded by General Growth Properties in 2011, which was particularly large following the emergence of the company from bankruptcy, the installation of a new management team and

strategy and continued improvement in tenant sales, as well as improved valuations of high-quality retail properties as an asset class. We also recorded our proportionate share of the revenues from GGP's retail properties less direct costs within equity accounted income, which represented a positive contribution to net income relative to 2010.

We recorded an increased amount of fair value gains on our commercial office properties arising from increasing cash flows and decreases in discount rates and terminal capitalization rates that reflected lower risk-free rates and improved valuations of high-quality commercial office properties as an asset class.

These gains were more than offset by a decline of $534 million in gains related to power sales contracts that were not accounted for as hedges between 2010 and 2011, most of which was attributable to shareholders. We recorded large gains in 2010 following a decrease in short-term market prices which increased the value of the contracts because they enabled us to sell power at higher prices. We adopted hedge accounting for several of our power sales agreements in 2011 with the result that mark-to-markets in this year were recorded as a component of OCI. Offsetting this variance was an increase in the negative mark-to-market of units held by others in our Renewable Power Fund following an increase in the quoted market price of the units.

We recorded a $405 million gain on the purchase of an infrastructure business in late 2010, which also gave rise to a decrease in fair value gains in 2011 relative to 2010 as we did not record a similar gain of this magnitude in 2011.

Our commercial office properties reported increases in same store sales relative to 2010. Net income also benefitted from improved results within our infrastructure reflecting the contribution from acquisitions and capital expansion projects.

Estimated impact of foreign currency translation on our consolidated financial results

The impact of currencies on our results was mixed, with the average rate over the year increasing for the Australian dollar and declining for both the Canadian dollar and the Brazilian real. The impact on common equity is reflected in the foreign currency translation component of other comprehensive income, which is discussed on page 29.

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

	Year-end Spot Rate			Average Annual Rate		
	2012	2011	2010	**2012**	2011	2010
Australian dollar	**1.0395**	1.0205	1.0233	**1.0357**	1.0329	0.9209
Brazilian real	**2.0435**	1.8758	1.6662	**1.9546**	1.8000	1.6967
Canadian dollar	**1.0079**	0.9787	1.0017	**1.0004**	1.0109	0.9709

Statement of Operations

Revenues

The following table presents consolidated revenues disaggregated into our business segments consistent with Note 3 to our consolidated financial statements in order to facilitate a review of year-over-year variances:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
Asset management and other services	**$ 4,520**	$ 3,535	$ 2,374	$ 985	$ 1,161
Property	**3,982**	2,760	2,659	1,222	101
Renewable power	**1,179**	1,128	1,161	51	(33)
Infrastructure	**2,109**	1,725	962	384	763
Private equity and residential development	**6,900**	6,740	6,006	160	734
Corporate activities	**230**	311	623	(81)	(312)
Eliminations and adjustments[1]	**(223)**	(278)	(162)	55	(116)
Total consolidated revenues	**$ 18,697**	$ 15,921	$ 13,623	$ 2,776	$ 2,298

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

Acquisitions can have a significant impact on revenues, as can changes in the basis of presentation of businesses such as between consolidation and equity accounting following changes in ownership. Revenues from our property and infrastructure assets tend to be relatively consistent between periods because they are largely determined by contractual arrangements; whereas renewable power revenues can be impacted by changes in water availability. Construction and property services revenues fluctuate significantly with the award of large contracts, and the revenues within our private equity and residential development operations can vary in line with changes in the level of economic activity.

2012 vs. 2011

Asset management and other services revenues increased by approximately $1.0 billion of which approximately $680 million relates to increases in construction revenues reflecting an increase in the number and scale of projects under construction, and approximately $200 million relates to increases in property services revenue reflecting the acquisition of a large U.S. relocation and property brokerage business in late 2011.

Property revenues increased by approximately $1.2 billion due to the acquisition of two large resort properties in March 2011 and April 2012, the consolidation of our U.S. Office Fund and Brookfield Place New York in the second half of 2011 and the completion of Brookfield Place Perth in May 2012.

Renewable power generation revenues were virtually unchanged as the contribution from acquired and commissioned facilities was offset by lower generation following unusually low water conditions during the second and third quarters of 2012.

Infrastructure revenues increased by approximately $380 million as a result of a number of acquisitions during the year, as well as the completion of expansion projects, offset by the impact of lower volumes and pricing on our timber revenues.

The increase in revenues within our private equity and residential development segment were principally due to the impact of higher prices and increased volumes on our panelboard operations, although this was largely offset by a lower dollar volume of project completions within our Brazilian residential development operations compared to 2011.

2011 vs. 2010

Asset management and services revenues increased by approximately $1.2 billion primarily as a result of an increase in construction activity as work-in-hand grew to $5.4 billion in 2011 from $4.3 billion in 2010.

Property revenue increased by approximately $100 million as a result of new leasing activity at higher average in-place net rents and currency appreciation in our Australian and Canadian properties. The consolidation of the U.S. Office Fund and other property acquisitions during the second half of the year contributed to the increase but were offset by reduced occupancies in the United States.

Renewable power generation revenues were relatively consistent with 2010 as weaker hydrology conditions in eastern Canada offset the contribution from acquired and commissioned facilities, and pricing for our generation in the northeastern United States, not subject to long-term power contracts, declined in 2011. This was offset partially by a Brazilian hydroelectric acquisition and the practical completion of a wind facility in eastern Canada.

Infrastructure revenues increased by approximately $750 million primarily due to the consolidation of businesses following the Prime Infrastructure merger in addition to increases in our utility and timber operations but was partially offset by a decline in our transport and energy revenues.

The increase in revenues in our private equity and residential development segment was due to an increase in the number of projects completed in our Brazilian residential development operations.

Direct Costs

				Change	
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011	2010	2012 vs 2011	2011 vs 2010
Asset management and other services	**$ 4,171**	$ 3,280	$ 1,954	$ 891	$ 1,326
Property	**1,812**	1,077	1,120	735	(43)
Renewable power	**475**	379	413	96	(34)
Infrastructure	**1,138**	908	698	230	210
Private equity and development	**6,105**	6,129	5,340	(24)	789
Corporate activities	**114**	46	268	68	(222)
Eliminations and adjustments[1]	**94**	87	99	7	(12)
	$ 13,909	$ 11,906	$ 9,892	$ 2,003	$ 2,014

1. Adjustment to reallocate unallocated segment costs

Direct costs within our asset management and other services and residential development operations are primarily variable in nature and increase or decrease in line with changes in revenues. Most of our other direct costs are fixed in nature, and therefore variances tend to relate to acquisitions or dispositions of assets or businesses, or a change in the basis of accounting (i.e., from equity accounting to consolidation). For example, we acquired a controlling interest in our U.S. Office Fund in August 2011, resulting in increased property direct costs in 2012. Changes in currency rates also impact the U.S. equivalent of costs incurred in foreign jurisdictions, particularly Australia, Brazil and Canada.

2012 vs. 2011

The increase in direct costs within our asset management and other services segment reflects an approximate $700 million increase in direct costs within our construction services business reflecting a greater number of projects relative to 2011 in addition to increases in direct costs within our property services business due to the acquisition of a large relocation and property brokerage business in late 2011.

Property related direct costs increased by approximately $740 million primarily due to the acquisition of two large resort properties. In addition, the consolidation of the U.S. Office Fund, Brookfield Place New York and other acquisitions contributed to the increase. The two large resort properties acquired in March 2011 and April 2012 have large operating costs relative to office and retail properties due to the nature of their business related in particular to much larger work forces.

Direct costs within our renewable power operations increased by approximately $100 million primarily relating to acquisitions and the impact of increased foreign exchange rates on our Brazilian and Canadian operations.

The increase in our infrastructure direct costs of $230 million reflects additional costs incurred within newly acquired businesses in addition to costs associated with completed expansion projects.

The decrease in our private equity and residential development segment reflects a lower amount of deliveries recorded within our Brazilian residential operations offset by increases in costs associated with the increased production experienced at our panelboard operations.

2011 vs. 2010

Direct costs within our asset management and other services segment increased by approximately $1.3 billion due principally to increases in construction activity.

Property related direct costs remained relatively flat as the impact of the consolidation of the U.S. Office Fund, Brookfield Place New York and other acquisitions in the second half of 2011 were offset by decreases in costs associated with the sale of properties in Boston and New Jersey.

Direct costs within our infrastructure operations increased by approximately $200 million principally due to a merger transaction in November 2010 that resulted in the consolidation of several businesses that were previously equity accounted.

Direct costs within our private equity and residential development segment increased by approximately $800 million largely due to a higher number of projects and acquisitions in our residential development operations as well as the consolidation of entities that were previously equity accounted following increases in our ownership levels.

Equity Accounted Income

Equity accounted earnings represent our share of the net income reported by equity our accounted investments.

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
General Growth Properties	**$ 979**	$ 1,401	$ —	$ (422)	$ 1,401
U.S. Office Fund[1]	**—**	437	366	(437)	71
Other U.S. office properties	**198**	216	296	(18)	(80)
Infrastructure operations	**15**	115	12	(100)	103
Other	**51**	36	91	15	(55)
	$ 1,243	$ 2,205	$ 765	$ (962)	$ 1,440

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

Equity accounted income increased by $1.4 billion between 2010 and 2011 and declined by $1.0 billion between 2011 and 2012. The increase between 2010 and 2011 was due primarily to the acquisition in late 2010 of our investment in General Growth Properties ("GGP"). The decrease in the contribution from GGP in 2012 was due almost entirely to a lower level of fair value gains recorded in respect of increases in the value of the company's retail properties, and was offset in part by an increase in our proportionate share of the net operating income produced by GGP.

We began consolidating the results of our U.S. Office Fund in August 2011 and accordingly did not record any equity accounted income from that time on, although we did begin to record equity accounted income from partially owned properties within the fund. Notwithstanding the shortened ownership period during 2011 relative to 2010, the income recorded on this investment increased reflecting a higher level of fair value gains on increases in the value of the underlying office properties as well as increased net operating income due to improved leasing.

The changes in the amount of equity accounted income from infrastructure operations over the three years is due primarily to a larger amount of fair value gains recorded in respect of transmission operations in 2011 relative to 2010 and 2012.

Interest Expense

The following table presents interest expense organized by the balance sheet classification of the associated liability, with the exception of corporate borrowing expense, which includes expenses in respect of subsidiary liabilities that are guaranteed by the Corporation:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2012	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
Corporate borrowings	**$ 209**	$ 197	$ 178	$ 12	$ 19
Non-recourse borrowings					
Property-specific mortgages	**1,808**	1,724	1,266	84	458
Subsidiary borrowings	**405**	337	291	68	46
Capital securities	**75**	94	94	(19)	—
	$ 2,497	$ 2,352	$ 1,829	$ 145	$ 523

Interest expense from corporate borrowings increased over the three years due to higher average consolidated borrowing levels over the years, as well as slightly higher exchange rates on Canadian dollar borrowings.

The consolidation of our U.S. Office Fund in 2011, resulted in our recording its interest expenses in our consolidated results, whereas previously it was presented on a net basis within equity accounted results giving rise to increases in property-specific and subsidiary borrowing expenses between the three years. Similarly, we began to consolidate a number of infrastructure operations in late 2010, which contributed to the increase in consolidated interest expense during 2011.

The majority of our borrowings are fixed rate long-term financings. Accordingly, changes in interest rates generally have minimal short-term impact on our cash flows.

Fair Value Changes

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2012	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
Investment property	**$ 1,276**	$ 1,477	$ 835	$ (201)	$ 642
Sustainable resources	**132**	292	148	(160)	144
Power contracts	**9**	54	588	(45)	(534)
Infrastructure	**—**	—	405	—	(405)
Redeemable units	**(11)**	(376)	(159)	365	(217)
Interest rate contracts	**(81)**	(64)	(58)	(17)	(6)
Private equity	**(119)**	(74)	11	(45)	(85)
Other	**(56)**	77	(119)	(133)	196
	$ 1,150	$ 1,386	$ 1,651	$ (236)	$ (265)

2012 vs. 2011

Fair value gains from changes in investment property values totalled $1.3 billion in 2012 compared to $1.5 billion in 2011, representing a decrease of $0.2 billion. Changes in the value of our global office portfolio were $0.9 billion, compared to $1.2 billion in 2011 representing a decrease of $0.3 billion. In each year the changes were due primarily to lower discount and terminal capitalization rates as well as increases in projected cash flows.

Fair value changes on redeemable units contributed a positive variance of $0.4 billion. We recorded a valuation charge of $363 million in 2011 that related primarily to increases in the stock market price of units held by others in our listed renewable power entity, which we were required to record as a liability and mark-to-market. Following the reorganization of this entity into Brookfield Renewable Energy Partners L.P. in late 2011, the successor units are now treated as non-controlling interests and no longer marked to market.

2011 vs. 2010

We recorded a $0.6 billion increase in the amount of investment property gains, mostly related to our global office portfolio which in turn reflected both lower discount rates and higher projected cash flows.

We recorded a large mark-to-market gain in 2010 on the revaluation of long-term power sales agreements and which increased in value when electricity prices decreased relative to the price that we were able to sell the power under the contracts. We elected hedge accounting for the agreement in 2011 and accordingly changes in fair value are now recorded in OCI.

We recorded a $405 million gain within our infrastructure operations during 2010 relating to the purchase of a large infrastructure business at a discount to fair values, and the negative mark-to-market on redeemable units was $217 million higher in 2011 due to a larger increase in the stock market price of our listed renewable power entity than what occurred in 2010.

Depreciation and Amortization

Depreciation and amortization is summarized in the following table:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2012	2011	2010	Change 2012 vs 2011	Change 2011 vs 2010
Renewable power	**$ 499**	$ 455	$ 488	$ 44	$ (33)
Private equity	**251**	227	197	24	30
Infrastructure	**248**	147	33	101	114
Property	**225**	33	12	192	21
Asset management and corporate	**40**	42	65	(2)	(23)
	$ 1,263	$ 904	$ 795	$ 359	$ 109

Depreciation relates mostly to our renewable power generating operations, with smaller amounts arising from infrastructure operations and industrial businesses held within our private equity operations. We do not recognize depreciation or depletion on our commercial office and retail properties, standing timber, and agricultural assets, respectively, as these assets are classified as investment properties and revalued on a quarterly basis in net income as part of “fair value changes.”

Depreciation and amortization on our renewable power facilities increased by $44 million in 2012 compared to 2011, following a decrease of $33 million in the preceding year. We recorded increases in the value of our power facilities at the end of 2011, which increased the amount of depreciation during 2012 whereas we reduced the value of the facilities at the end of 2010, which led to a lower amount of depreciation in 2011. Acquisitions and commissioning of new assets contributed to increases in depreciation in each year.

Private equity depreciation is primarily the depreciation of assets owned by investments held in our private funds.

Infrastructure depreciation and amortization increased by $101 million between 2011 and 2012 due to increased asset valuations, acquisitions and the commencement of depreciation on developments coming on line. The increase of $114 million between 2010 and 2011 is due to the consolidation of several operating units in late 2010.

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

Income Taxes

2012 vs. 2011

The provision for income taxes in the statement of operations increased slightly to $516 million in 2012 from $508 million in 2011. The change from prior year is attributable to various items including the $71 million income tax expense in 2011 reflecting the decrease in value of deferred tax assets arising from a decline in the Canadian corporate income tax rate which did not recur in 2012 offset by a $132 million income tax expense in the current year resulting from an internal reorganization within our property operations.

2011 vs 2010

The provision for income taxes in the statement of operations increased to $508 million in 2011 from $140 million in 2010. This increase was attributable to various items including (i) a one-time derecognition of deferred tax liabilities of $149 million in 2010 in our property operations which arose from the wind-up of a joint venture arrangement; (ii) the $71 million expense in 2011 referred to above; and (iii) larger increases in the fair value of assets relative to their tax basis in 2011 than what occurred in 2010, as reflected in the variance in fair value changes between the two periods.

Non-Controlling Interests

Net income attributable to non-controlling interests decreased by $350 million from 2011 to 2012 and was relatively unchanged between 2010 and 2011. The decrease during 2012 reflects the decline in net income prior to non-controlling interests of $927 million, which is attributable to the variances discussed in this section. Net income prior to non-controlling interests increased by $479 million between 2010 and 2011. A corresponding change in non-controlling interests did not occur because these interests participate in each area of our business to different extents. For example, in 2011 we recorded a large increase in equity accounted income relating to our investment in General Growth Properties, which accrues almost entirely to Brookfield.

Other Comprehensive Income

Revaluation Items

2012 vs. 2011

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

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

2011 vs. 2010

Fair value gains included in other comprehensive income include an increase of $2.3 billion in the carrying value of our renewable power assets, reflecting increases in the property, plant and equipment which were partially offset by a reduction in the carrying values of associated power sales agreements. Revaluation gains also include $300 million in respect of renewable power development projects that was not previously included in IFRS fair values.

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

Foreign Currency Translation

We record the impact of changes in foreign currencies on the carrying value of our net investment in non-U.S. operations in other comprehensive income. As at December 31, 2012, our IFRS net equity of $18.2 billion was invested in the following currencies, principally in the form of net investments which are revalued through other comprehensive income: United States – 56%; Australia – 16%; Brazil – 14%; Canada – 7%; and other – 7%. From time to time, we utilize financial contracts to adjust these exposures. Changes in the value of currency contracts that qualify as hedges are included in foreign currency translation. During 2012, the value of the Brazilian real declined by 9% compared to the U.S. dollar, which resulted in a loss of $111 million after considering the impact of other currency movements and hedging activities. During 2011, the value of our principal non-U.S. currencies (Australia, Brazil and Canada) all declined against the U.S. dollar, giving rise to a total decrease of $837 million after the mitigating impact of hedges, or $443 million after non-controlling interests.

Income Taxes

2012 vs. 2011

The provision for income taxes in the statement of other comprehensive income increased to $434 million in 2012 from $147 million in 2011, representing an increase of $287 million. The prior year's amount includes a $327 million recovery resulting from the formation of Brookfield Renewable Energy Partners L.P. in that year.

2011 vs 2010

The provision for income taxes in the statement of other comprehensive income was an expense of $147 million in 2011 compared to a recovery of $448 million in 2010. The $595 million increase is mainly attributable to increases in the fair value of assets relative to their tax basis that are recorded in other comprehensive income in 2011. The recovery in 2010 is largely due to a decrease in the revaluation of property plant and equipment in our renewable power operations that reduced the amount by which the book values exceeded the related tax basis.

Non-controlling Interests

Non-controlling interests in other comprehensive income declined by $423 million between 2011 and 2012, notwithstanding an increase in total other comprehensive income of $145 million. A greater proportion of fair value gains occurred within business units that had larger non-controlling ownership interests, whereas several business units that experienced a decrease in fair value gains year-over-year where those in which we had a greater interest. The variances between 2010 and 2011 represent similar anomalies.

FINANCIAL PROFILE

Consolidated Assets

The following table disaggregates our consolidated balance sheet for the past three year-ends into assets that are carried at fair value and those that are carried on another basis such as historical cost:

AS AT DECEMBER 31 (MILLIONS)	Carried at Fair Value Basis			Carried on Other Basis			Total Consolidated Assets		
	2012	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Investment properties	**$ 33,161**	$ 28,366	$ 22,163	**$ —**	$ —	$ —	**$ 33,161**	$ 28,366	$ 22,163
Property, plant and equipment	**28,202**	20,036	15,953	**2,912**	2,796	2,567	**31,114**	22,832	18,520
Sustainable resources	**3,283**	3,155	2,834	**—**	—	—	**3,283**	3,155	2,834
Investments	**8,487**	7,272	5,124	**3,202**	2,129	1,505	**11,689**	9,401	6,629
Cash and cash equivalents	**—**	—	—	**2,844**	2,027	1,713	**2,844**	2,027	1,713
Financial assets	**2,630**	2,314	2,343	**481**	1,459	2,076	**3,111**	3,773	4,419
Accounts receivable and other	**1,614**	1,502	1,823	**5,331**	5,221	6,046	**6,945**	6,723	7,869
Inventory	**—**	—	—	**6,579**	6,060	5,849	**6,579**	6,060	5,849
Intangible assets	**—**	—	—	**5,764**	3,968	3,805	**5,764**	3,968	3,805
Goodwill	**—**	—	—	**2,490**	2,607	2,546	**2,490**	2,607	2,546
Deferred income tax asset	**—**	—	—	**1,664**	2,110	1,784	**1,664**	2,110	1,784
	$ 77,377	$ 62,645	$ 50,240	**$ 31,267**	$ 28,377	$ 27,891	**$108,644**	$ 91,022	$ 78,131

Consolidated balance sheet assets increased to $108.6 billion at the end of 2012. This represents an increase of $17.6 billion over the 2011 year-end, which followed a $12.9 billion increase between 2010 and 2011. The increases relate primarily to investment properties, property, plant and equipment, and investments and reflect acquisitions and fair value changes. In addition, the consolidation of investments that were previously equity accounted resulted in an increase in consolidated assets.

