

# INTERNAL CONTROL OVER FINANCIAL REPORTING

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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


Management assessed the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2013, based on the criteria set forth in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2013, Brookfield's internal control over financial reporting is effective. Management excluded from its design and assessment of internal control over financial reporting EZW Gazeley Limited, Industrial Developments International Inc., and MPG Office Trust, Inc., which were acquired during 2013, and whose total assets, net assets, total revenues and net income on a combined basis constitute approximately 3%, 3%, nil% and 1%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2013.

Brookfield's internal control over financial reporting as of December 31, 2013, has been audited by Deloitte LLP, the Independent Registered Public Accounting Firm, who also audited Brookfield's consolidated financial statements for the year ended December 31, 2013. As stated in the Report of Independent Registered Public Accounting Firm, Deloitte LLP expressed an unqualified opinion on the effectiveness of Brookfield's internal control over financial reporting as of December 31, 2013.



Toronto, Canada  
March 28, 2014

J. Bruce Flatt  
Chief Executive Officer



Brian D. Lawson  
Chief Financial Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Brookfield Asset Management Inc. and subsidiaries (the “Company”) as of December 31, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at EZW Gazeley Limited (“Gazeley”), Industrial Developments International Inc. (“IDI”), and MPG Office Trust, Inc. (“MPG”), which were acquired during 2013, and whose total assets, net assets, total revenues and net income on a combined basis constitute approximately 3%, 3%, nil% and 1%, respectively, of the consolidated financial statement amounts as of and for the year ended December 31, 2013. Accordingly, our audit did not include the internal control over financial reporting at Gazeley, IDI and MPG. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. A company’s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2013 of the Company and our report dated March 28, 2014 expressed an unqualified opinion on those financial statements.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive script followed by "LLP" in a bold, sans-serif font.

Toronto, Canada  
March 28, 2014

Chartered Professional Accountants, Chartered Accountants  
Licensed Public Accountants

## MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

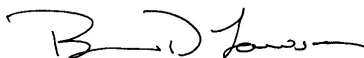
Deloitte LLP, the Independent Registered Public Accounting Firm appointed by the shareholders, have audited the consolidated financial statements set out on pages 81 through 145 in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.

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



Toronto, Canada  
March 28, 2014

J. Bruce Flatt  
Chief Executive Officer



Brian D. Lawson  
Chief Financial Officer

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated financial statements of Brookfield Asset Management Inc. and subsidiaries (the “Company”), which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of operations, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements.

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

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

### *Auditor’s Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Asset Management Inc. and subsidiaries as at December 31, 2013 and December 31, 2012, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### *Other Matter*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on the criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2014 expressed an unqualified opinion on the Company’s internal control over financial reporting.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized, cursive script followed by "LLP" in a bold, sans-serif font.

Toronto, Canada  
March 28, 2014

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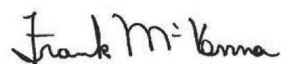
# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEETS

(MILLIONS)	Note	Dec. 31, 2013	Dec. 31, 2012 <sup>1</sup>
<b>Assets</b>			
Cash and cash equivalents.....	31	\$ 3,663	\$ 2,850
Other financial assets.....	6	4,947	3,111
Accounts receivable and other.....	7	6,666	6,952
Inventory.....	8	6,291	6