We do not fair value our equity accounted investments under IFRS; however, certain of our investments own assets that are recorded at fair value. This includes, for example, our investment in General Growth Properties, in which we record GGP's investment properties at fair value on an quarterly basis. We have separated investments into those in which the underlying assets are recorded at fair value or amortized cost in the above table to provide a more a complete analysis for users.

Investment Properties and Property, Plant and Equipment

The following table presents the major contributors to the year-over-year variances for our investment properties and property, plant and equipment balances:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Investment Properties		Property, Plant and Equipment: Renewable Power		Infrastructure		Property		Private Equity and Other	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Balance, beginning of year	**$28,366**	$22,163	**$14,727**	$12,443	**$ 4,669**	$ 3,510	**$ 640**	$ —	**$ 2,796**	$ 2,567
Fair value changes	**1,276**	1,477	**830**	2,319	**706**	424	**4**	—	**(58)**	27
Depreciation	**—**	—	**(489)**	(453)	**(201)**	(88)	**(166)**	—	**(283)**	(197)
Acquisitions	**4,508**	7,288	**1,530**	852	**3,472**	1,034	**2,490**	640	**469**	668
Dispositions	**(1,136)**	(2,150)	**(20)**	(35)	**(48)**	(127)	**—**	—	**(64)**	(225)
Foreign currency translation	**147**	(412)	**(46)**	(399)	**104**	(84)	**—**	—	**52**	(44)
Net increase	**4,795**	6,203	**1,805**	2,284	**4,033**	1,159	**2,328**	640	**116**	229
Balance, end of year	**$33,161**	$28,366	**$16,532**	$14,727	**$ 8,702**	$ 4,669	**$ 2,968**	$ 640	**$ 2,912**	$ 2,796

Acquisitions and developments were the major contributor to increases along with fair value gains and increases revaluation surplus. In addition, we consolidated our U.S. Office Fund in 2011, which added $4 billion of consolidated assets in that year, and consolidated a number of infrastructure businesses in late 2010 following an increase in ownership of those businesses.

Investments

Note 8 to our consolidated financial statements presents a listing of our investments in associates and equity accounted joint ventures. Investments increased by $2.3 billion during 2012 and by $2.8 billion during 2011. The 2012 increase relates primarily to our share of the undistributed net income recorded by General Growth Properties, including fair value gains. We also acquired several equity accounted investments within our infrastructure operations. The 2011 increase includes $3.1 billion relating to our investment in GGP, which includes our share of undistributed net income, including fair value gains, as well as the acquisition of $1.7 billion of additional equity of GGP in early 2011. This increase was offset by the consolidation during 2011 of the U.S. Office Fund, which was carried at $1.8 billion at the end of 2010.

Borrowings and Other Long-term Financial Liabilities

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

AS AT DECEMBER 31 (MILLIONS)	**2012**	2011	2010	2012 vs 2011	2011 vs 2010
Corporate borrowings	**$ 3,526**	$ 3,701	$ 2,905	$ (175)	$ 796
Non-recourse borrowings					
Property-specific borrowings	**33,648**	28,415	23,454	5,233	4,961
Subsidiary borrowings	**7,585**	4,441	4,007	3,144	434
Long-term accounts payable and other liabilities[1]	**5,407**	3,771	3,852	1,636	(81)
Capital securities	**1,191**	1,650	1,707	(459)	(57)
Other long-term financial liabilities	**425**	333	1,562	92	(1,229)
	$ 51,782	$ 42,311	$ 37,487	$ 9,471	$ 4,824

1. Excludes accounts payable and other liabilities that are due within one year. See Note 15 to our Consolidated Financial Statements for 2012 and 2011 balances

The increase in property-specific borrowings of $5.2 billion during 2012 is due primarily to acquisitions within our property and infrastructure operations. The increase of $5.0 billion during 2011 reflects the consolidation of debt held within our U.S. Office Fund, which was equity accounted at the end of 2010, and acquisitions within our Private Equity operations.

The increase in subsidiary borrowings of $3.1 billion during 2012 reflects acquisitions as well as the issuance of long-term corporate bonds by our managed listed issuers.

Accounts payable and other liabilities with a maturity greater than one year increased in 2012 as a result of long-term liabilities assumed on acquisitions within our property and infrastructure operations and continued expansion of our residential development operations.

We redeemed $506 million of capital securities during 2012 with the proceeds from the issuance of preferred shares at lower rates.

Other long-term liabilities represent interests of others in consolidated funds that are classified as liabilities because they contain terms such as redemption features. We reorganized our Renewable Power Fund in 2011 with the result that the units held by other investors were reclassified as non-controlling interests and therefore no longer treated as long-term liabilities. These units represented $1.4 billion of long-term liabilities at the end of 2010.

Equity

Shareholders' equity increased by $6.9 billion during 2012 following an $8.2 billion increase during 2011. Increases in non-controlling interests provided $4.7 billion of the increase in 2012 and $3.8 billion of the 2011 increase. In each year this reflects the acquisition of consolidated businesses, particularly within our infrastructure operations in 2012 as well as the undistributed comprehensive income and increases in revaluation surplus attributable to non-controlling interests, including fair value changes, which totalled $1.9 billion in each of 2012 and 2011 and $2.2 billion in 2010. Common equity increased by $1.4 billion in 2012, reflecting comprehensive income for shareholders and increases in revaluation surplus less shareholder distributions. The 2011 increase in common equity of $3.9 billion includes similar items as 2012 as well as the issuance of $1.5 billion in common equity net of share buybacks.

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

QUARTERLY FINANCIAL PERFORMANCE

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

THREE MONTHS ENDED (MILLIONS)	2012				2011			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenues	**$ 5,622**	$ 4,644	$ 4,411	$ 4,020	$ 4,122	$ 4,423	$ 3,963	$ 3,413
Direct costs	**(4,380)**	(3,407)	(3,272)	(2,850)	(3,035)	(3,452)	(2,964)	(2,455)
Equity accounted income	**339**	256	258	390	584	393	1,017	211
Expenses								
Interest	**(637)**	(593)	(613)	(654)	(620)	(622)	(564)	(546)
Corporate costs	**(40)**	(41)	(35)	(42)	(40)	(42)	(43)	(43)
Valuation items								
Fair value changes	**415**	493	(100)	342	434	330	374	248
Depreciation and amortization	**(352)**	(327)	(287)	(297)	(228)	(224)	(231)	(221)
Income taxes	**(191)**	(153)	17	(189)	(257)	(90)	(124)	(37)
Net income	**$ 776**	$ 872	$ 379	$ 720	$ 960	$ 716	$ 1,428	$ 570
Net income for shareholders	**$ 492**	$ 334	$ 138	$ 416	$ 588	$ 253	$ 838	$ 278
Per share								
- diluted	**$ 0.72**	$ 0.48	$ 0.17	$ 0.60	$ 0.86	$ 0.36	$ 1.26	$ 0.41
- basic	**$ 0.74**	$ 0.48	$ 0.17	$ 0.63	$ 0.90	$ 0.36	$ 1.26	$ 0.42

Summary of Quarterly Results

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

The amount and timing of fair value changes vary on a quarterly basis depending on changes in the fair value of our assets which are recorded at fair value in net income. We recorded $544 million and $357 million of fair value changes on our equity accounted investment in General Growth Properties in the second and fourth quarters of 2011, respectively, resulting in an increase in both equity accounted income and net income in those periods. Fair value changes in the fourth quarter of 2011 include the reversal of $276 million of previously recorded gains, upon realization, resulting in a lower amount of unrealized gains in the period. We recorded $94 million of mark-to-market losses on power sales contracts in the second quarter of 2012.

Water flows and pricing within our renewable power operations are seasonal in nature. During the fall rainy season and spring thaw, water inflows tend to be the highest leading to higher generation; however prices tend not to be as strong as they are in the summer and winter seasons due to the more moderate weather conditions during the fall and spring and associated reductions in demand for electricity.

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

Fee revenues generated within our asset management operations are contractual in nature and have increased over the past eight quarters due to higher amounts of fee bearing capital under management. Our construction business line is seasonal in nature and revenues are typically higher in the third and fourth quarters compared to the first half of the year, as weather conditions are more favourable in the latter half of the year.

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

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

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

Depreciation and amortization increased in 2012, as a result of a higher valuation on our renewable power assets and increased in the third and fourth quarter of 2012 following the acquisition of depreciable assets.

In August 2011, we restructured and acquired an additional interest in our U.S. Office Fund, within our property operations, increase revenues, direct costs and interest expense. In addition, we acquired and commenced consolidating a number of businesses within our property and infrastructure businesses in the fourth quarter of 2012.

Fourth Quarter Results

We recognized $776 million of net income in the fourth quarter of 2012, $492 million of which was attributable to shareholders. Net income to shareholders in the prior year comparable period was $588 million. Our property and infrastructure operations benefited from the contribution of newly acquired assets and completed development projects coming online. We also realized $34 million of performance-based income in our private funds, $17 million of which was on the close-out of our initial private equity fund. These amounts were offset by lower levels of equity accounted income, primarily a decrease in GGP's fair value changes and increased depreciation on higher asset values and newly acquired assets.

CORPORATE DIVIDENDS

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

	Distribution per Security		
	2012	2011	2010
Class A Limited Voting Shares	**$ 0.55**	$ 0.52	$ 0.52
Class A Preferred Shares			
Series 2	**0.52**	0.53	0.43
Series 4 + Series 7	**0.52**	0.53	0.43
Series 8	**0.75**	0.76	0.61
Series 9	**0.95**	1.10	1.06
Series 10[1]	**0.37**	1.45	1.39
Series 11[2]	**1.02**	1.40	1.33
Series 12	**1.35**	1.36	1.31
Series 13	**0.52**	0.53	0.43
Series 14	**1.88**	1.91	1.52
Series 15	**0.42**	0.43	0.28
Series 17	**1.19**	1.20	1.15
Series 18	**1.19**	1.20	1.15
Series 21	**1.24**	1.27	1.21
Series 22	**1.75**	1.77	1.70
Series 24[3]	**1.35**	1.36	1.25
Series 26[4]	**1.12**	1.14	0.19
Series 28[5]	**1.15**	1.03	—
Series 30[6]	**1.20**	0.19	—
Series 32[7]	**0.89**	—	—
Series 34[8]	**0.32**	—	—

1. Redeemed April 5, 2012
2. Redeemed October 1, 2012
3. Issued January 14, 2010
4. Issued October 29, 2010
5. Issued February 8, 2011
6. Issued November 2, 2011
7. Issued March 13, 2012
8. Issued September 12, 2012

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

PART 3 – BUSINESS SEGMENT RESULTS

BASIS OF PRESENTATION

How We Measure and Report Our Business Segments

For management purposes, we have organized our business into five segments in which we make operating and capital allocation decisions and assessing performance. In late 2012 we combined the oversight of our timber and agricultural development business lines and have reallocated the results of our agricultural development operations business line from Private Equity and Residential Development to Infrastructure. The comparative results have been revised to conform to our 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 business segments are included within Corporate operations, such as the company's cash and financial assets, corporate borrowings, capital securities and preferred equity and net working capital.

We have presented the costs associated with conducting asset management activities in the asset management segment. These include the costs of centralized activities as well as costs of asset management activities performed within other segments.

Certain corporate costs such as technology and operations are on behalf of the business segment and accordingly allocated to each business segment based on an internal pricing framework.

Segment Operating and Performance Measures

The following section contains a description of key operating and performance measures that we employ in discussing our segmented results and elsewhere in our MD&A on a selective basis. As noted below, these measures include non-IFRS financial measures and operating measures. The non-IFRS measures are reconciled to the most comparable financial statement component in Note 3 to our consolidated financial statements on page 38 of this report.

Funds from Operations

Funds from Operations ("FFO") is a key measure of our financial performance. We define FFO as net income prior to fair value changes, depreciation and amortization, and future income taxes, and including certain disposition gains that are not otherwise included in net income as determined under IFRS. When determining funds from operations, we include our proportionate share of the FFO of equity accounted investments and exclude transaction costs incurred on business combinations, which are required to be expensed as incurred under IFRS. We include disposition gains in FFO because we consider the purchase and sale of assets to be a normal part of the company's business. We use FFO to assess operating results and our business. We do not use FFO as

a measure of cash generated from our operations. We derive funds from operations for each segment and reconcile total FFO to net income in Note 3 of the consolidated financial statements.

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

Components of FFO

The segment amounts for the following items are derived from Note 3 to our consolidated financial statements. The totals of these amounts for all segments are non-IFRS measures and are reconciled to the most comparable measures under IFRS using the adjustments described in Note 3(c) to our consolidated financial statements.

- *Equity Accounted FFO* represents our share of what an equity accounted investee would report as FFO determined on a consistent basis with how we determine FFO from consolidated entities.
- *Disposition Gains/Losses* include gains or losses arising from transactions during the reporting period 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.
- *Interest Expense* represents consolidated interest expense, including dividends declared on our capital securities.
- *Unallocated Costs* within business segments include costs that are not allocated to a specific business line within the segment. These costs are included in direct costs in our consolidated statement of operations, with the exception of unallocated corporate costs, which are presented as corporate costs in our consolidated statement of operations. Unallocated costs in our segment analysis also include expenses associated with asset management services provided by us that are eliminated in our consolidated financial statements.
- *Current Income Taxes* represent the portion of consolidated income tax expense attributable to each segment that is paid/payable or received/receivable in the current year.
- *Non-controlling Interests in FFO* represents the interests of non-controlling interests in the FFO of partially-owned consolidated entities.

The following two measures, net operating income and segment operating income, are non-IFRS measures both on a segment basis and an entity basis. These items are reconciled to Revenues in Note 3 of our consolidated financial statements and on page 39.

- *Net Operating Income or NOI* is defined as revenues less direct costs, where direct costs exclude costs such as general and administrative expenses that are not directly attributable to specific operating activities (presented separately as unallocated costs). We use net operating income to assess the amount of cash flows generated from our consolidated businesses and assets, prior to the impact of borrowings.
- *Segment Operating Income* shows the performance of our assets prior to the impact of borrowings and is determined by the aggregate of net operating income, equity accounted FFO and disposition gains/losses.

Valuation Items

Valuation Items include our share of fair value changes and depreciation and amortization included in net income and valuation items included in OCI, after deducting non-controlling interests. Segment balances have been derived from Note 3 to our consolidated financial statements and the total amount of valuation items, which is a non-IFRS measure, is reconciled to the financial statement line items from which it is derived also in Note 3.

Components of Segment Financial Position

The following are components of segment financial position and are derived from Note 3 to our consolidated financial statements. The totals of these amounts for all segments are non-IFRS measures and are reconciled to the most comparable financial statement line items also in Note 3.

- *Segment Assets* represent total consolidated assets in a segment or business line other than equity accounted investments, less accounts payable and other liabilities and any deferred tax liabilities.
- *Borrowings* includes corporate borrowings, non-recourse borrowings, and capital securities which represent the financing associated with the particular segment or business line.
- *Segment Non-Controlling Interests* includes interests of others in consolidated funds and non-controlling interests, which represent the interest of other investors in common equity by segment.

- *Common Equity by Segment* is the amount of common equity allocated to a business segment. This metric is intended to present the net assets associated with the FFO of the segment.

Operating Measures

The following are operating measures that we employ to assess the performance of our asset management activities, as well as a description of how certain asset management income is recorded in our consolidated financial statements and our business segment analysis. The calculation of these measures may differ from other asset managers and, as a result, may not be comparable to similar measures presented by other asset managers.

- *Asset Management Revenues* include base management fees, incentive distributions, transaction and advisory fees and performance income. Many of these items are not included in consolidated revenues because they are earned from consolidated entities and are eliminated on consolidation.

  Base management fees are determined by contractual arrangements and are typically equal to a percentage of the Capital Under Management and are accrued quarterly. Base fees are earned on Capital Under Management from both clients and ourselves.

  We are entitled to a percentage of distributions paid by our managed listed entities above a predetermined threshold. We call these "incentive distributions" and accrue them when declared by the board of directors of the entity.

  Performance income includes arrangements where we are compensated for exceeding pre-determined investment returns. In most cases, these are carried interests whereby we receive a fixed percentage of investment gains generated within a fund that we manage provided that the investors receive a predetermined minimum return. Carried interests are typically paid out towards the end of the life of a fund after the capital has been returned to investors and may be subject to "claw back" until all investments have been monetized and minimum investment returns are sufficiently assured. We defer recognition of carried interests in our financial statements until they are no longer subject to adjustment based on future events; however we include them in our discussion of asset management segment results, in order to provide a more complete representation of performance. Unlike fees and incentive distributions, we only include carried interests earned in respect of third party capital in our segment results.
- *Capital Under Management* represents the capital committed, pledged or invested in our private funds, listed issuers and public securities and includes both called and uncalled amounts and other investments that we manage. Capital under management is the basis for determining base management fees, when held in a fee bearing vehicle such as a private fund or listed entity. We determine client capital in a manner consistent with the determination of the contractual base management fees for fee bearing vehicles. Capital under management also includes the capital committed by us, or entities managed by us, other than capital on which we are not entitled to earn fees (i.e., the fees are credited against other fee arrangements).
- *Fee Bearing Capital* represents capital under management that is managed by us under contractual arrangements that entitle us to earn Asset Management Revenues.
- *Uninvested Capital* (or "Dry Powder") represents capital that has been committed or pledged to us to invest on behalf of a client. We typically, but not always, earn base management fees on this capital from the time that the commitment or pledge to our private fund is effective until such time as the capital is invested, commonly referred to as the investment period. In certain cases, clients retain the right to approve individual investments before providing the capital to fund them. In these cases, we refer to the capital as "pledged" or "allocated."

SUMMARY OF RESULTS BY BUSINESS SEGMENT

Overview

AS AT AND 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	Total
Financial results							
Revenues	$ 4,520	$ 3,982	$ 1,179	$ 2,109	$ 6,900	$ 230	**$ 18,920**
Net operating income	349	2,170	704	971	795	116	**5,105**
Equity accounted FFO	4	386	13	223	15	25	**666**
Disposition gains	—	(49)	214	63	31	100	**359**
Segment operating income	353	2,507	931	1,257	841	241	**6,130**
Interest expense	—	(1,076)	(412)	(399)	(276)	(369)	**(2,532)**
Corporate/unallocated costs	—	(172)	(36)	(144)	(28)	(160)	**(540)**
Current income tax	—	(9)	(12)	(16)	(79)	(19)	**(135)**
Non-controlling interests in FFO	—	(713)	(158)	(474)	(197)	(25)	**(1,567)**
Funds from operations	$ 353	$ 537	$ 313	$ 224	$ 261	$ (332)	**$ 1,356**
Valuation items	$ (56)	$ 1,154	$ 264	$ 161	$ (180)	$ (29)	**$ 1,314**
Financial position							
Segment assets	$ 1,855	$ 37,622	$ 14,325	$ 14,463	$ 9,476	$ 1,196	**$ 78,937**
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)**
Segment non-controlling interests	(1)	(11,336)	(3,559)	(6,510)	(2,107)	(102)	**(23,615)**
Preferred equity	—	—	—	—	—	(2,901)	**(2,901)**
Common equity by segment	$ 1,570	$ 12,958	$ 4,991	$ 2,571	$ 2,575	$ (6,505)	**$ 18,160**

The information presented in the table above has been extracted from Note 3 to our consolidated financial statements and is reconciled to the most closely related financial statement line item within that note.

Summary of Business Segment Results

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

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Common Equity by Segment		Funds from Operations	
	2012	2011	**2012**	2011
Operating platforms				
Asset management and other services	**$ 1,570**	$ 1,492	**$ 353**	$ 269
Property	**12,958**	10,943	**537**	687
Renewable power	**4,991**	5,109	**313**	232
Infrastructure	**2,571**	2,507	**224**	172
Private equity and residential development	**2,575**	2,616	**261**	248
Total operating segments	**24,665**	22,667	**1,688**	1,608
Corporate/unallocated	**(6,505)**	(5,924)	**(332)**	(397)
Total	**$ 18,160**	$ 16,743	**$ 1,356**	$ 1,211

FFO from asset management and other service activities increased by $84 million principally due to a higher level of fee-bearing capital, which was in turn a result of capital committed to our private funds, capital issuances by our listed entities, and increases in market values. We also recorded a higher level of performance income during 2012 as a result of the final return of capital to clients from a private equity fund.

Property segment FFO declined by $150 million, consisting of an increase in FFO excluding gains of $158 million, offset by a negative variance on disposition gains of $308 million. The increase in FFO excluding disposition gains was due primarily to the contribution from recently acquired and developed properties, improved leasing within our office portfolios, and increased rental revenues within our U.S. retail portfolio reflecting continued growth in tenant sales. The disposition gains and losses reflect the recognition in FFO of fair value changes previously recorded in net income upon the sale of properties. We recorded disposition gains of $203 million in 2011 compared to disposition losses of $105 million in 2012.

Renewable power FFO increased by $81 million, consisting of a $108 million decrease in FFO excluding gains offset by a $189 million increase in disposition gains. The 2012 gain of $214 million arose on the sale of a partial interest in Brookfield Renewable. The 2011 results included a $25 million gain. FFO excluding gains decreased from $207 million in 2011 to $99 million in 2012 primarily as a result of lower generation that was caused by water flows that were meaningfully below both long-term averages and the prior year's results. The decrease was partially offset by the contribution from recently acquired and commissioned facilities.

Infrastructure FFO increased by $52 million, consisting of a $7 million increase in FFO excluding disposition gains, and a $45 million positive variance in disposition gains. The increase in FFO excluding gains reflects the contribution from acquisitions and capital expansions within our transport and energy operations, offset by a lower contribution from our timber operations which in turn reflects lower pricing and volumes arising from reduced Asian demand. The disposition gains arose on the partial sale of timberlands located in western Canada and agricultural lands in Brazil.

FFO from our private equity and residential development operations increased by $13 million, consisting of a $65 million increase in FFO excluding disposition gains, and a decrease of $52 million in gains. The increase in FFO excluding gains was due primarily to increased pricing and volumes within our North American panelboard operations, which are benefitting from increased demand associated with the recovery in the U.S. home building sector. This improvement also contributed to improved results from our North American residential development operations. These improvements were partially offset by a lower contribution from our Brazilian residential development operations, which experienced a slowdown in activity and higher costs during 2012.

Corporate and unallocated FFO improved by $65 million, consisting of a $52 million increase in net FFO outflows which principally represent carrying charges on corporate borrowings and unallocated operating costs, offset by a $183 million positive variance from disposition gains. The increase in FFO outflows was due to a higher level of borrowing costs arising from higher average debt levels during the year, a $35 million break fee on the early redemption of high coupon debt and increased corporate costs that reflect a higher level of activity during the year. We recorded negative mark-to-markets on corporate securities portfolios in 2011 and positive mark-to-markets in 2012. In addition, these results include a $70 million gain in 2012 on the partial sale of our U.S. residential brokerage business.

Reconciliation of Non-IFRS Measures

The following table reconciles total funds from operations to consolidated net income:

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Funds from operations	**$ 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

The following tables reconcile net operating income and segment operating income to Note 3 of our consolidated financial statements:

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	Total Reportable Segments	Adjustments	Consolidated
Revenues	$ 4,520	$ 3,982	$ 1,179	$ 2,109	$ 6,900	$ 230	$ 18,920	$ (223)	$ 18,697
Direct costs	(4,171)	(1,812)	(475)	(1,138)	(6,105)	(114)	(13,815)	(94)	(13,909)
Net operating income	**349**	**2,170**	**704**	**971**	**795**	**116**	**5,105**	**(317)**	—
Equity accounted FFO	4	386	13	223	15	25	666	(666)	—
Disposition gains	—	(49)	214	63	31	100	359	(359)	—
Segment operating income	**$ 353**	**$ 2,507**	**$ 931**	**$ 1,257**	**$ 841**	**$ 241**	**$ 6,130**	**$ (1,342)**	—

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	Total Reportable Segments	Adjustments	Consolidated
Revenues	$ 3,535	$ 2,760	$ 1,128	$ 1,725	$ 6,740	$ 311	$ 16,199	$ (278)	$ 15,921
Direct costs	(3,280)	(1,077)	(379)	(908)	(6,129)	(46)	(11,819)	(87)	(11,906)
Net operating income	**255**	**1,683**	**749**	**817**	**611**	**265**	**4,380**	**(365)**	—
Equity accounted FFO	14	428	25	193	23	(9)	674	(674)	—
Disposition gains	—	433	25	—	177	(83)	552	(552)	—
Segment operating income	**$ 269**	**$ 2,544**	**$ 799**	**$ 1,010**	**$ 811**	**$ 173**	**$ 5,606**	**$ (1,591)**	—

The adjustments in the foregoing tables are described in Note 3 to our consolidated financial statements.

ASSET MANAGEMENT AND OTHER SERVICES

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Asset Management		Construction and Property Services		Total Segment	
	2012	2011	**2012**	2011	**2012**	2011
Segment financial results						
Revenues	**$ 420**	$ 331	**$ 4,100**	$ 3,204	**$ 4,520**	$ 3,535
Net operating income	**190**	105	**159**	150	**349**	255
Equity accounted FFO	**4**	14	**—**	—	**4**	14
Funds from operations	**$ 194**	$ 119	**$ 159**	$ 150	**$ 353**	$ 269
Valuation items	**$ —**	$ —	**$ (56)**	$ (34)	**$ (56)**	$ (34)
Segment financial position						
Segment assets	**$ —**	$ —	**$ 1,855**	$ 1,930	**$ 1,855**	$ 1,930
Investments	**—**	—	**67**	2	**67**	2
Borrowings	**—**	—	**(351)**	(439)	**(351)**	(439)
Segment non-controlling interests	**—**	—	**(1)**	(1)	**(1)**	(1)
Common equity by segment	**$ —**	$ —	**$ 1,570**	$ 1,492	**$ 1,570**	$ 1,492

Asset Management and Other Fees

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

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Annualized	2012	2011
Revenues			
Base management fees	$ 385[1,2]	**$ 352**	$ 269
Incentive distributions	30[3]	**15**	4
Transaction and advisory fees	55[4]	**53**	58
	$ 470	**420**	331
Direct costs		**(252)**	(212)
		168	119
Performance based income[5]			
Realized		**34**	—
Direct costs		**(8)**	—
Net performance income		**26**	—
Funds from operations		**$ 194**	$ 119

1. Based on capital committed or invested and contractual arrangements at December 31, 2012
2. Includes $140 million of annualized base fees on Brookfield capital
3. Based on Brookfield Infrastructure Partners L.P.'s annual distribution in the amount of $1.72 per unit
4. Equal to simple average of 2012 and 2011 revenues
5. Excludes net performance based income subject to clawback

Base management fees increased by 31% to $352 million compared to $269 million in 2011. This reflects the contribution from new funds and an increase in capital committed, particularly in our property and infrastructure operations. Annualized base management fees totalled approximately $385 million at December 31, 2012. Base management fees include 100% of the amounts earned by us, including amounts in respect of Brookfield's capital. We do this in order to present the operating margins in an appropriate manner given that we record 100% of the costs incurred in providing these services. Base management fees do not include any contribution from approximately $1.5 billion of private funds on which our compensation is derived primarily from performance-based measures and carried interests, as opposed to base management fees. The weighted average term of the commitments related to the base fees is nine years, and our goal is to increase the level of base management fees as we continue to expand our asset management activities.

Brookfield Property Partners L.P., which will be launched in April 2013, will add an annual base management fee of $50 million for the initial capital and 1.25% of future increases in capitalization.

Transaction and advisory fees totalled $53 million in 2012, compared to $58 million in 2011. Our advisory business reported increased revenues compared to 2011, reflecting continued expansion and a number of successful mandates; however we recorded a lower level of transaction gains relative to 2011. We have expanded our investment banking activities into the U.S. and the UK, and continue to advise on a number of mandates in Canada and Brazil. Our primary focus is on real estate and infrastructure transactions.

Direct costs consist primarily of employee expenses and professional fees, as well as allocations of technology costs and other shared services. These costs increased by $40 million year-over-year in particular due to geographic expansion in our infrastructure, public securities and advisory businesses. We have expanded our operating resources considerably in recent years to establish the necessary capabilities to execute and manage these activities; however we believe that we can expand our operating margins in the future now that much of the operating infrastructure is in place.

Our share of accumulated performance income totalled $689 million at December 31, 2012. This represents an increase of $310 million compared to the prior year. We estimate that direct expenses of approximately $57 million will arise on the realization of the income accumulated to date. We recognized $34 million of third party performance income and $8 million of associated expenses in our financial statements and deferred the balance as our accounting policies defer recognition until the end of any determination or clawback period which is typically at or near the end of the fund's term. The amount of unrealized performance income net of associated costs was $632 million at year end (2011 – $328 million) as shown in the following table:

AS AT DECEMBER 31 (MILLIONS)	**2012**			2011		
	Unrealized Performance Based Income	**Direct Costs**	**Net**	Unrealized Performance Based Income	Direct Costs	Net
Unrealized balance, beginning of year	**$ 379**	**$ (51)**	**$ 328**	$ 260	$ (39)	$ 221
In year performance based income						
Unrealized	**344**	**(14)**	**330**	119	(12)	107
Realized	**(34)**	**8**	**(26)**	—	—	—
Unrealized balance, end of year	**$ 689**	**$ (57)**	**$ 632**	$ 379	$ (51)	$ 328

Capital Under Management

Capital under management is determined in a manner consistent with the determination of the contractual base management fees for fee bearing vehicles and is defined on page 36.

The following table summarizes the capital managed for clients, co-investors and ourselves:

AS AT DECEMBER 31 (MILLIONS)	Fee Bearing					
	Private Funds[1]	Listed Issuers[1]	Public Securities	Other Listed Entities	**Total**	2011
Property	$ 13,183	$ 3,077	$ 1,873	$ 6,512	**$ 24,645**	$ 24,094
Renewable power	498	10,061	—	—	**10,559**	9,031
Infrastructure	6,843	8,163	1,491	—	**16,497**	12,974
Private equity	2,720	—	12,160	3,266	**18,146**	18,162
December 31, 2012	**$ 23,244**	**$ 21,301**	**$ 15,524**	**$ 9,778**	**$ 69,847**	$ n/a
December 31, 2011	$ 20,454	$ 16,488	$ 19,833	$ 7,486	n/a	$ 64,261

1. Includes Brookfield capital of $8.4 billion in private funds and $10.3 billion in listed issuers

Fee bearing capital includes all capital on which we receive some form of asset management revenue, including capital committed or invested by us. For example, we include 100% of the market capitalization of listed issuers such as Brookfield Infrastructure Partners L.P. and private funds such as Brookfield Capital Partners II because we are entitled to earn fees on all of this capital, including our own. We do not, however, include the capital invested or committed by one Brookfield managed entity into another because the fees otherwise payable to us on this capital are credited against the fees payable to us by the other. Fee bearing capital in the above table includes the following amounts from us: private funds – $8.4 billion; managed listed entities – $10.3 billion.

Capital under management increased by $5.6 billion during 2012, resulting in a $100 million increase in annualized base fees from December 31, 2011 to December 31, 2012. The principal variances are set out in the following table:

FOR THE YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Private Funds	Listed Issuers	Public Securities	Other Listed Entities	**Total**	**Annualized Base Fees**
Balance, December 31, 2011	$ 20,454	$ 16,488	$ 19,833	$ 7,486	**$ 64,261**	**$ 285**
Commitments/contributions	5,036	2,090	2,318	—	**9,444**	**50**
Return of capital/distributions	(2,301)	(704)	(2,549)	—	**(5,554)**	**(5)**
Market appreciation (depreciation)	—	3,331	(1,139)	—	**2,192**	**55**
Other	55	96	(2,939)[1]	2,292	**(496)**	**—**
Change	2,790	4,813	(4,309)	2,292	**5,586**	**100**
Balance, December 31, 2012	**$ 23,244**	**$ 21,301**	**$ 15,524**	**$ 9,778**	**$ 69,847**	**$ 385**

1. Represents termination of joint venture

Private Funds

Private fund capital increased by $2.8 billion during the year to $23.2 billion. The increase reflects $5.0 billion of new commitments offset by distributions of capital to investors and expiry of uninvested commitments. Our approach to value investing means that we will on occasion let investment periods lapse without fully investing available capital if we are not satisfied with potential returns, although our objective is to fully invest the capital entrusted to us by our clients. The invested capital within our private funds of $15.9 billion has an average term of nine years. Private fund capital includes $5.2 billion of client capital that has not been invested to date but which is available to pursue acquisitions within each fund's specific mandate. Of the total uninvested capital, $3.0 billion relates to property funds, $1.2 billion relates to infrastructure funds and $1.0 billion relates to private equity funds. This uncalled capital has an average term during which it can be called of approximately three years.

Listed Issuers

Listed issuers capital includes the market capitalization of our listed issuers: Brookfield Renewable Energy Partners L.P., Brookfield Infrastructure Partners L.P., Brookfield Canada Office Properties, Acadian Timber and several smaller listed entities. Capital also includes corporate debt and preferred shares issued by these entities to the extent these are included in determining base management fees.

The increase in listed issuer capital of $4.8 billion includes the issuance of $2.1 billion of new capital including $0.5 billion of equity capital, $1.6 billion of corporate debt and preferred equity, and a $3.3 billion increase in the market value of our listed issuers, offset by $0.7 billion in distributions.

Brookfield Property Partners L.P. ("BPY") when launched in April 2013, will add an estimated $12 billion to listed issuers capital based on the book values of the assets and liabilities contributed to BPY by us.

Public Securities

In our public securities operations, we manage fixed income and equity securities with a particular focus on real estate and infrastructure, including high yield and distress securities. Capital under management in this business line decreased by $4.3 billion during the year. The cessation of a joint venture arrangement resulted in the elimination of $2.9 billion of associated assets we managed. Net outflows were $0.2 billion and we experienced an approximate $1.1 billion valuation decrease. We have continued to refocus the business on higher margin products and have eliminated several lower margin offerings. To this end, we have expanded our range of higher margin mutual fund and similar products and have received strong interest from clients supported in part by excellent performance in many of our funds.

Construction and Property Services

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

YEARS ENDED DECEMBER 31 (MILLIONS)	Construction Services		Property Services		Total Services	
	2012	2011	**2012**	2011	**2012**	2011
Revenues	**$ 3,188**	$ 2,505	**$ 912**	$ 699	**$ 4,100**	$ 3,204
Operating costs and interest	**(3,075)**	(2,385)	**(866)**	(669)	**(3,941)**	(3,054)
Funds from operations	**$ 113**	$ 120	**$ 46**	$ 30	**$ 159**	$ 150

Construction revenues increased relative to 2011 as we were managing a larger volume of projects during the year.

Operating margins across the construction business decreased to 8.2% from 9.3% in 2011 as a result of increased general and administrative costs associated with the expansion of our engineering and infrastructure operations in Australia and construction operations in Canada.

The remaining work-in-hand totalled $4.3 billion at the end of December 31, 2012, and represented approximately 1.1 years of scheduled activity. We continue to pursue and secure new projects which should position us well for future growth. The following table summarizes the work-in-hand at the end of 2012 and 2011:

AS AT DECEMBER 31 (MILLIONS)	**2012**	2011
Australasia	**$ 2,626**	$ 3,091
Middle East	**1,047**	533
United Kingdom	**606**	1,780
Canada	**44**	—
	$ 4,323	$ 5,404

Property services fees include property and facilities management, leasing and project management and a range of real estate services. FFO from this business increased to $46 million in 2012 compared to $30 million last year reflecting the continued expansion of our property services business. We acquired a large relocation and residential brokerage business in late 2011 that

significantly expanded our market position in the relocations business which also led to higher revenues in 2012. We merged our U.S. residential brokerage business with another industry participant in late 2012 with the objective of creating a highly competitive business and retained a one-third interest in the combined entity, while at the same time receiving $127 million of cash proceeds and recording a disposition gain of $70 million which has been included in unallocated investment income.

Outlook and Growth Initiatives

We continue to witness increased interest by institutions and other investors in real asset investments, which is the focus of most of our investment strategies and products. The addition of $5.6 billion of capital under management and $100 million of associated annualized base management fees should both lead to increased contribution from this segment, as well as the potential to earn performance income and incentive distributions.

We believe the performance of our funds through the recent economic crisis, and the attractiveness of our investment strategies to our clients should enable us to achieve our goal of increasing capital under management and the associated fees substantially in the coming years. We are actively raising capital for six funds over the course of 2013 and 2014, seeking to obtain approximately $5.0 billion of additional commitments from third-party investors; four of the funds have already held first and subsequent closings. The recent issuance of additional equity by Brookfield Infrastructure Partners L.P. and the formation of Brookfield Renewable Energy Partners L.P. are important steps forward in our continued expansion of listed entities.

PROPERTY

Overview

Our property assets are currently owned through a number of public and private entities. We are in the final stages of launching Brookfield Property Partners L.P. ("BPY"), a publicly traded partnership through which we will own virtually all of our commercial property businesses. BPY is intended to be listed on the New York and Toronto stock exchanges under the symbol BPY and is anticipated to have an initial IFRS equity of approximately $12 billion. We will distribute approximately 7.5% of BPY to our shareholders by way of a special dividend in April of this year.

BPY will operate in a similar manner as our two other flagship listed entities, Brookfield Infrastructure Partners L.P. and Brookfield Renewable Energy Partners L.P., in that we intend that these entities will be the primary vehicles through which we will invest our capital into each of the property, power and infrastructure sectors. We are the manager of BPY and the majority of the private funds whereas Brookfield Office Properties manages the core office funds.

Our property operations are organized into three business lines:

Office properties, which are primarily held through 50% owned Brookfield Office Properties and consist of high quality well located office buildings in major cities in Australia, Canada and the United States. We also hold a 22% interest in Canary Wharf Group, which includes similar high quality properties in London, UK.

Our commercial property portfolio consists of interests in 125 properties totalling 80 million square feet, including 10 million square feet of parking. Our development portfolio comprises interests in 20 sites totalling 18 million square feet. Our primary markets are the financial, energy and government center cities of New York, Washington, D.C., Houston, Los Angeles, Toronto, Calgary and Ottawa in North America as well as Sydney, Melbourne and Perth in Australia and London in the United Kingdom. Landmark assets include the Brookfield Place complexes in New York, Toronto, and Perth, Bank of America Plaza in Los Angeles, Bankers Hall in Calgary, and Darling Park in Sydney.

Our commercial property investments are held through wholly or partially owned subsidiaries, which are fully consolidated on our balance sheets, and through entities that we jointly control with our partners, for which we recognize our interests in the net assets of such entities using the equity method of accounting.

Retail properties, located in the United States, are held through our 43% consortium interest in General Growth Properties ("GGP"), our 52% consortium interest in Rouse Properties, in Brazil through our 35% owned institutional fund, and direct interests in Australia.

GGP's portfolio is comprised of 126 regional malls in the United States comprising approximately 129 million square feet of gross leaseable area. GGP's U.S. mall portfolio includes 70 Class A malls generating tenant sales of $635 per square foot. These malls are located in core markets defined by population density, household growth, and a high-income demographic. The regional malls had 2012 average tenant sales of $545 per square foot.

Rouse Properties is among the largest regional mall owners in the United States with a portfolio that consists of 32 malls in 19 states encompassing 23 million square feet of retail space.

Our Brazilian portfolio, which consists of 3 million square feet of retail space, is owned through a private institutional fund that we manage and in which we own a 35% interest. GGP also holds a 45.6% interest in Aliansce, a listed company which owns a 7 million square foot portfolio, also located in Brazil. We hold most of our 3 million square foot Australian portfolio directly, and continue to monetize these assets selectively as we focus our retail operations on markets in which we have a larger retail presence.

Office development, opportunity investing and real estate finance activities: Office developments are conducted primarily through Brookfield Office Properties, and our opportunity and real estate finance activities are conducted primarily through a number of institutional funds with total committed capital at year end of $5.3 billion, including $1.8 billion from Brookfield entities.

Highlights for the year included the following:

- Secured commitments of $2.9 billion for private funds within our property segment.
- Acquired $6.4 billion of property assets enabling us to invest $1.9 billion of equity capital including:
  - a 884,000 square foot office portfolio in London, UK
  - a mixed use portfolio in Australia, including a prime office development site in Sydney
  - a 4,000 room hotel and casino
  - a portfolio of 19 apartment communities with approximately 5,000 units
  - a company which owns and operates approximately 18 million square feet of industrial properties and over 20,000 acres of land
  - 731,000 square feet of retail properties
- Leased 7.3 million square feet in our core office portfolio and 13.2 million square feet in our retail portfolio at meaningful increases in net rents over the expiring leases. Occupancy in our global office portfolio decreased from 93.3% to 92.1% during the year due to the disposition of higher occupancy assets and acquisition of lower occupancy opportunistic assets as well as expected vacancies in Denver, New York, and Washington, D.C., and increased from 93.5% to 95.1% in our retail portfolio.
- Refinanced $11.7 billion of debt during the year, extending term and decreasing cost of capital.
- Completed the development of the 1 million square foot Brookfield Place office tower in Perth and advanced work on 6 million square feet of office development projects, including the 5 million square foot Manhattan West project in New York City.
- Our two primary listed entities within this group, Brookfield Office Properties and General Growth Properties, produced total returns to investors during 2012 of 10.6% and 36.0%, respectively, based on share price appreciation and distributions.

The following table disaggregates the financial results of our property operations into our principal business lines:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Office Properties		Retail Properties		Development, Opportunity and Finance		Total Segment	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment financial results								
Revenues	**$ 2,612**	$ 2,006	**$ 215**	$ 245	**$ 1,155**	$ 509	**$ 3,982**	$ 2,760
Net operating income	**1,601**	1,271	**161**	166	**408**	246	**2,170**	1,683
Equity accounted FFO	**92**	191	**283**	236	**11**	1	**386**	428
Disposition gains/losses	**(63)**	326	**(20)**	58	**34**	49	**(49)**	433
Segment operating income	**1,630**	1,788	**424**	460	**453**	296	**2,507**	2,544
Interest expense	**(810)**	(718)	**(102)**	(173)	**(164)**	(123)	**(1,076)**	(1,014)
Unallocated costs	**(134)**	(116)	**(6)**	(8)	**(32)**	(20)	**(172)**	(144)
Current income taxes	**—**	—	**(9)**	(10)	**—**	—	**(9)**	(10)
Non-controlling interests in FFO	**(499)**	(563)	**(48)**	(32)	**(166)**	(94)	**(713)**	(689)
Funds from operations	**$ 187**	$ 391	**$ 259**	$ 237	**$ 91**	$ 59	**$ 537**	$ 687
Valuation items	**$ 291**	$ 720	**$ 801**	$ 1,170	**$ 62**	$ 33	**$ 1,154**	$ 1,923
Segment financial position								
Segment assets	**$ 24,389**	$ 22,446	**$ 3,331**	$ 3,026	**$ 9,902**	$ 5,796	**$ 37,622**	$ 31,268
Investments	**2,418**	2,449	**5,212**	4,186	**513**	270	**8,143**	6,905
Borrowings	**(13,545)**	(12,773)	**(1,003)**	(1,371)	**(6,923)**	(3,289)	**(21,471)**	(17,433)
Segment non-controlling interests	**(7,556)**	(6,785)	**(1,611)**	(1,251)	**(2,169)**	(1,761)	**(11,336)**	(9,797)
Common equity by segment	**$ 5,706**	$ 5,337	**$ 5,929**	$ 4,590	**$ 1,323**	$ 1,016	**$ 12,958**	$ 10,943

Segment FFO excluding the impact of disposition gains increased from $484 million to $642 million. Segment FFO including disposition gains decreased from $687 million to $537 million, as the 2011 results included a larger amounts of gains.

Our share of valuation items was $1.2 billion compared to $1.9 billion. We recorded increases across almost all of our portfolios and, while favourable, the valuation increases were not as large as 2011.

Office Properties

Net operating income from our office property portfolio is presented in the following table which shows net operating income from existing properties based on 2012 foreign currency exchange rates as well as assets which have been acquired, developed or sold. Normalizing existing property net operating income for foreign currency variations is a non-IFRS measure, which we utilize to illustrate the stability that arises from the high occupancy levels and long-term lease profile.

	% Leased		Average In-place Rent			
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011	**2012**	2011	**2012**	2011
Existing properties						
United States	**90.8%**	90.6%	**$ 24.68**	$ 23.60	**$ 397**	$ 385
Canada	**96.9%**	96.3%	**26.80**	26.40	**258**	247
Australasia	**97.5%**	97.2%	**48.80**	46.74	**292**	290
Europe	**100.0%**	100.0%	**63.29**	63.19	**32**	31
	93.3%	93.0%	**$ 28.28**	$ 26.97	**979**	953
Currency variance					**—**	9
					979	962
Acquired, developed and sold						
U.S. Office Fund					**311**	127
Other					**208**	111
Investment and other income					**103**	71
Net operating income					**$ 1,601**	$ 1,271

Existing properties are those that the company owned and operated throughout both the current and prior reporting periods. Properties classified as redevelopment properties, when applicable, are excluded from existing properties, since they are not in operation for both of the reported periods. There were no properties undergoing redevelopment during either 2012 or 2011.

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

Net operating income from existing properties in 2012 increased by 2.7% over 2011 on a constant currency basis, following an increase of 3.0% between 2010 and 2011. This reflects the renewal of leases at rental rates that exceed the expiring leases, which increased average in-place rents on existing properties to $28.28 from $26.97. Occupancy was relatively unchanged over the period.

The contribution from properties acquired, developed and sold since the beginning of the comparative period includes the U.S. Office Fund, which was consolidated midway through 2011 as well as acquisitions in Seattle, Washington, D.C., Denver, Melbourne, and Perth, partly offset by the sale of properties in Boston, Minneapolis, Calgary, Melbourne and Brisbane. The decrease in income from unconsolidated properties reflects the consolidation of the U.S. Office Fund, Brookfield Place in New York and First Canadian Place in Toronto offset by an increase in income from the acquisition of unconsolidated interests in a new property in Manhattan.

The increases in interest expense and non-controlling interests are due respectively to financing of acquired properties, the consolidation of the U.S. Office Fund and the attribution of the increase in total FFO prior to non-controlling interests which partially offsets the NOI from properties acquired and consolidated.

Segment FFO attributable to our office properties excluding disposition gains was $281 million in 2012 compared to $232 million in 2011. The increase reflects the improvement in NOI from existing properties, the impact of lower interest expense on borrowings refinanced during the year, and the contribution from acquisitions and developments. We recorded losses on the sales of properties during the year that had accumulated unrealized losses relative to their invested cost (i.e., the losses represent fair value losses recorded in prior years) whereas we sold properties in 2011 that had accumulated unrealized gains. Net disposition losses after non-controlling interests were $94 million in 2012 compared to net gains of $159 million in 2011.

Valuation gains in 2012 included increases in the valuations of our office portfolio, of which our share was $0.3 billion.

Segment assets increased by $1.9 billion, borrowings and segment non-controlling interests by $1.5 billion, and common equity by segment by $369 million. The increases reflect acquisitions, valuation gains, favourable currency revaluations and the completion of Brookfield Place in Perth at a total cost of $1 billion, which was previously included in our Development, Opportunity and Finance business line.

Portfolio Valuation

The key valuation metrics of our commercial office properties are presented in the following table on a weighted average basis. The valuations are most sensitive to changes in the discount rate and terminal capitalization rates. It is important to note that changes in cash flows and discount/terminal capitalization rates are usually inversely correlated as the circumstances that typically give rise to increased interest rates (i.e., strong economic growth, inflation) also give rise to increased cash flows.

	United States			Canada			Australasia		
AS AT DECEMBER 31	**2012**	2011	2010	**2012**	2011	2010	**2012**	2011	2010
Discount rate	**7.3%**	7.5%	8.1%	**6.4%**	6.7%	6.9%	**8.8%**	9.1%	9.1%
Terminal capitalization rate	**6.3%**	6.3%	6.7%	**5.7%**	6.2%	6.3%	**7.1%**	7.5%	7.4%
Investment horizon (years)	**11**	12	10	**11**	11	11	**10**	10	10

Discount rates decreased in each of our regions by 20 to 30 basis points, reflecting continued decline in interest rates and a favourable investment climate for high quality commercial office properties. Terminal capitalization rates decreased in Canada by 50 basis points and by 40 basis points in Australia for similar reasons as discount rates, but remained unchanged in average in the U.S. as forecasted long-term growth remains consistent with last year.

These changes, together with increases in projected cash flows, gave rise to total fair value gains of $0.7 billion which occurred almost entirely in our North American properties, of which our share after non-controlling interests was $0.3 billion. Approximately 70% of the gains were due to lower discount and capitalization rates and 30% to increases in projected cash flows. Total gains in 2011 were $1.3 billion, of which our share was $0.7 billion. We realized $94 million of disposition losses in 2012 and $167 million of disposition gains in 2011, net of non-controlling interests. Valuation gains net of non-controlling interest were $0.4 billion in 2012 and $0.6 billion in 2011.

Leasing Profile

An important characteristic of our portfolio is the strong credit quality of our tenants. We direct special attention to credit quality, particularly in the current economic environment, in order to ensure the long-term sustainability of rental revenues through economic cycles. Major tenants with over 1,000,000 square feet of space in the portfolio include government and government agencies, Bank of America/Merrill Lynch, CIBC World Markets, Suncor Energy, RBC, Morgan Stanley, and Bank of Montreal.

Our strategy is to sign long-term leases in order to mitigate risk and reduce our overall retenanting costs. We typically commence discussions with tenants regarding their space requirements well in advance of the contractual expiration, and although each market is different, the majority of our leases, when signed, have terms ranging between 10 and 20 years. As a result of this strategy, only 7% of our leases, on average, will mature annually over the next five years.

The overall portfolio occupancy rate in our office properties at the end of 2012 was 92.1% and our average remaining lease term is seven years. Occupancy levels in the United States and Europe declined overall from the prior year as a result of opportunistic acquisitions of certain assets at lower occupancy rates in addition to large expiries in Denver, New York, and Washington, D.C. Occupancy levels elsewhere in our portfolio remain favourable. We leased approximately 7.3 million square feet this year and have a leasing pipeline of two million square feet at this time, which would further improve our leasing profile.

					Expiring Leases (000's sq. ft.)						
AS AT DECEMBER 31, 2012	% Leased[1]	Average Term	Net Rental Area	Currently Available	2013	2014	2015	2016	2017	2018	2019 & Beyond
North America											
United States	89.0%	7.0	42,447	4,649	5,149	2,907	2,960	2,141	2,304	2,732	19,605
Canada	96.9%	8.2	16,735	523	1,697	321	1,486	1,630	645	679	9,754
Australasia	97.7%	6.4	10,253	233	401	792	1,137	1,115	990	899	4,686
Europe	85.3%	10.7	905	133	4	1	5	59	88	2	613
Total/Average	92.1%	7.2	70,340	5,538	7,251	4,021	5,588	4,945	4,027	4,312	34,658
Percentage of total			100.0%	7.9%	10.3%	5.7%	7.9%	7.0%	5.7%	6.1%	49.4%
As at December 31, 2011				6.7%	5.3%	11.5%	6.6%	9.4%	6.9%	4.8%	48.8%

1. Occupancy was 93.3% at December 31, 2011 with the following breakdown by geography: United States 91.3%, Canada 96.3%, Australasia 96.6% and Europe 100%.

We reduced the lease rollover profile for the 2013–2017 period by 310 basis points compared to the end of 2011.

In North America, average in-place net rents across our portfolio approximate $27 per square foot compared to $25 per square foot at the end of 2011. Net rents represent a discount of approximately 21.3% to the average market rent of $33 per square foot. This gives us confidence that we will be able to maintain or increase our net rental income in the coming years and, together with our high overall occupancy, to exercise patience in signing new leases.

In Australasia, average in-place rents in our portfolio are A$52 per square foot, which represents an 1% discount to market rents. The occupancy rate across the portfolio remains high at 97.7% and the weighted average lease term is approximately six years. Leases in Australia typically include annual escalations, with the result that in-place lease rates tend to increase along with long-term increases in market rents.

Retail Properties

Our net share of GGP's funds from operations on an IFRS basis, which is recorded in this segment as equity accounted FFO, was $251 million compared to $213 million in 2011. GGP reported 14% growth in core FFO on a U.S. GAAP basis, which reflects increases in both net rents and occupancy. Initial rental rates for leases commencing in 2012 on a suite-to-suite basis increased by 10.2% or $5.74 per square foot, to $61.84 per square foot when compared to the rental rate for expiries leases. Tenant sales were $545 per square foot on a trailing 12-month basis as of year-end 2012, representing a 6.6% increase over year-end 2011 on a comparable basis. The net contribution to FFO from GGP after non-controlling interests was $248 million in 2012 compared to $208 million in 2011. The remaining FFO of $11 million includes the results of Rouse Properties, which was spun out of GGP during 2012, returns from the capital invested in our Brazilian retail property fund and direct interests in retail properties in Australia offset by net disposition losses of $27 million. FFO from these activities in 2011 was $29 million and included $29 million of disposition gains and a nominal contribution from other operations.

GGP completed 9.7 million square feet of new and renewal leasing in 2012, excluding anchor tenants. Regional mall percentage leased was 96.1% at year-end 2012, an increase of 60 basis points over year-end 2011 and in-place rents increased by 2.0% to $69.12 per square foot.

GGP issued $8.0 billion ($7.0 billion at GGP's share) of mortgage notes over the course of 2012 at a weighted average interest rate of 4.20% and average term of 9.4 years. The average interest rate of the original loans was 5.30% and the remaining term to maturity was 2.6 years. The transactions generated approximately $1.4 billion of incremental proceeds and eliminated approximately $1.3 billion of recourse debt to the company.

We recorded fair value gains of $1.1 billion, of which our share was $0.8 billion. Approximately $0.8 billion of the total gains relate to our investment in GGP ($0.7 billion net to Brookfield) with the balance relating primarily to our Brazilian portfolio ($50 million net to Brookfield). The GGP valuation gains were the result of the impact of improved leasing, a future cash flow (40%) and a more favourable discount rate (60%). The Brazil valuation gains were due principally to a 110 basis-point reduction in the discount rate used to value the properties reflecting a general increase in interest rates in that country.

Portfolio Valuation

The blended capitalization rate utilized on our U.S. portfolio for the direct capitalization method was approximately 5.7% (2011 – 6.0%).

Our Brazilian portfolio was valued on a discounted cash flow basis using 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).

Leasing Profile

					Expiring Leases (000's sq. ft.)						
AS AT DECEMBER 31, 2012	% Leased[2]	Average Term	Net Rental Area	Currently Available	2013	2014	2015	2016	2017	2018	2019 & Beyond
United States[1]	95.0%	5.8	60,545	2,992	6,215	6,468	5,960	5,794	6,238	5,231	21,647
Brazil	94.7%	7.1	2,802	149	732	301	421	279	231	39	650
Australasia	98.2%	6.7	3,037	55	131	69	134	794	377	40	1,437
Total/Average	95.1%	5.9	66,384	3,196	7,078	6,838	6,515	6,867	6,846	5,310	23,734
Percentage of total			100%	4.8%	10.7%	10.3%	9.8%	10.3%	10.3%	8.0%	35.8%
As at December 31, 2011				6.5%	10.7%	9.9%	9.5%	8.7%	9.8%	8.2%	36.7%

1. Represents regional malls only and excludes leases on traditional anchor stores and specialty leasing license agreements
2. Occupancy was 93.5% at December 31, 2011 with the following breakdown by geography: United States 93.2%, Australasia 97.7% and Brazil 94.7%.

Our retail portfolio reported strong leasing with 13.2 million square feet leased during the year at rates that were 6.6% higher than expiring rates. This increased our overall occupancy by 150 basis points to 95.1%.

Office Development, Opportunity and Finance

We reached practical completion of our Brookfield Place development in Perth and reclassified the property to our office properties portfolio in May 2012. In addition, in the second quarter of 2012, we announced the launch of our Bay Adelaide East development, a one million square foot project in Toronto.

We own development rights on Ninth Avenue between 31st Street and 33rd Street in New York City, which includes 5 million square feet of commercial office space entitlements. We expect that this will be one of the first sites for office development in Manhattan, once new office properties become economic, and are commencing work to build the necessary foundations. We recently acquired an adjacent property during the year to further expand this important development initiative. We also hold several well positioned development sites in London, UK. In all cases, full construction will be dependent on securing leases.

Our opportunity investment funds have committed capital of $4.0 billion, including $2.6 billion from clients and $1.4 billion from ourselves, of which $1.0 billion is currently invested. One of our early funds is fully invested and we have been selling properties, while we are actively investing the capital in the two more recent funds. We deployed nearly $1.2 billion of capital during 2012 in several transactions, which included the acquisition of Thakral Holdings in Australia with a $1 billion portfolio of prime office assets in Sydney, a portfolio of 19 multi-family communities and approximately 5,000 units as well as an industrial company which owns and operates approximately 18 million square feet of industrial properties and over 20,000 acres of land.

Our net invested capital in the funds is $681 million (December 31, 2011 – $429 million) and our share of the underlying FFO for 2012 was $72 million (2011 – $31 million).

Our three real estate finance funds have committed capital of $1.3 billion, including $1.0 billion from clients and $0.3 billion from ourselves, of which $0.8 billion is currently invested. Our share of capital invested in these operations was $255 million at December 31, 2012 (December 31, 2011 – $371 million). These activities contributed $19 million of FFO and gains during 2012, compared to $28 million in 2011.

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

Outlook and Growth Initiatives

We remain focused on the following strategic priorities:

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

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

In our North American retail business, we continue to improve the profitability of the business by rationalizing the portfolio and leases, refinancing debt and reducing costs.

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

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

RENEWABLE POWER

Overview

Our renewable power assets are held through Brookfield Renewable Energy Partners L.P. ("Brookfield Renewable" or "BREP"), in which we owned 68% at year end. BREP operates renewable power facilities and owns them both directly as well as through joint ventures and our institutional infrastructure funds. In addition to our role as the manager of BREP, we entered into arrangements where we purchase a portion of BREP's power at predetermined prices, providing a stable revenue profile for unitholders of BREP and providing us with continued participation in future increases (or decreases) in power prices.

Highlights for the year included the following:

- Provided a total return to BREP unitholders of 13.5% as compared to 7.1% for the benchmark S&P/TSX Composite Index, and increased annualized cash distributions by 7.4% between late 2011 and February 2013.
- Announced the acquisition of nearly 1,000 megawatts ("MW") of renewable power facilities capacity through our institutional funds including two large scale hydroelectric portfolios. These acquisitions are expected to increase annual generation by 3,500 gigawatt ('GWh") based on long-term average generation. Equity capital deployed during the year by our managed entities totalled $600 million.
- Completed nearly $2.4 billion of financing and capital markets activities, which have meaningfully reduced borrowing costs while increasing the overall term to maturity.
- Achieved generation of 15,821 GWh, unchanged from prior years, as the increase from newly acquired and commissioned facilities (+1,357 GWh) was offset by the impact of below average hydrology conditions on existing facilities (-1,413 GWh).
- Completed the construction and commissioned a 19 MW hydroelectric facility in Brazil earlier than expected and commenced construction of a 45 MW hydroelectric facility in British Columbia, scheduled for completion in 2014.

The following table summarizes the operating results and financial profile of our renewable power operations by operating region:

	United States		Canada		Brazil		Corporate/ Unallocated		Total Segment	
AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment financial results										
Revenues	**$ 420**	$ 444	**$ 408**	$ 357	**$ 332**	$ 327	**$ 19**	$ —	**$ 1,179**	$ 1,128
Net operating income	**218**	294	**264**	237	**208**	218	**14**	—	**704**	749
Equity accounted FFO	**6**	13	**2**	6	**5**	6	**—**	—	**13**	25
Disposition gains	**—**	12	**—**	13	**—**	—	**214**	—	**214**	25
Segment operating income	**224**	319	**266**	256	**213**	224	**228**	—	**931**	799
Interest expense	**(160)**	(143)	**(109)**	(91)	**(58)**	(92)	**(85)**	(68)	**(412)**	(394)
Unallocated costs	**—**	—	**—**	—	**—**	—	**(36)**	(2)	**(36)**	(2)
Current income taxes	**2**	2	**—**	5	**(16)**	(15)	**2**	(5)	**(12)**	(13)
Non-controlling interests in FFO	**(66)**	(43)	**(76)**	(102)	**(59)**	(13)	**43**	—	**(158)**	(158)
Funds from operations	**$ —**	$ 135	**$ 81**	$ 68	**$ 80**	$ 104	**$ 152**	$ (75)	**$ 313**	$ 232
Valuation items	**$ 136**	$ 127	**$ 212**	$ 585	**$ (22)**	$ (92)	**$ (62)**	$ —	**$ 264**	$ 620
Segment financial position										
Segment assets	**$ 6,964**	$ 5,525	**$ 7,405**	$ 6,828	**$ 2,775**	$ 2,990	**$(2,819)**	$(2,568)	**$14,325**	$12,775
Investments	**196**	184	**81**	89	**67**	85	**—**	—	**344**	358
Borrowings	**(2,243)**	(1,968)	**(1,756)**	(1,584)	**(348)**	(645)	**(1,772)**	(1,323)	**(6,119)**	(5,520)
Segment non-controlling interests	**(1,609)**	(743)	**(1,548)**	(1,060)	**(937)**	(813)	**535**	112	**(3,559)**	(2,504)
Common equity by segment	**$ 3,308**	$ 2,998	**$ 4,182**	$ 4,273	**$ 1,557**	$ 1,617	**$(4,056)**	$(3,779)	**$ 4,991**	$ 5,109

The following table presents our generation results:

FOR THE YEARS ENDED DECEMBER 31 (GIGAWATT HOURS)	Actual Production		Long-Term Average		Variance of Results: Actual vs. Long-term Average		Variance of Results: Actual vs. Prior Year
	2012	2011	**2012**	2011	**2012**	2011	**2012**
Hydroelectric generation							
United States	**5,913**	7,150	**7,205**	6,812	**(1,292)**	338	**(1,237)**
Canada	**3,832**	4,056	**4,972**	5,061	**(1,140)**	(1,005)	**(224)**
Brazil	**3,470**	3,307	**3,470**	3,307	**—**	—	**163**
Total hydroelectric operations	**13,215**	14,513	**15,647**	15,180	**(2,432)**	(667)	**(1,298)**
Wind energy	**1,709**	662	**2,034**	710	**(325)**	(48)	**1,047**
Co-generation	**897**	702	**521**	406	**376**	296	**195**
Total generation	**15,821**	15,877	**18,202**	16,296	**(2,381)**	(419)	**(56)**
% Variance							
– Total					**(13%)**	(3)%	**(0%)**
– Hydroelectric					**(16%)**	(4)%	**(9%)**

Generation from our hydroelectric portfolio was 9% or 1,298 GWh lower than the prior year as a result of lower inflows from drier than normal conditions in eastern Canada, New York State, and in the mid-western United States in the second and third quarter of the year. The decrease was partially offset by the first quarter generation that was higher than long-term average, as well as from improved hydrology conditions in the fourth quarter. Generation from our wind portfolio was 1,047 GWh higher than the prior year resulting from the contribution of acquired or commissioned facilities in California and New England, and from an Ontario facility commissioned in 2011. Results in the second and third quarters of 2012 were below long-term average as a result of lower wind conditions across the U.S and Canadian assets.

Revenues totalled $1.18 billion compared to $1.13 billion in 2011. Total generation was 15,821 GWh, virtually unchanged from the 15,877 GWh produced in 2011. Generation from facilities owned throughout both years declined by 1,413 GWh and were 1,855 GWh below long-term averages, reducing revenue by $160 million. Facilities acquired or commissioned since January 1, 2011 contributed 1,357 GWh and $130 million of revenue. Foreign currency variances reduced revenues by $51 million, while changes in realized prices in local currency terms reduced revenues by $18 million.

FFO and gains totalled $313 million in 2012 compared to $232 million in 2011. The 2012 and 2011 results included $214 million and $25 million of disposition gains. Excluding disposition gains, FFO was $99 million in 2012 compared to $207 million in 2011. While revenues were relatively unchanged overall, the decline in generation and revenues from existing facilities of $160 million reduced the corresponding FFO by $94 million, as the associated direct costs and interest costs are relatively fixed (i.e., the change in revenue results in a fairly commensurate change in FFO after adjusting for non-controlling interest), whereas the revenue increase of $130 million from recently acquired and commissioned facilities contributed incremental FFO of $29 million after taking into consideration the associated direct costs and interest expenses. Interest expense for the segment was largely unchanged year-over-year as borrowing costs on new debt financing acquisitions and commissioned projects was offset by lower cost of debt refinanced during the year. We sold 13 million units of BREP in the first quarter of 2012 for total proceeds of $345 million, decreasing our ownership by 5% to 68% and realizing a $214 million disposition gain. The 5% decrease in our ownership resulted in $9 million reduction in FFO, compared to our ownership level in the prior year.

We estimate that FFO would have been $118 million and $37 million higher during 2012 and 2011, respectively, had we achieved long-term average generation, with no change in realized prices.

Valuation gains of $264 million in 2012 represent our share of increases in the value of our renewable energy portfolio. In 2011, valuation gains of $620 million included a net portfolio revaluation gain of $1.3 billion offset by the recapture of depreciation that was expensed during the year.

The following table provides further analysis of net operating income which, for this purpose, includes equity accounted FFO:

FOR THE YEARS ENDED DECEMBER 31 (GIGAWATT HOURS AND $ MILLIONS)	**2012** Production (GWh)	Realized Revenues	Direct Costs	Net Operating Income	**2011** Production (GWh)	Realized Revenues	Direct Costs	Net Operating Income
Hydroelectric								
United States	**5,913**	**$ 365**	**$ 171**	**$ 194**	7,150	$ 477	$ 168	$ 309
Canada	**3,832**	**221**	**78**	**143**	4,056	238	72	166
Brazil	**3,470**	**334**	**123**	**211**	3,307	333	109	224
Total hydroelectric	**13,215**	**920**	**372**	**548**	14,513	1,048	349	699
Wind energy	**1,709**	**187**	**54**	**133**	662	70	18	52
Co-generation	**897**	**59**	**44**	**15**	702	56	33	23
Total	**15,821**	**$ 1,166**	**$ 470**	**$ 696**[1]	15,877	$ 1,174	$ 400	$ 774[2]
Per Megawatt hour (MWh)								
Total generation		**$ 74**	**$ 30**	**$ 44**		$ 74	$ 25	$ 49
Hydroelectric generation		**$ 70**	**$ 28**	**$ 42**		$ 72	$ 24	$ 48

1. Includes equity accounted FFO of $13 million and excludes investment income of $21 million that is included in net operating income
2. Includes equity accounted FFO of $25 million

Net operating income declined by $78 million from 2011. NOI from hydroelectric facilities declined by $151 million due to lower revenues while direct costs increased due to the addition of newly acquired and commissioned facilities to the portfolio. Costs are largely fixed and therefore do not decline to the same extent as revenues when generation is lower. NOI from our wind energy facilities increased by $81 million due to the contribution from recently acquired and commissioned wind energy facilities.

Realized prices on a per MWh basis were unchanged at $74 year-over-year on a total portfolio basis, which represents a decline from $72 to $70 for the hydroelectric portfolio offset by a greater proportion of higher price wind energy generation following the acquisition and commissioning of wind energy facilities over the past two years. The decline in hydroelectric prices reflects the impact of lower spot pricing on uncontracted generation in the northeast United States and reduced generation from facilities that sell power under higher priced long-term contracts. Operating costs per unit on a total portfolio basis increased from $25 to $30, reflecting an increase in hydroelectric unit costs from $24 to $28 and a greater proportion of higher cost wind energy. The increase in hydroelectric unit costs is primarily due to the impact of lower generation levels over a relatively fixed cost base and costs incurred from newly acquired assets. Average realized prices and direct costs for our wind facilities were unchanged year-over-year on a per MWh basis.

Currency fluctuations reduced the U.S. equivalent of both revenues and operating costs, resulting in an approximate $1 decrease in net operating income on a per unit basis.

Portfolio Valuation

We recorded a valuation gain of $825 million in Other Comprehensive Income to revalue our portfolio at year-end. After taking into consideration $500 million of accounting depreciation booked during the year, the net portfolio revaluation gain year-over-year was $325 million. This reflects a $650 million increase as a result of lower discount rates, which in turn reflect lower interest rates, offset by a $250 million reduction relating to lower expected electricity prices in the short term and a $100 million reduction reflecting the impact of exchange rates on projected cash flows. Our share of the net portfolio revaluation after non-controlling interests was approximately $270 million.

The assets deployed in our renewable power operations are revalued on an annual basis using discounted cash flows. The key valuation metrics of our 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. Discount rates are based on our after-tax cost of capital and are adjusted to reflect whether revenues are subject to long-term contracts or spot market pricing. Projected cash flows are based on in-place contracts and expected market prices for non-contracted power. Forward market prices are used for the first four years, during which time there is adequate liquidity permit appropriate price discovery, and thereafter prices are determined using internal projections that reflect our view of future market capacity, cost of capital, costs of fuel for competing forms of generation and competitive attributes of renewable energy. A 100 basis-point change in the discount and terminal capitalization rates and a 5% change in long-term power prices will impact the value of our net invested capital by $1.6 billion and $0.5 billion, respectively.

AS AT DECEMBER 31	United States 2012	United States 2011	Canada 2012	Canada 2011	Brazil 2012	Brazil 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 discount and terminal capitalization rates decreased in both the United States and Canada due to improved economic outlook and lower risk-free rates. The discount rates in Brazil decreased as a result of lower risk free rates. We reduced expected pricing in the near future to reflect lower spot and forward market prices; however our longer term price projections remain relatively unchanged. Our generation facilities in Brazil are held under concessions and authorizations which have a fixed maturity date and accordingly, we do not ascribe a terminal value to these assets under IFRS, although we believe that we will be able to renew these concessions upon maturity.

Segment Financial Position

Segment assets increased by approximately $1.5 billion in total, which includes a $1.5 billion increase in the U.S. primarily as a result of acquisitions of hydroelectric and wind energy assets, a $0.6 billion increase in Canada reflecting a composition of the continued development of wind and hydroelectric assets and the revaluation of property, plant and equipment and a 3% increase in currency exchange rates, and a $0.2 billion decrease in Brazil reflecting a 9% decrease in currency exchange rates offset by investment in acquisitions and development projects.

Approximately 600 MW of capacity was acquired by our institutional fund during the year, with a total enterprise value of $1.2 billion, which enabled us to invest $600 million of equity. BREP's average interest in these facilities is 22%. This included two California wind projects closed in the first quarter of 2012 with estimated annualized generation of 550 GWh and a 24-year power purchase agreement and a group of hydroelectric facilities in Tennessee with estimated annual generation of 1,360 GWh that closed in November 2012.

We completed the construction of two wind facilities and one hydroelectric facility, adding over 600 GWh of estimated long-term annual generation.

Segment borrowings and segment non-controlling interests increased by $0.6 billion and $1.1 billion, respectively. The additional borrowings primarily reflect acquisition financing. The increase in segment non-controlling interests represents capital called from third party investors to fund generation assets acquired during the year, and the sale by us of a 5% interest in Brookfield Renewable.

Common equity by segment declined by $0.1 billion, as the reduction in our interest in Brookfield Renewable was partially offset by valuation gains.

Contract Profile

We have contracted 77% and 69% of our long-term average generation for 2013 and 2014, respectively. Approximately 70% of the expected generation is hedged with long-term contracts that have an average term of 11.6 years, while 5% of our revenue for 2013 is hedged with shorter-term financial contracts.

Almost all of Brookfield Renewable's generation in Brazil is sold under power sales agreements, as is all of the wind energy in North America. Our wholly-owned energy marketing group has entered into purchase agreements and price guarantees with Brookfield Renewable that fix the prices for most of the North American hydroelectric generation that is not already sold under a long-term contract. The majority of these arrangements are offset by us with long-term contracts such as our 20-year power sales agreement with the Ontario Power Authority, which has the full credit support of the Ontario provincial government. Our primary exposure to price fluctuations relates to approximately 5,000 GWh of annual generation that we have committed to purchase from Brookfield Renewable at an average price of $73 per MWh for which we have no offsetting long-term sales agreements. We estimate that a $10 per MWh negative variance results in an approximate $16 million decrease in FFO based on our 68% ownership of Brookfield Renewable at year-end, because we recover our proportionate share of any negative variance through our ownership interest. On the other hand, we will record annual FFO increases of $50 million for every $10 per MWh of positive variance from the contracted price, which we believe will add significant value over the longer term as demand and prices for renewable hydroelectric generation increase. Realized prices were below contract prices for the most of the year which resulted in a net reduction in FFO of approximately $40 million from these arrangements during 2012.

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

FOR THE YEARS ENDED DECEMBER 31	2013	2014	2015	2016	2017
Generation (GWh)					
Contracted					
Power sales agreements					
Hydro	11,534	10,266	8,920	8,782	8,140
Wind	2,104	2,104	2,104	2,104	2,104
Gas and other	398	134	—	—	—
	14,036	12,504	11,024	10,886	10,244
Financial contracts	906	876	—	—	—
Total contracted	14,942	13,380	11,024	10,886	10,244
Uncontracted	4,578	5,988	8,258	8,396	9,038
Long-term average generation	19,520	19,368	19,282	19,282	19,282
Contracted generation – as at December 31, 2012					
% of total generation	77%	69%	57%	56%	53%
Price (per MWh)	$ 84	$ 85	$ 93	$ 94	$ 93

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

We acquired facilities during 2012 with estimated contracted generation of 1,400 gigawatt hours that is sold under contract at what we consider to be low prices that can be exceeded in the near term markets. These contracts terminate during 2013 and 2014, resulting in a decrease in the proportion of contracted generation; however, we are confident that we can ultimately secure much longer term contracts at higher prices.

The decrease in the amount of annual generation contracted under long-term power sales agreements prior to 2017 also reflects the expiry of contracts in Brazil. Given the continued economic expansion in that country and the increasing need for generation capacity, we are confident that we will be able to sell our power at increasing rates and secure long-term contracts on favourable terms.

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

Outlook and Growth Initiatives

Acquisition and development activities completed during the year increased our estimated annualized generation by 2,582 GWh, which, together with the expected closing of a previously-announced acquisition of a large-scale hydroelectric portfolio in the northeast U.S., will increase overall portfolio generation by 15% at attractive projected returns. In addition, we continue to advance two hydroelectric facilities with a total expected construction cost of $315 million and estimated long-term average generation of 275 GWh and maintain a development pipeline of approximately 2,000 MW of capacity.

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

INFRASTRUCTURE

Overview

We own and operate our infrastructure operations primarily through Brookfield Infrastructure Partners L.P. ("BIP"), which had a market capitalization of $8 billion at year-end and is listed on the New York and Toronto stock exchanges. We hold a 28% interest in BIP, consistent with our ownership level through 2012 and 2011. BIP owns a number of infrastructure businesses directly as well as through infrastructure funds and joint ventures that we manage, the largest of which is the Brookfield Americas Infrastructure Fund ("BAIF"). BAIF has total committed capital of $2.7 billion, 90% invested at year end, of which Brookfield committed $0.7 billion. We also hold direct interests in our timber funds and our agriculture business outside of BIP.

During 2012 we transferred our remaining directly held transmission interests to BIP and sold our direct interests in our western Canadian timberlands, thereby monetizing the capital invested and simplifying our ownership structure. We are currently exploring alternatives to similarly monetize or reorganize our remaining directly held timber operations with similar objectives.

Highlights during 2012 include the following:

- Achieved total return for unitholders of BIP of 33% on the NYSE during 2012 (3-year – 35%) compared to 16% (3-year – 14%) for the Dow Jones Brookfield Global Infrastructure Index.
- Increased BIP's annualized distribution rate by 15% in February 2013, representing a compound annual growth rate of 10% over the past five years, exceeding our targeted distribution growth rate of 3 – 7% per annum.
- Earned segment FFO of $224 million compared with $172 million in 2011. This 30% increase in FFO reflects the contribution from recently commissioned expansion projects as new investments.
- Successfully commissioned our $600 million Australian railroad expansion below budget and ahead of schedule and significantly advanced our $750 million Texas electricity transmission system, which we expect will be up and running in mid-2013.
- Deployed $2 billion of capital into investments in the utility, transportation and energy sectors, including $1 billion of capital in European businesses or in assets acquired from European owners.
- Completed $3.3 billion of financings and capital markets activities that increased liquidity.
- Negotiated favourable rate base renewals covering $265 million of operating assets.

The following table sets out the operating performance of our infrastructure segment by business line as well as its financial position:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Utilities		Transport and Energy		Sustainable Resources		Corporate / Unallocated		Total Segment	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment financial results										
Revenues	**$ 868**	$ 580	**$ 672**	$ 541	**$ 559**	$ 598	**$ 10**	$ 6	**$ 2,109**	$ 1,725
Net operating income	**489**	399	**295**	195	**176**	217	**11**	6	**971**	817
Equity accounted FFO	**126**	116	**86**	70	**8**	6	**3**	1	**223**	193
Disposition gains	**—**	—	**—**	—	**63**	—	**—**	—	**63**	—
Segment operating income	**615**	515	**381**	265	**247**	223	**14**	7	**1,257**	1,010
Interest expense	**(184)**	(144)	**(98)**	(82)	**(89)**	(88)	**(28)**	(26)	**(399)**	(340)
Unallocated costs	**(1)**	(2)	**—**	—	**(21)**	(17)	**(122)**	(99)	**(144)**	(118)
Current income taxes	**(8)**	—	**—**	1	**(2)**	(2)	**(6)**	(3)	**(16)**	(4)
Non-controlling interests in FFO	**(313)**	(251)	**(213)**	(137)	**(51)**	(61)	**103**	73	**(474)**	(376)
Funds from operations	**$ 109**	$ 118	**$ 70**	$ 47	**$ 84**	$ 55	**$ (39)**	$ (48)	**$ 224**	$ 172
Valuation items	**$ 8**	$ 35	**$ 32**	$ 95	**$ 125**	$ 153	**$ (4)**	$ —	**$ 161**	$ 283
Segment financial position										
Segment assets	**$ 4,707**	$ 3,166	**$ 5,254**	$ 2,600	**$ 4,482**	$ 4,183	**$ 20**	$ 130	**$14,463**	$10,079
Investments	**1,122**	931	**1,384**	696	**80**	69	**20**	—	**2,606**	1,696
Borrowings	**(3,195)**	(2,336)	**(2,322)**	(962)	**(1,525)**	(1,506)	**(946)**	(114)	**(7,988)**	(4,918)
Segment non-controlling interests	**(2,041)**	(1,168)	**(3,381)**	(1,706)	**(1,747)**	(1,482)	**659**	6	**(6,510)**	(4,350)
Common equity by segment	**$ 593**	$ 593	**$ 935**	$ 628	**$ 1,290**	$ 1,264	**$ (247)**	$ 22	**$ 2,571**	$ 2,507

Funds from operations increased to $224 million from $172 million in 2011. Disposition gains contributed $45 million to FFO during 2012 after non-controlling interests, whereas there were no such gains in 2011. The gains related to the sale of a portion of our western Canadian timber to an institutional investor ($34 million) and the disposition of our agricultural land ($11 million). FFO excluding gains increased by $7 million year-over-year, to $179 million. The increase reflects the contribution from capital expansion projects such as our western Australian rail lines and acquisitions such as our South American toll roads, offset by lower timber prices and a reduced interest in our South American transmission business.Valuation gains in 2012 totalled $190 million reflecting value appreciation in our Utilities and Sustainable Resources businesses. In 2011, valuation gains totalled $283 million due to increased valuations of many of our operating assets and standing timber.

Segment assets and equity accounted investments increased by $5.3 billion to $17.1 billion at year-end as a result of the acquisition of several large businesses during the year by BIP directly and through our private funds. Borrowings increased by $3.1 billion and segment non-controlling interests increased by $2.2 billion reflecting acquisition financing of long-term debt capital provided by clients and investment partners.

Common equity by segment increased by $64 million, which reflects our share of undistributed earnings and our $140 million participation in BIP's equity issue during 2012, offset by the sale of our direct interest in western Canadian timberlands and the sale of our direct interest in our Chilean transmission business to BIP.

Utilities

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

Net operating income increased by 23% to $489 million from $399 million last year reflecting the acquisition of a South American electricity distribution company and the expansion of our UK connections business by way of a merger that doubled the size of the business.

Segment FFO decreased by $9 million to $109 million. A substantial proportion of the contribution from new assets is attributable to non-controlling interests in our private funds and BIP. In addition, we held a lower effective interest in our Chilean transmission business following the sale of our direct interest to BIP during the year.

Common equity by segment in this business line was unchanged year-over-year as our share of the equity deployed in the acquisitions was offset by our reduced interest in our Chilean transmission operations.

We invested approximately $75 million for a 25% interest in a district energy system that serves commercial customers in downtown Toronto, Ontario which we acquired in partnership with institutional investors. In November, we completed the recapitalization of our recently acquired UK regulated distribution business, enabling BIP to invest $525 million in the business and more than doubling our installed base of gas and electricity connections to over 1 million. We subsequently sold a 20% interest in this business for proceeds of $235 million.

Transport and Energy

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

Net operating income increased to $295 million in 2012, from $195 million in 2011. The increase was primarily driven by the commissioning of our Australian rail line expansion and the contribution from South American toll road businesses acquired during 2012 and late 2011. Our North American gas transmission business continues to be adversely impacted by weak market conditions caused by excess capacity and low natural gas prices.

The net impact of the acquisitions and capital expansions led to a 49% increase in segment FFO, which was $70 million in 2012 compared to $47 million in 2011. Non-controlling interests increased by $76 million reflecting the interest of these investors in the increased operating results.

Valuation gains relating to our transport and energy operations totalled $32 million compared to $95 million in 2011. In each year the gains relate primarily to the increased value of our Australian rail operations reflecting the capital expansion and the procurement of associated long-term contracts.

Common equity by segment in this business line increased by $307 million, reflecting our pro rata share of the capital invested in the Australian rail lines and the toll road acquisitions.

We completed the acquisition of an additional interest in our Chilean toll road for $170 million, increasing our ownership to approximately 50%. In December, we acquired a 60% interest in the largest toll road operator in Brazil, in partnership with Abertis Infraestructuras and institutional investors for $310 million. These roads benefit from long-term concession agreements in proven regulatory regimes, as well as significant opportunities to deploy additional capital to expand the networks to meet increased road traffic due to GDP growth.

Sustainable Resources

Net operating income for our sustainable resources business decreased to $176 million from $217 million last year, due to lower volumes and pricing in our timber business following a decline in demand from Asian markets. For the year, exports represented 41% of total log sales, compared to 47% in 2011. In December, we sold our direct 12.5% interest in our Canadian timberlands business as well as the 12.5% of interest held by BIP for aggregate proceeds at $170 million, resulting in a disposition gain of $63 million, of which our share after non-controlling interests was $45 million. This led to an increase in our proportionate share of FFO to $67 million from $46 million last year.

We recorded valuation gains of $125 million based on increases in expected cash flows reflecting improved log prices and increased harvest levels and increased values of our Brazilian agricultural lands. The carrying values of our timber assets 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. Timber prices were based on a combination of forward prices available in the market and the price forecasts of each appraisal firm.

Our R$674 million Brazil Agriland Fund is currently 53% invested. Our total investment, including our historical business as well as new investments through the Fund, is approximately $535 million, and is carried at fair value under IFRS and revalued in the normal quarterly process.

Common equity by segment in this business line increased by $26 million, as the impact of valuation gains and additional agriculture investments was largely offset by the sale of interests in our western Canadian timber operations.

Corporate/Unallocated

Our proportionate share of net corporate expenses, which relate primarily to interest expense, unallocated corporate costs, and management fees paid to Brookfield was $39 million compared to $48 million in 2011. Interest expenses and management fees both increased reflecting unsecured borrowings incurred to finance acquisitions and an increase in the amount of capital under management; however this was offset by an increase in the amounts attributable to non-controlling interests.

Common equity by segment that has not been specifically allocated to one of the business lines decreased reflecting our proportionate share of unsecured financings completed during 2012.

We also completed refinancings at a number of our operations, capitalizing on opportunities to issue long-term debt in this historically low interest rate environment. In total, we refinanced $3.3 billion of debt at an average rate of 4.6%. These efforts have positioned us very well going into 2013 as our business now has a well laddered debt maturity profile, with an average maturity of eight years.

Outlook and Growth Initiatives

The completion of strategic initiatives in the fourth quarter of 2012 has established a very solid foundation for our business to prosper across a wide range of economic environments. Based on our current profile, over 85% of projected 2012 cash flow will be generated under regulatory frameworks or long-term contracts, a significant amount of which is not dependent on usage. Furthermore, approximately 60% of our projected 2012 revenue is indexed to inflation and 65% of projected cash flow is generated by assets with excess capacity whereby we have upside from increased throughput of our networks, such as our toll roads in South America and our ports in Europe.

We continue to advance a number of other growth initiatives. A number of our businesses, such as our UK connections business, our electricity transmission operations, our European ports and our Australian railroad, have considerable organic growth investment opportunities that earn very attractive returns on invested capital. A key focus for 2013 will be the replenishment of our capital backlog by identifying and advancing organic growth opportunities such as our Dudgeon Point coal terminal project.

Our timber operations are expected to benefit from continued demand from Asia as we are also participating in the recovery of North American markets which we believe in time will allow us to achieve optimal pricing and increase our harvest levels.

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

PRIVATE EQUITY AND RESIDENTIAL DEVELOPMENT

Our private equity and residential development operations are conducted through a series of institutional private equity funds operated under the Brookfield Capital Partners brand with total committed capital of $2.7 billion as well as direct investments in several public companies including Norbord Inc., Brookfield Residential Properties Inc. and Brookfield Incorporações S.A. We also have residential development operations in Australia that we are in the process of winding down.

Highlights during 2012 include the following:

- Completed the final close of Brookfield Capital Partners III with $1 billion of capital commitments, and secured $450 million of pledge commitments to a bridge lending strategy, including $250 million and $200 million, respectively, from Brookfield.
- Completed $1.8 billion financing and capital markets transactions, including the recapitalization of our North American residential development business with equity and the debt issuances of $800 million.
- Increased segment FFO modestly to $261 million as increased FFO from our private equity operations and our North American residential business was more than offset losses from our Brazilian residential operations.
- Increased aggregate net operating income within our private equity operations by $301 million due primarily to the ongoing recovery in the North American housing markets. Our share of FFO from these operations totalled $234 million compared to $127 million in 2011.
- Closed out Brookfield Capital Partners I with the return of remaining capital to investors for a gross IRR of 31% (Net IRR after fees and carry was 25%) and a gross multiple of capital of 2.2 times (net capital multiple of 1.9 times). Our share of the gains earned by our partners totalled $17 million ($26 million since inception) and is included as performance based income in our Asset Management and Other Services segment.

The following table sets out the operating performance of our private equity and residential development segment during 2012 as well as its financial profile:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Private Equity		Residential Development		Total Segment	
	2012	2011	**2012**	2011	**2012**	2011
Segment financial results						
Revenues	**$ 4,424**	$ 3,890	**$ 2,476**	$ 2,850	**$ 6,900**	$ 6,740
Net operating income	**598**	298	**197**	313	**795**	611
Equity accounted FFO	**8**	1	**7**	22	**15**	23
Disposition gains	**15**	177	**16**	—	**31**	177
Segment operating income	**621**	476	**220**	335	**841**	811
Interest expense	**(133)**	(128)	**(143)**	(135)	**(276)**	(263)
Unallocated costs	**(28)**	(22)	**—**	—	**(28)**	(22)
Current income taxes	**(12)**	(8)	**(67)**	(37)	**(79)**	(45)
Non-controlling interests in FFO	**(221)**	(148)	**24**	(85)	**(197)**	(233)
Funds from operations	**$ 227**	$ 170	**$ 34**	$ 78	**$ 261**	$ 248
Valuation items	**$ (134)**	$ (236)	**$ (46)**	$ (13)	**$ (180)**	$ (249)
Segment financial position						
Segment assets	**$ 3,584**	$ 3,514	**$ 5,892**	$ 5,380	**$ 9,476**	$ 8,894
Investments	**26**	25	**210**	236	**236**	261
Borrowings	**(1,682)**	(1,790)	**(3,348)**	(2,655)	**(5,030)**	(4,445)
Segment non-controlling interests	**(970)**	(799)	**(1,137)**	(1,295)	**(2,107)**	(2,094)
Common equity by segment	**$ 958**	$ 950	**$ 1,617**	$ 1,666	**$ 2,575**	$ 2,616

Revenues, net operating income and funds from operations all increased compared to 2011 reflecting the ongoing recovery in the U.S. housing market. This had a particularly favourable impact on the two panelboard investments in our private equity funds, as well as our North American residential development business. These increases were partially offset by a slowdown in activity in our Brazilian residential operations. Disposition gains totalled $31 million in 2012 compared to $177 million in 2011.

Private Equity

We operate six institutional private equity funds with total invested capital of $1.1 billion and uninvested capital commitments from clients of $1 billion, $1.6 billion including Brookfield's commitments. We also directly own a number of investments that are outside the mandates of our private equity funds or other operating entities. Common equity by segment is $1.0 billion consistent with the prior year.

The private equity fund portfolios include 14 investments in a diverse range of industries. Our average investment is $34 million and our largest single exposure is $245 million of common equity by segment and $67 million and $391 million, respectively, at fair value, based on internal valuations. We concentrate our investing activities on businesses with tangible assets and cash flow streams in order to better protect our capital.

Our largest direct investment is a 63% interest in Norbord Inc. ("Norbord"), which is one of the world's largest producers of oriented strand board. The market value of our investment in Norbord at December 31, 2012 was approximately $900 million based on stock market prices, compared to our carrying value of $200 million.

The results of our private equity activities are shown in the following table. Our share of FFO from private equity investments increased to $227 million from $170 million in 2011.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Carrying Values		Revenues		Funds from Operations	
	2012	2011	**2012**	2011	**2012**	2011
Industrial and forest products	**$ 592**	$ 506	**$ 4,088**	$ 3,673	**$ 166**	$ 59
Energy and related services	**149**	154	**183**	155	**22**	17
Business services	**139**	233	**101**	32	**11**	11
Property and other	**3**	2	**—**	—	**—**	—
Bridge lending	**75**	55	**52**	30	**18**	7
Other	**—**	—	**—**	—	**(5)**	(7)
	958	950	**4,424**	3,890	**212**	87
Disposition gains	**—**	—	**—**	—	**15**	83
	$ 958	$ 950	**$ 4,424**	$ 3,890	**$ 227**	$ 170

Revenues increased by $534 million, due principally to increased prices and volumes within our panelboard businesses, which are benefitting from the U.S. housing recovery. This led to an increase in FFO from our industrial and forest products businesses to $166 million, a $107 million increase over 2011. Asset monetization gains were higher in 2011 due to a $61 million monetization gain relating to the recapitalization of one of our portfolio companies. As a result of these factors, FFO from these operations increased by $57 million to $227 million in 2012.

Residential Development

Our North American business is conducted through Brookfield Residential Properties Inc. We hold approximately 69% of Brookfield Residential which is listed on the New York and Toronto stock exchanges. We are active in 10 principal markets located primarily in Alberta, California and Washington, D.C. area, and control over 100,000 lots in these markets. Our major focus is on entitling and developing land for building homes or for the sale of lots to other builders.

Our Brazilian business is conducted through Brookfield Incorporações S.A. ("BISA"). We hold approximately 44% of BISA which is listed on the principal stock exchange in Brazil. BISA is one of the leading developers in Brazil's real estate industry. These operations include land acquisition and development, construction, and sales and marketing of a broad range of "for sale" residential and commercial office units, with a primary focus on middle income residential. The operations are conducted in Brazil's main metropolitan areas, including São Paulo, Rio de Janeiro, the Brasilia Federal District, and the five other markets that collectively account for the majority of the Brazilian real estate market.

Our development businesses are carried primarily at historical cost, or the lower of cost and market, notwithstanding the length of time that some of our assets have been held and the value created through the development process.

The following table sets out the operating results and financial profile of our residential development activities for the past two years:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Brazil		North America		Australia/UK		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
Segment financial results								
Revenues	**$ 1,006**	$ 1,775	**$ 1,340**	$ 818	**$ 130**	$ 257	**$ 2,476**	$ 2,850
Net operating income	**29**	195	**163**	126	**5**	(8)	**197**	313
Equity accounted FFO	**(3)**	21	**10**	1	**—**	—	**7**	22
Disposition gains	**1**	—	**15**	—	**—**	—	**16**	—
Segment operating income	**27**	216	**188**	127	**5**	(8)	**220**	335
Interest expense	**(87)**	(90)	**(41)**	(34)	**(15)**	(11)	**(143)**	(135)
Current income taxes	**(22)**	(18)	**(45)**	(19)	**—**	—	**(67)**	(37)
Non-controlling interests in FFO	**47**	(62)	**(23)**	(23)	**—**	—	**24**	(85)
Funds from operations	**$ (35)**	$ 46	**$ 79**	$ 51	**$ (10)**	$ (19)	**$ 34**	$ 78
Valuation items							**$ (46)**	$ (13)
Segment financial position								
Segment assets	**$ 3,340**	$ 3,028	**$ 2,219**	$ 1,922	**$ 333**	$ 430	**$ 5,892**	$ 5,380
Investments	**44**	80	**155**	144	**11**	12	**210**	236
Borrowings	**(2,175)**	(1,863)	**(1,051)**	(599)	**(122)**	(193)	**(3,348)**	(2,655)
Segment non-controlling interests	**(727)**	(785)	**(410)**	(510)	**—**	—	**(1,137)**	(1,295)
Common equity by segment	**$ 482**	$ 460	**$ 913**	$ 957	**$ 222**	$ 249	**$ 1,617**	$ 1,666

Our Brazilian operations experienced lower levels of sales and project launches during 2012, although both results were consistent with expectations. The slowdown reflects lower levels of permitting throughout our principal development areas following several years of expansion and consistent with the experience of other developers. We have also experienced some margin pressure from cost increases; however margins remained healthy at 13%.

The following table presents project completions, contracted sales and new project launches for the last three years in Brazilian currency:

FOR THE YEARS ENDED DECEMBER 31 (R$ MILLIONS)	**2012**	2011	2010
Project completions	**$ 1,073**	$ 1,952	$ 922
Contracted sales	**3,358**	4,387	3,621
Project launches	**3,072**	3,930	2,981

Our North American operations demonstrated strong growth reflecting the recovery in U.S. housing markets, and while the contribution from our U.S. business was negligible during the year, we believe it has the potential to deliver strong results over the coming years. Funds from operations increased from $51 million to $79 million due largely to an increase in gross margin of $61 million, offset in part by associated income taxes. Brookfield Residential completed an equity offering in the fourth quarter and we participated at a reduced share, diluting our ownership from 72% to 69% and recognizing a disposition gain of $15 million.

We delivered 1,808 homes and 2,142 lots during the year, compared to 1,295 and 1,869, respectively, in 2011, resulting in revenues of $1.3 billion compared to $0.8 billion in 2011. The gross margin on our Canadian operations was 34.2% compared to 36.8% in 2011 reflecting a slight change in mix between the projects being delivered and between home and lot sales.

The 2011 results for Australia and the UK include the bulk sale of residential holdings in Perth.

Outlook and Growth Initiatives

We believe our North American activities will continue to benefit from the continuing recovery of the North American housing industries which should favourably impact our residential development and industry and forest product businesses. In addition, our residential development business benefits from our strong market share within the energy-focused Alberta market. New home orders totalled 2,057 during 2012 compared to 1,635 during 2011, with much of the increase occurring within our U.S. operations. At the end of 2012, the North American backlog of homes sold but not delivered was 834, with a sales value of $365 million, compared to 659 homes with a value of $264 million at the same time last year.

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

Business conditions for most of the investee companies within our private equity portfolios are improving, which should lead to improved FFO. In addition, favourable capital markets may facilitate their sale, consistent with our strategy. We recently completed the final close of our Brookfield Capital Partners III private fund, with over $1 billion of capital commitments, $250 million of which was from Brookfield.

PART 4 – CAPITALIZATION AND LIQUIDITY

FINANCING STRATEGY

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

The following are the key elements of our capital strategy:

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

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

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

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

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

CAPITALIZATION

Overview

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

Borrowings

Corporate Borrowings

	Average Term		Maturity				
AS AT DECEMBER 31, 2011 (MILLIONS)	**2012**	2011	2013	2014	2015	2016 & After	Total
Commercial paper and bank borrowings	**4**	4	$ —	$ —	$ —	$ 744	$ 744
Term debt	**9**	8	75	178	—	2,529	2,782
	8	7	$ 75	$ 178	$ —	$ 3,273	$ 3,526

Commercial paper and bank borrowings represent shorter-term borrowings pursuant to, or backed by, $2.2 billion of committed revolving term credit facilities of which $1.9 billion have a five-year term and the remaining $300 million have a four-year term. As at December 31, 2012, approximately $253 million (December 31, 2011 – $204 million) of the facilities were utilized for letters of credit issued to support various business initiatives.

Term debt consists of public bonds and private placements, all of which are fixed rate and have maturities ranging from 2013 until 2035. These financings provide an important source of long-term capital and an appropriate match to our long-term asset profile.

Our corporate borrowings have an average term of eight years (December 31, 2011 – seven years). The average interest rate on our corporate borrowings was 4.7% at December 31, 2012 (December 31, 2011 – 5.2%).

Property-Specific Borrowings

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

AS AT DECEMBER 31 (MILLIONS)	Average Term		Consolidated	
	2012	2011	**2012**	2011
Property				
Office	**4**	4	**$ 12,261**	$ 11,398
Retail	**6**	5	**1,003**	1,371
Opportunity, finance and development	**3**	3	**5,445**	2,927
Renewable power	**12**	10	**4,347**	4,197
Infrastructure	**6**	7	**7,021**	4,802
Private equity	**3**	2	**3,210**	3,174
Other	**2**	2	**361**	546
Total	**5**	5	**$ 33,648**	$ 28,415

Property-specific borrowings increased during 2012 due to our share of debt acquired through acquisitions in our property and infrastructure operations.

Subsidiary Borrowings

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

AS AT DECEMBER 31 (MILLIONS)	Average Term		Consolidated	
	2012	2011	**2012**	2011
Subsidiary borrowings				
Property	**3**	3	**$ 1,896**	$ 743
Renewable power	**8**	8	**1,772**	1,323
Infrastructure	**4**	2	**967**	116
Private equity	**5**	3	**1,820**	1,271
Contingent swap accruals[1]	**3**	4	**1,130**	988
Total	**4**	4	**$ 7,585**	$ 4,441

1. Guaranteed by the Corporation

Our property, renewable power, infrastructure and residential development businesses all completed unsecured borrowings during the year through the issuance of public bonds or term bank facilities, with the proceeds used to refinance higher cost property-specific borrowings or to fund acquisitions.

Subsidiary borrowings have no recourse to the Corporation with only a limited number of exceptions. As at December 31, 2012, subsidiary borrowings included $1,130 million (December 31, 2011 – $988 million) of contingent swap accruals that are guaranteed by the Corporation.

Contingent Swap Accruals

We entered into interest rate swap arrangements with AIG Financial Products ("AIG-FP") in 1990, which include a zero coupon swap that was originally intended to mature in October 2015. Our financial statements include an accrual of $1,130 million (December 31, 2011 – $988 million) in respect of these contracts, which represents the compounding of amounts based on interest rates from the inception of the contracts. We have also recorded $257 million (December 31, 2011 – $274 million) in accounts payable and other liabilities which represents the difference between the present value of any future payments under the swaps and the current accrual. We believe that the financial collapse of American International Group ("AIG") and AIG-FP triggered a default under the swap agreements, thereby terminating the contracts with the effect that we are not required to make any further payments under the agreements, including the amounts which might, depending on various events and interest rates, otherwise be payable in 2015. AIG disputes our assertions and therefore we have commenced legal proceedings seeking a declaration from the court confirming our position. We recognize this may not be determined for a considerable period of time, and therefore will continue to account for the contracts as we have in prior years until we receive clarification.

Accounts Payable and Other

AS AT DECEMBER 31 (MILLIONS)	Consolidated		Corporate	
	2012	2011	**2012**	2011
Accounts payable	**$ 7,183**	$ 5,342	**$ 416**	$ 249
Other liabilities	**4,416**	3,924	**967**	1,263
	$ 11,599	$ 9,266	**$ 1,383**	$ 1,512

Accounts payable and other liabilities increased by $2.3 billion on a consolidated basis, of which $1.2 billion represent amounts acquired through business acquisitions, as shown in Note 4 to our consolidated financial statements.

Corporate accounts payable and other decreased $129 million as a result of the continued wind-down of our insurance operations, partially offset by an increased amount of unsettled securities at December 31, 2012.

Capital Securities

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

The average distribution yield on the consolidated capital securities at December 31, 2012 was 5.4% (December 31, 2011 – 5.5%) and the average term to the holders' conversion date was two years as at December 31, 2012 (December 31, 2011 – three years).

AS AT DECEMBER 31 (MILLIONS)	Average Term to Conversion		Consolidated		Corporate	
	2012	2011	**2012**	2011	**2012**	2011
Issued by the Corporation	**3**	2	**$ 325**	$ 656	**$ 325**	$ 656
Issued by Brookfield Office Properties	**2**	3	**866**	994	**—**	—
	2	3	**$ 1,191**	$ 1,650	**$ 325**	$ 656

The decrease during the year reflects the redemption of capital securities by both the Corporation and Brookfield Office Properties.

Interest Rate Profile

As at December 31, 2012, our net floating rate liability position on a proportionate basis was $4.9 billion (December 31, 2011 – $4.7 billion). As a result, a 10 basis-point increase in interest rates would decrease funds from operations by $5 million. Notwithstanding our practice of match funding long-term assets with long-term debt, we do believe that the values and cash flows of certain assets are more appropriately matched with floating rate liabilities. We utilize interest rate contracts to manage our overall interest rate profile so as to achieve an appropriate floating rate exposure on these assets while preserving a long-term maturity profile.

The impact of a 10 basis-point increase in long-term interest rates on financial instruments recorded at market value is estimated to increase net income by $1 million on an annualized basis before tax, based on our positions at December 31, 2012 (December 31, 2011 – $2 million).

We have been active in taking advantage of low long-term rates to fix the coupons on floating rate debt and near-term maturities. This has resulted in an increase in our current borrowing expense but we believe this will result in lower costs in the long term. We have entered into $3.6 billion notional amount (2011 – $2.8 billion) of interest rate contracts, $2.2 billion net to the Corporation (2011 – $1.8 billion), to lock in the risk-free component of interest rates for debt refinancings over the next three years at an average risk-free rate of 2.39% (2011 – 2.79%). The effective rate will be approximately 3.34% (2011 – 3.76%) at the time of issuance which reflects the premium relating to the projected steepness of the yield curve during this period. This represents approximately 50% of expected issuance into the North American and UK markets (2011 – 50%). The value of these contracts is correlated with changes in the reference interest rate, typically the U.S. 10-year government bond such that a 10 basis-point change in the interest rate would result in a $35 million change (2011 – $31 million) in mark-to-market, $25 million net to Brookfield (2011 – $21 million), being recorded in OCI.

Preferred Equity

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

AS AT DECEMBER 31 (MILLIONS)	Average Rate			
	2012	2011	**2012**	2011
Floating rate	**2.12%**	2.12%	**$ 480**	$ 480
Fixed rate	**4.79%**	4.75%	**355**	355
Fixed rate-reset	**5.00%**	5.28%	**2,066**	1,305
	4.48%	4.42%	**$ 2,901**	$ 2,140

We issued C$300 million of 4.5% perpetual rate-reset preferred shares in March 2012, C$250 million of 4.2% perpetual rate-reset preferred shares in September 2012, and C$200 million of 4.85% perpetual fixed rate preferred shares in November 2012. Fixed rate-reset preferred shares have an initial rate that is fixed for an initial five to seven year period and is then reset after that time at a pre-determined spread to the government bond yield.

Non-controlling Interests

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

AS AT DECEMBER 31 (MILLIONS)	**2012**	2011
Participating equity interests		
Properties		
Brookfield Office Properties Inc.	**$ 6,183**	$ 5,410
Property funds and other	**2,858**	2,803
Renewable power		
Brookfield Renewable Energy Partners L.P.	**3,059**	2,272
Infrastructure		
Brookfield Infrastructure Partners L.P.	**6,157**	4,082
Private equity, development and corporate		
Brookfield Incorporações S.A.	**727**	784
Brookfield Residential Properties Inc.	**851**	510
Other	**1,001**	828
	20,836	16,689
Interest of others in funds	**425**	333
	21,261	17,022
Non-participating interests		
Brookfield Office Properties Inc.	**1,443**	1,190
Brookfield Renewable Energy Partners L.P.	**500**	231
Other	**411**	406
	2,354	1,827
	$ 23,615	$ 18,849

Common Equity

We repurchased 3.4 million Class A Limited Voting Shares during 2012 for $106 million of which 2.3 million shares ($70 million) back grants of escrowed shares to employees.

The company holds 5.5 million Class A Limited Voting Shares (2011 – 3.2 million) for management long-term share ownership programs, which have been deducted from the total amount of shares outstanding.

Issued and Outstanding Shares

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

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2012	2011
Outstanding at beginning of year	**619.3**	577.7
Issued (repurchased)		
Share issuances	—	45.1
Repurchases	**(2.6)**	(6.1)
Management share option plan[1]	**2.7**	2.5
Dividend reinvestment plan	**0.2**	0.1
Outstanding at end of year	**619.6**	619.3
Unexercised options[1]	**38.4**	37.9
Total diluted shares at end of year	**658.0**	657.2

1. Includes management share option plan and escrowed stock plan

In calculating our book value per share, the cash value of our unexercised options of $912 million (December 31, 2011 – $840 million) is added to the book value of our common equity of $18,160 million (December 31, 2011 – $16,743 million) prior to dividing by the total diluted shares presented above.

As of March 28, 2013, the Corporation had outstanding 615,907,041 Class A Limited Voting Shares and 85,120 Class B Limited Voting Shares.

Basic and Diluted Earnings Per Share

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

	Net Income	
FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2012	2011
Net income	**$ 1,380**	$ 1,957
Preferred share dividends	**(129)**	(106)
	1,251	1,851
Capital securities dividends[1]	**25**	38
Net income available for shareholders	**$ 1,276**	$ 1,889
Weighted average shares	**618.9**	616.2
Dilutive effect of the conversion of options using treasury stock method[2]	**12.1**	10.8
Dilutive effect of the conversion of capital securities[1,3]	**18.0**	26.0
Shares and share equivalents	**649.0**	653.0

1. Subject to the approval of the Toronto Stock Exchange, the Series 10,11,12 and 21 shares, unless redeemed by the company for cash, are convertible into Class A 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 on April 5, 2012 and October 1, 2012, respectively
2. Includes Management Share Option Plan and Escrowed Stock Plan
3. The number of shares is based on 95% of the quoted market price at period-end

Debt to Capitalization

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

We define capitalization to include accounts payable and other liabilities and deferred income taxes, as well as borrowings, capital securities, interests of others in consolidated funds and equity, which is consistent with how we assess our leverage ratios and how we present them to our rating agencies.

AS AT DECEMBER 31 (MILLIONS)	Consolidated		Corporate		Proportionate	
	2012	2011	**2012**	2011	**2012**	2011
Corporate borrowings	**$ 3,526**	$ 3,701	**$ 3,526**	$ 3,701	**$ 3,526**	$ 3,701
Non-recourse borrowings						
Property-specific mortgages	**33,648**	28,415	**—**	—	**21,794**	19,083
Subsidiary borrowings[1]	**7,585**	4,441	**1,130**	988	**4,928**	3,679
	44,759	36,557	**4,656**	4,689	**30,248**	26,463
Accounts payable and other	**11,599**	9,266	**1,199**	1,287	**7,144**	6,128
Deferred tax liabilities	**6,419**	5,817	**870**	796	**2,339**	2,255
Capital securities	**1,191**	1,650	**325**	656	**758**	1,153
Interests of others in consolidated funds	**425**	333	**—**	—	**—**	—
Equity						
Non-controlling interests	**23,190**	18,516	**—**	—	**—**	—
Preferred equity	**2,901**	2,140	**2,901**	2,140	**2,901**	2,140
Common equity	**18,160**	16,743	**18,160**	16,743	**18,160**	16,743
	44,251	37,399	**21,061**	18,883	**21,061**	18,883
Total capitalization	**$ 108,644**	$ 91,022	**$ 28,111**	$ 26,311	**$ 61,550**	$ 54,882
Debt to capitalization[2]	**41%**	41%	**17%**	18%	**49%**	48%

1. Includes $1,130 million (December 31, 2011 – $988 million) of contingent swap accruals which are guaranteed by the Corporation and are accordingly included in Corporate Capitalization
2. Determined as the aggregate of corporate borrowings and non-recourse borrowings divided by total capitalization

Consolidated Capitalization

Consolidated capitalization reflects the full consolidation of partially-owned entities, notwithstanding that our capital exposure to these entities is limited in almost all cases to our invested capital. The debt-to-capitalization ratio on this basis is 41% (December 31, 2011 – 41%).

We note that in many cases our consolidated capitalization includes 100% of the debt of the consolidated entities, even though in most cases we only own a portion of the entity and therefore our pro rata exposure to this debt is much lower. In other cases, this basis of presentation excludes some or all of the debt of partially owned entities that are equity accounted or proportionately consolidated, such as our investment in General Growth Properties and several of our infrastructure businesses.

The increase in borrowings on this primarily reflects the assumption of non-recourse asset specific borrowings on newly acquired or consolidated assets and businesses. These changes had little impact on our proportionate consolidation as the borrowings were already reflected in that basis of presentation or our share of the borrowings is substantially reduced, after considering the amounts attributable to our partners.

Corporate Capitalization

Our corporate (deconsolidated) capitalization shows the amount of debt that is recourse to the Corporation, and the extent to which it is supported by our invested capital and remitted cash flows. Corporate borrowings decreased by $175 million as a result of retained cash flow, asset monetizations and financing activities. We completed two corporate bond issues during the year for total proceeds of $846 million and used the proceeds in part to redeem $775 million of higher cost debt. These activities reduced the average coupon by 3.63% compared to the redeemed bonds, provided incremental proceeds of $71 million and extended the average term of our corporate term debt from seven years to eight years. Preferred equity increased by $761 million representing the permanent capital raised on three issues of rate-reset preferred shares during the year with an average rate of 4.49%. The proceeds were used in part to redeem $350 million of capital securities with an average rate 5.68%. Our strategy is to maintain a relatively low level of debt at the parent company level and finance our operations primarily at the asset or operating unit level with no recourse to the Corporation. Subsidiary borrowings included in our corporate capitalization are contingent swap accruals issued by a subsidiary that are guaranteed by the Corporation.

Common and preferred equity totals $21 billion and represents 75% of our corporate capitalization. The average term to maturity of our corporate debt is eight years.

Proportionate Capitalization

Proportionate consolidation, which reflects our proportionate interest in the underlying entities, depicts the extent to which our underlying assets are leveraged, which is an important component of enhancing shareholder returns. We believe the 49% debt-to-capitalization ratio at December 31, 2012 (December 31, 2011 – 48%) is appropriate given the high quality of the assets, the stability of the associated cash flows and the level of financings that assets of this nature typically support, as well as our liquidity profile.

LIQUIDITY

Overview

Our principal sources of short-term liquidity are cash and financial assets together with undrawn committed credit facilities, which we refer to collectively as core liquidity. As at December 31, 2012 core liquidity at the corporate level was $2.3 billion, consisting of $1.1 billion in net cash and financial assets and $1.2 billion in undrawn credit facilities. Aggregate core liquidity includes the core liquidity of our principal subsidiaries, which consist for these purposes of Brookfield Office Properties Inc., Brookfield Renewable Energy Partners L.P. and Brookfield Infrastructure Partners L.P., and was $4.1 billion at year-end, approximately $300 million higher than at the end of 2011. The majority of the underlying assets and businesses in these asset classes are funded by these entities, and they will continue to fund our ongoing investments in these areas and, accordingly, we include the resources of these entities in assessing our liquidity. We continue to maintain elevated liquidity levels because we continue to pursue a number of attractive investment opportunities.

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

AS AT DECEMBER 31 (MILLIONS)	Corporate		Principal Subsidiaries		Total	
	2012	2011	**2012**	2011	**2012**	2011
Cash and financial assets, net	**$ 1,133**	$ 1,461	**$ 497**	$ 348	**$ 1,630**	$ 1,809
Undrawn committed credit facilities	**1,154**	913	**1,364**	1,136	**2,518**	2,049
	$ 2,287	$ 2,374	**$ 1,861**	$ 1,484	**$ 4,148**	$ 3,858

Our two largest normal course capital requirements on a consolidated basis are the funding of debt maturities and acquisitions. As a result of our financing strategy, the quality of our assets and emphasis on investment grade borrowings and diversification of capital sources, we have consistently refinanced maturities in the normal course, even in difficult capital market environments, and frequently do so in advance of the scheduled maturity. Most of our acquisitions are completed by private funds or listed entities that we manage. In the case of private funds, the necessary equity capital is obtained by calling on commitments made by the limited partners in each fund, which include commitments made by us or our managed entities. In the case of listed entities, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

Our principal liquidity needs at the corporate level include: debt service and principal repayment obligations; capital calls from funds to which we have committed capital; discretionary investments to fund acquisitions and capital expansion projects; payments related to financial instruments such as interest rate and foreign currency contracts; sustaining capital expenditures; ongoing corporate operating costs; and dividend payments declared by our Board of Directors. We describe our contractual obligations on page 70.

We and our listed subsidiaries enter into commitments to provide capital to the private funds that we manage, similar to the commitments that our clients make. In the case of our property, infrastructure and timber funds, these commitments are expected to be funded by our listed entities, specifically Brookfield Renewable Energy Partners L.P. and Brookfield Infrastructure L.P., although the agreements provide that we will fund any commitments that our listed entities fail to fund. As at December 31, 2012 the Corporation had commitments to fund $2.1 billion of capital to funds, of which $0.3 billion is expected to be funded by managed entities and the balance by the corporation, we had $5.2 billion of commitments from third party clients to fund qualifying transactions. Investments and capital expansion projects are discretionary and require approval under our investment policies including, where appropriate, our Board of Directors. The approval of these activities takes into consideration the availability of capital to fund them.

As discussed further on pages 75 and 76, we enter into financial instruments such as interest rate, foreign currency and power price contracts that require us to make or receive payments based on changes in value of the contracts, either to settle the contract or as collateral. We carefully monitor potential liquidity requirements to ensure that they remain within a reasonable amount and can easily be funded with core liquidity.

We schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels, which we refer to as sustaining capital expenditures, and which typically represent a relatively small proportion of operating cash flows within each business. The timing of these expenditures is discretionary, however we believe it is important to maintain the productivity of our assets in order to optimize cash flows and value accretion and fund these expenditures with operating cash flow.

Over the medium to longer term, we believe that our strategy of holding most of the capital we invest in our property, renewable power and infrastructure businesses through listed entities will significantly increase our capital resources and liquidity and reduce our capital requirements with respect to future investing activities. Our strategy calls for most of the capital invested in assets within these sectors, either directly or through commitments to private funds, to be funded by the listed entities with their own capital resources. This will likely involve the issuance of equity by these entities from time to time, and we may participate in such equity issues, however, the extent of our participation is at our discretion. Furthermore, we may have the opportunity, but

not the obligation, to provide other forms of financing to these entities if we believe it is appropriate. We may from time to time enter into commitments to provide financing to listed entities such as an equity subscription facility or loan facility.

In addition, we have the ability to sell a portion of our interests in the listed entities thereby generating additional liquidity. Our interests in Brookfield Renewable, at 68% and our initial ownership of 92.5% in Brookfield Property Partners are both well in excess of what we expect our longer term ownership positions to be.

Cash and Financial Assets

We maintain a portfolio of financial assets funded with surplus activity with the objective of generating favourable investment returns.

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	Carrying Values		Revenues, Gains and Direct Costs	
	2012	2011	**2012**	2011
Financial assets				
Government bonds	**$ 137**	$ 485		
Corporate bonds	**169**	193		
Other fixed income	**19**	66		
High-yield bonds	**192**	190		
Preferred shares	**297**	289		
Common shares	**690**	493		
Loans receivable/deposits	**40**	218		
Total financial assets	**1,544**	1,934	**$ 241**	$ 173
Cash and cash equivalents	**175**	41	**—**	—
Deposits and other liabilities	**(586)**	(514)	**(45)**	(47)
Common equity by segment/FFO	**$ 1,133**	$ 1,461	**$ 196**	$ 126

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

In addition to the carrying values of financial assets, we hold credit default swaps with a notional value of $815 million pursuant to which we have purchased protection against the reference debt instrument and $50 million of notional value where we have sold protection. The carrying value of these derivative instruments reflected in our financial statements at December 31, 2012 was a liability of $10 million.

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

Due to the capital market volatility during the year, we recorded mark-to-market gains on investment positions totalling approximately $30 million during the year. This compared with 2011 which included mark-to-market losses of approximately $65 million.

We sold two thirds of our U.S. franchise property service operations in the fourth quarter of 2012 and recorded a $70 million gain within net income. In the third quarter, we early financed a portion of term debt and included a $34 million “make-whole” payment within investment income.

Financing Activities and Liquidity

We issued or raised $29.4 billion of capital during 2012 through consolidated and equity accounted investments to finance growth activities, extend our maturity profile and supplement our liquidity as shown in the following table:

(MILLIONS)	Proceeds	Rate	Term
Borrowings			
Unsecured	$ 7,900	3.79%	5 years
Asset specific	14,120	4.37%	8 years
Equity/asset sales	1,870	n/a	Perpetual
Common share issuance	585	—	Perpetual
Preferred share issuances	1,250	4.50%	Perpetual
Private funds	3,645	n/a	10 years
	$ 29,370		

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

We have also locked in the reference rates for approximately $3.6 billion of anticipated future financings in the United States, Canada, and the UK over the next three years.

Cash Flow Summary

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

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Operating activities	**$ 1,497**	$ 780
Financing activities	**3,923**	2,650
Investing activities	**(4,562)**	(3,081)
Increase in cash and cash equivalents	**$ 858**	$ 349

Operating Activities

Cash flow from operating activities consists of net income, including the amount attributable to co-investors, less non-cash items such as undistributed equity accounted income, fair value changes, depreciation and deferred income taxes, and adjusted for changes in non-cash working capital. Cash flow from operating activities also includes the net amount invested or recovered through the ongoing investment in and subsequent sale of residential land, houses and condominiums, which represented an outlay of $861 million in 2012 (2011 – outlay of $543 million). While we consider this to be an investment activity, it is included in operating activities because the associated assets are classified as inventory under IFRS.

Financing Activities

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Per consolidated financial statements	**$ 3,923**	$ 2,650
Add: equity issued not reflected in the financial statements	**—**	907
	$ 3,923	$ 3,557

Financing activities generated $3.9 billion of cash flow, compared to $3.6 billion in the prior year. We issued $13.2 billion of unsecured and secured borrowings, primarily to refinance $11.3 billion of existing borrowings, thereby extending term and decreasing our cost of capital, and also to finance growth activities. We issued $737 million of preferred shares and redeemed $506 million of capital securities.

We issued $3.8 billion of equity capital; $2.3 billion to our institutional clients in private funds and $1.5 billion through publicly listed entities. The proceeds were utilized to expand our business, primarily in our infrastructure, renewable power and property operations.

Financing activities in the prior year included the issuance of $1.5 billion of Class A Limited Voting Shares and preferred equity, the proceeds of which were used to fund an incremental interest in General Growth Properties. In addition, net debt issues were $1.7 billion during 2011 and our publicly listed Infrastructure Partnership issued $460 million of limited partnership units to further expand our business.

Investing Activities

FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	**2012**	2011
Per consolidated financial statements	**$ (4,562)**	$ (3,081)
Add: equity issued not reflected in the financial statements	**—**	(907)
	$ (4,562)	$ (3,988)

We invested $4.6 billion to expand our operations in the current year, consistent with the $4.0 billion invested in 2011. In our property operations, we acquired $2.1 billion of commercial properties, including a $0.5 billion Australian office, hotel and development portfolio, a $0.3 billion multi-family property portfolio, a $0.3 billion in an industrial property portfolio and invested $0.3 billion in Rouse Properties, following its spin-off from General Growth Properties in the first quarter of 2012. Our renewable power operations invested $1.1 billion, including the acquisition of two hydroelectric portfolios in North America and continued to invest in development projects. Our Infrastructure operations invested $2.1 billion to acquire several businesses, including a UK regulated distribution operation, a Brazilian toll road, an additional 27% interest in our

Chilean toll road business, a Colombian regulated distribution operation and a North American gas storage business. We disposed of certain financial assets during the year, generating $0.9 billion of proceeds, which was reinvested into our operations.

Investing activities in the prior year included an incremental $1.7 billion investment in General Growth Properties, primarily funded through the issuance of $1.5 billion Class A Limited Voting Shares and preferred equity. We further invested in our renewable power operations to acquire wind and hydro development projects and we continued to invest in our Australian railroad and coal terminal within our infrastructure operations.

CONTRACTUAL OBLIGATIONS

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

AS AT DECEMBER 31 (MILLIONS)	Payments Due By Period						
	Less than 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years	**Total**
Corporate borrowings	75	178	—	467	1,070	1,736	**3,526**
Principal repayments							
Non-recourse borrowings							
Property-specific mortgages	4,419	8,869	2,275	3,795	3,224	11,066	**33,648**
Other debt of subsidiaries	1,039	1,027	1,388	906	1,134	2,091	**7,585**
Capital securities	353	203	312	149	—	174	**1,191**
Lease obligations[1]	24	33	34	17	17	102	**227**
Commitments	2,731	—	—	—	—	—	**2,731**
Interest expense[2]							
Long-term debt	2,243	1,839	1,476	1,232	946	2,212	**9,948**
Capital securities	52	45	33	17	10	2	**159**
Interest rate swaps	112	323	257	91	1	183	**967**

1. Included in accounts payable and other
2. Represents the aggregate interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates

Commitments of $2.7 billion (2011 – $1.4 billion) represent various contractual obligations of the company and its subsidiaries assumed in the normal course of business. These included commitments to provide bridge financing, and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations, of which $386 million (2011 – $300 million) is included within "accounts payable and other" in the consolidated balance sheets. All other balances, with the exception of interest expense incurred in future periods, are included in our consolidated balance sheet.

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

Our wholly-owned energy marketing group has also committed to purchase power and other wind generation produced by 68% owned Brookfield Renewable Energy Partners L.P. as previously described on page 52.

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

EXPOSURES TO SELECTED FINANCIAL INSTRUMENTS

As discussed elsewhere in this MD&A we utilize various financial instruments in our business to manage risk and make better use of our capital. The fair values of these instruments that are reflected on our balance sheets are disclosed in Note 5 to our consolidated financial statements and under Financial and Liquidity Risks beginning on page 75.

PART 5 – OPERATING CAPABILITIES, ENVIRONMENT AND RISKS

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

OPERATING CAPABILITIES

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

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

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

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

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

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

BUSINESS ENVIRONMENT AND RISKS

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

General Risks

Economic Conditions

We are exposed to the local, regional, national and international economic conditions and other events and occurrences that affect the jurisdictions in which our entities are formed or where we own assets and operate businesses. In general, a decline in economic conditions, either in the markets or industries in which we participate, or both, will result in downward pressure on our operating margins and asset values as a result of lower demand and increased price competition for the services and products that we provide.

Competition

Each segment of our business is subject to competition in varying degrees. An increase in competition can result in downward pressure on revenues which can, in turn, reduce operating margins and thereby reduce operating cash flows, investment returns and our overall financial condition. In addition, competition could result in the scarcity of inputs which can impact certain of our businesses through higher costs.

Interest Rates

A number of our long-life assets are interest rate sensitive: increases in long-term interest rates will, absent all else, decrease the value of these assets by reducing the present value of the cash flows expected to be produced by the asset. Additionally, any of our debt or preferred shares that are subject to variable interest rates, either as an obligation with a variable interest rate or as an obligation with a fixed interest rate that resets into a variable interest rate in the future, are subject to the risk of a change in interest rates. Should interest rates increase, the amount of cash required to service these obligations would increase and our earnings could be adversely impacted.

Ownership of Common Shares

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

Laws, Rules and Regulations

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

We acquire and develop primarily property, power generation and infrastructure assets. In doing so, we must comply with extensive and complex municipal, state or provincial, national and international regulations affecting the development process. These regulations impose on us additional costs and delays, which may adversely affect our business and results of operations. In particular, we are required to obtain the approval of numerous governmental authorities regulating matters such as permitted land uses, levels of density, the installation of utility services, zoning and building standards. We must also comply with local, state or provincial and federal laws, rules and regulations relating to the protection or preservation of human health and safety and the environment. These laws, rules and regulations sometimes result in delays, which cause us to incur additional costs, or severely restrict development activity in certain regions or areas. Additionally, liability under such laws, rules and regulations may occur without our fault. Private parties may also have the right to pursue legal actions against us to enforce compliance as well as seek damages for non-compliance with these laws, rules and regulations or for personal injury or property damage. Our insurance may not provide any coverage or sufficient coverage in the event that a claim is made against us. An increase in regulatory requirements may require us to incur further compliance costs. Environmental laws and regulations can change rapidly and we may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on our business, financial condition or results of operation.

Our asset management business is subject to regulatory compliance and oversight. The advisers of our private investment funds are registered as investment advisers with the U.S. Securities and Exchange Commission (the "SEC"). Registered investment advisers are subject to the requirements and regulations of the Investment Advisers Act of 1940 (the "Advisers Act"), including, among other things, fiduciary duties to clients, maintaining an effective compliance program, record-keeping, advertising and operating requirements, disclosure obligations, general anti-fraud prohibitions and "pay to play" practices vis-à-vis U.S. state and local government entities. Compliance results in the expenditure of costs and internal resources and a failure to comply with such obligations could result in investigations, financial or other sanctions and reputational damage.

The U.S. Investment Company Act of 1940 (the "40 Act") requires the registration of any company which holds itself out to the public as being engaged primarily in the business of investing, reinvesting or trading in securities. In addition, the 40 Act may also require the registration of a company that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and which owns or proposes to acquire investment securities with a value of more than 40% of the company's assets on an unconsolidated basis. We are not currently an investment company under the 40 Act. If we were required to register as an investment company under the 40 Act, we would, among other things, be restricted from engaging in certain businesses and issuing certain securities. In addition, certain of our contracts may become void.

Health, Safety and the Environment

As an owner and manager of real property, we may become liable for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in our properties, or disposed of at other locations. The failure to remove or remediate such substances, if any, could adversely affect our ability to sell our real estate or to borrow using real estate as collateral, and could potentially result in claims or other proceedings against us.

The ownership and operation of our assets carry varying degrees of inherent risk or liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and potential civil liability. Compliance with health, safety and environmental standards and the requirements of licenses, permits and other approvals will remain material to our business. We have incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental standards and to obtain and comply with licenses, permits and other approvals and to assess and manage potential liability exposure. Nevertheless, we may be unsuccessful in obtaining an important license,

permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters. The occurrence of any of these events or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards, licenses, permits or other approvals could have a significant impact on our operations and/or result in material expenditures. As a consequence, no assurance can be given that additional environmental and workers' health and safety issues relating to presently known or unknown matters will not require unanticipated expenditures, or result in fines, penalties or other consequences (including changes to operations) material to our business and operations.

Insurance

We carry various insurance coverages on our assets that provide comprehensive protection for first-party and third-party losses. These coverages contain policy specifications, limits and deductibles customarily carried for similar assets. We also self-insure a portion of certain of these risks. There are certain types of risks (generally of a catastrophic nature such as war or environmental contamination) which are either uninsurable or not economically insurable. Should any uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our assets or operations, and would continue to be obligated to repay any mortgage or other indebtedness on such properties to the extent the borrowers have recourse beyond the specific asset or operations being financed.

Litigation

In the normal course of our operations, we become involved in various legal actions, including claims relating to personal injuries, property damage, property taxes, land rights and contract and other commercial disputes. The final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on our financial position or results of our operations in a particular quarter or fiscal year. Any litigation may consume substantial amounts of our management's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation.

One such legal action, which has garnered some press attention, is a civil action which has been commenced by a public prosecutor in Brazil against a Brazilian subsidiary of ours relating to allegations that the affiliate made payments to certain third parties in Brazil and those payment were, in turn, used, with our knowledge, to pay certain municipal officials to obtain permits and other benefits. These civil charges stem out of charges brought against three of our employees in Brazil who were allegedly aware of these payments. All involved have denied the allegations. We are advised that the Securities and Exchange Commission has opened an investigation into this matter based on a complaint which they received. While the outcome of this matter is financially not material to Brookfield, it could have an impact on our reputation.

Taxes

A number of factors may increase our effective tax rates, which would have a negative impact on our net income. These include changes in tax policies, tax laws or their interpretation in the jurisdictions in which we pay taxes, changes in the valuation of our deferred tax assets and liabilities and any reassessment of taxes by a taxation authority.

Climate Change

Ongoing changes to the physical climate in which we operate may have an impact on our businesses. In particular, changes in weather patterns may impact hydrology levels thereby influencing generation levels and power generation levels. Climate change may also give rise to changes in regulations and consumer sentiment that could impact other areas of our operations. Climate change regulation at provincial or state, federal and international levels could have an adverse effect on our business, financial position, results of operations or cash flows.

Labour

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

Terrorist Acts

Our commercial office portfolio is concentrated in large metropolitan areas, some of which have been or may be perceived to be subject to terrorist attacks. Furthermore, many of our properties consist of high-rise buildings, which may also be subject to this actual or perceived threat. The perceived threat of a terrorist attack could negatively impact our ability to lease office space in our portfolio. Infrastructure and power assets may also be specific targets of terrorist organizations who seek to disrupt the backbone of Western economies. A terrorist act affecting us, could have an adverse effect on our operating results and cash flows. Our U.S. and Canadian commercial office property operations have insurance covering certain acts of terrorism and business interruption costs; however, such insurance is not equal to the full replacement cost of all of these assets. Any damage or business interruption costs as a result of uninsured acts of terrorism could result in a material cost to us. There is no assurance that adequate terrorism insurance will be available at rates we believe are reasonable in the future. All of the risks indicated in this paragraph could

potentially be heightened by United States foreign policy at any one time. Our information technology systems may be subject to cyber terrorism, which could cause a disruption in one or more of our businesses and have a negative input on our operating results and cash flows.

Execution of Strategy

Value Investing

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

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

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

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

Asset Management

Our ability to successfully expand our asset management activities is dependent on our reputation with our current and potential investment partners. Further, competition for investor capital, particularly within the asset classes on which we focus, is intense. There is no assurance that we will be successful in differentiating ourselves as an asset manager and this competition may reduce the margins of our asset management business and decrease the extent of investor involvement in our activities. Our asset management business also relies on the continued ability of insurance companies, pension funds, endowments, sovereign wealth funds, other institutional investors and wealthy individuals to deploy capital to asset managers that focus on investments in real assets. Depending on factors outside of our control certain of our investors may not be able to continue to make new capital commitments to our managed funds.

Management Team

Our executive and other senior officers have a significant role in our success and oversee the execution of our strategy. Our ability to retain our management group or attract suitable replacements should any members of the management group leave is dependent on, among other things, the competitive nature of the employment market and the career opportunities that we can offer. The loss of services from key members of the management group or a limitation in their availability could adversely impact our financial condition and cash flow. Further, such a loss could be negatively perceived in the capital markets. We do not maintain any key person insurance.

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

Business Partnerships

We participate in joint ventures, partnerships, co-tenancies and funds affecting many of our assets and businesses. Investments in partnerships, joint ventures, co-tenancies or other entities may involve risks not present absent third-party involvement, including the possibility that our partners, co-tenants or co-venturers might become bankrupt or otherwise fail to fund their share of required capital contributions, or suffer reputational damage that could have an adverse impact on us. Additionally, our partners, co-venturers or co-tenants might at any time have different economic or other business interests or goals. We do not have sole control of certain major decisions relating to these assets and businesses, including, but not limited to: the decisions relating to the sale of assets and businesses; refinancings; the timing and amount of distributions of cash from such entities to the Corporation; and capital expenditures.

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

Financial and Liquidity Risks

We employ debt and other forms of leverage in the ordinary course of our business in order to enhance returns to shareholders and our investors. We attempt to match the profile of any leverage to the associated assets. Accordingly we typically fund shorter-duration floating rate assets with shorter-term floating rate debt and fund long-term fixed rate and equity-like assets with long-term fixed rate and equity capital. We are therefore subject to the risks associated with debt financing and refinancing. These risks, including but not limited to the following, may adversely affect our financial condition and results of operations: our cash flow may be insufficient to meet required payments of principal and interest; payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses; we may not be able to refinance indebtedness on our assets at maturity due to company and market factors including: the estimated cash flow of our assets, the value of our assets, liquidity in the debt markets, financial, competitive, business and other factors, including factors beyond our control; and if refinanced, the terms of a refinancing may not be as favourable as the original terms of the related indebtedness.

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

If we are unable to refinance our indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or require us to dispose of one or more of our assets on disadvantageous terms. Moreover, prevailing interest rates or other factors at the time of refinancing could increase our interest expense, and if we pledge assets to secure payment of indebtedness and are unable to make required payments, the creditor could foreclose upon such asset or appoint a receiver to receive an assignment of the associated cash flows.

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

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

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

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

Our businesses are impacted by changes in currency rates, interest rates, commodity prices and other financial exposures. We selectively utilize financial instruments to manage these exposures, including credit default swaps and other derivatives to hedge financial positions. We may also establish unhedged positions from time-to-time. These instruments are typically utilized as a hedge or an alternative to purchasing or selling the underlying security when such instruments are more effective from a capital employment perspective. However, derivatives are also subject to their own unique set of risks, including counterparty risk with respect to the financial well-being of the party on the other side of these transactions. The company's risk management and derivative financial instruments are more fully described in the notes to our consolidated financial statements. The Dodd-Frank Act ("Dodd-Frank"), which became law in the U.S. in 2010 and now requires the SEC and Commodities Futures Trading Commission to establish rules and regulations governing federal oversight of the over-the-counter derivatives market and its participants, could have an adverse impact on our ability to hedge risks in our businesses. Specifically, Dodd-Frank, and any

other similar regulations in the markets in which we operate, could significantly increase the cost of derivative contracts, reduce the availability of derivatives to protect against risks in our operations and reduce the liquidity of derivatives. A reduction in the Corporation's use of derivatives as a result of Dodd-Frank and other similar regulations may, among other things, result in increased volatility and decreased predictability of our cash flows.

Property

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

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

Growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. It is possible that we may face a disproportionate amount of space expiring in any one year. Additionally, rental rates could decline, tenant bankruptcies could increase and tenant renewals may not be achieved, particularly in the event of a protracted disruption in the economy such as a recession.

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

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

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

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

Renewable Power

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

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

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

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

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

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

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

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

Infrastructure

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

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

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

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

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

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

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

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

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

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

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

Private Equity and Residential Development

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

Unfavourable economic conditions could have a significant adverse impact on the ability of investee companies to repay debt and on the value of our equity investments and the level of investment income that they generate. Even with our support of investee companies through an economic downturn, adverse economic or business conditions facing our investee companies may adversely impact the value of our investments. These investments are also subject to the risks inherent in the underlying businesses, some of which are facing difficult business conditions and may continue to do so for the foreseeable future.

We have residential land development and homebuilding operations located in Canada, Brazil, the United States and Australia. The residential homebuilding and land development industry is cyclical and is significantly affected by changes in general and local economic and industry conditions, such as consumer confidence, employment levels, availability of financing for homebuyers, interest rates, levels of new and existing homes for sale, demographic trends and housing demand. Competition from rental properties and resale homes, including homes held for sale by investors and foreclosed homes, may reduce our ability to sell new homes, depress prices and reduce margins for the sale of new homes. Furthermore, the market value of undeveloped land, buildable lots and housing inventories held by us can fluctuate significantly as a result of changing economic and real

estate market conditions. If there are significant adverse changes in economic or real estate market conditions, we may have to sell homes at a loss or hold land in inventory longer than planned. Inventory carrying costs can be significant and can result in losses in a poorly performing project or market. Our residential property operations may be particularly affected by changes in local market conditions in California, the Washington, D.C. area, Alberta and Brazil, where we derive a large proportion of our residential property revenue.

Virtually all of our homebuilding customers finance their home acquisitions through lenders providing mortgage financing. Volatility experienced in mortgage markets and by many lenders, fewer loan products and tighter loan qualification requirements have made it more difficult for borrowers to procure mortgages. Even if potential customers do not need financing, changes in interest rates and mortgage availability could make it harder for them to sell their homes to potential buyers who need financing, resulting in a reduced demand for new homes. Fundamentally, rising mortgage rates or reduced mortgage availability could adversely affect our ability to sell new homes and the price at which we can sell them.

Investors in our private equity funds make capital commitments to our funds through the execution of subscription agreements. When a fund makes an investment, these capital commitments are then satisfied by our investors via capital contributions. Investors in our private equity funds may default on their capital commitment obligations to our private equity funds, which could have an adverse impact on our earnings or result in other negative implications to our businesses.

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

Our private equity investments may not meet their investment hurdles and we may not realize performance based income related to these investments upon exit.

PART 6 – ADDITIONAL INFORMATION

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Accounting Policies and Critical Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires management to select appropriate accounting policies and to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our 2012 financial statements contain a description of the company's accounting policies and the critical judgments and estimates utilized in the preparation of the consolidated financial statements.

In making critical judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. The estimates are impacted by, among other things, movements in interest rates and other factors, some of which are highly uncertain. For further reference on accounting policies and critical judgments and estimates, see our significant accounting policies contained in Note 2 to the December 31, 2012 consolidated financial statements.

Adoption of Accounting Standard

Income Taxes

The International Accounting Standards Board ("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, which were 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 impact of these amendments on the consolidated financial statements was a reduction in retained earnings of $8 million as at January 1, 2011.

Future Changes in Accounting Policies

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 it controls an investee: power over the investee's financial and operating decisions, exposure or rights to variable returns from involvement with the investee, and the ability to use power over the investee to affect the amount of the investor's returns. IFRS 10 requires continuous reassessment of changes in an investor's power over the investee and changes in the investor's exposure or rights to variable returns. We are currently evaluating the impact of IFRS 10 and the amendments to IAS 27 on our 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. We are currently evaluating the impact of IFRS 11 and the amendments to IAS 28 on our consolidated financial statements.

IFRS 12 integrates the disclosure requirements of interests in other entities and requires a parent company to disclose information about significant judgments and assumptions it has made in determining whether it has control, joint control, or significant influence over another entity, and the type of joint arrangement when the arrangement has been structured through a separate vehicle. An entity should also provide these disclosures when changes in facts and circumstances affect

the entity's conclusion during the reporting period. Entities are permitted to incorporate the disclosure requirements in IFRS 12 into their financial statements without early adopting of IFRS 12. We are currently evaluating the impact of IFRS 12 on our 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. We are currently evaluating the impact of IFRS 13 on our 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 IAS 1 are effective for annual periods beginning on or after July 1, 2012. We are currently evaluating the impact of the amendments to IAS 1 on our 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. We have not yet determined the impact of IFRS 9 on our consolidated financial statements.

Assessment and Changes in Internal Control Over Financial Reporting

Management has evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2012 and based on that assessment concluded that, as of December 31, 2012, our internal control over financial reporting was effective. Management excluded from its design and assessment of internal control over financial reporting 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. Refer to Management's Report on Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the applicable U.S. and Canadian securities laws) as of December 31, 2012. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2012 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them by others within those entities. Management excluded from its design and assessment of disclosure controls and procedures Atlantis, Inexus, VNE, Verde and Thakral.

Declarations Under the Dutch Act of Financial Supervision

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

- The 2012 financial statements included in this MD&A give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Corporation and the undertakings include in the consolidation taken as whole;
- The management report included in this MD&A gives a true and fair view of the position of the Corporation and the undertakings included in the consolidation taken as a whole as of December 31, 2012, and of the development and performance of the business for the financial year then ended; and
- The management report includes a description of the principal risks and uncertainties that the Corporation faces.

RELATED PARTY TRANSACTIONS

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

In December 2012, Brookfield Residential Properties ("BRP"), our 69% owned North American land developer and homebuilder repaid its C$480 million loan to Brookfield Office Properties ("BPO"), using the proceeds from the completion of a senior unsecured debt 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 issued C$480 million of bridge financings as part of the transaction. The transaction was measured at exchange value.

In October 2012, we agreed to sell the economic interest in our 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 transaction was measured at fair value, as determined by an external appraiser, which approximated the carrying value of our investment. No gain or loss was recorded on the transaction in our consolidated statement of operations.

In November 2011, we completed the combination of our indirectly held wholly-owned renewable power assets and 34% owned Brookfield Renewable Power Fund, to launch Brookfield Renewable Energy Partners L.P. ("BREP"). As part of the combination, we amended certain power purchase and sale agreements between ourselves and BREP to adjust the price of electricity purchased. Additionally, a wholly-owned subsidiary of ours entered into an Energy Revenue Agreement with BREP, whereby we indirectly guarantee 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.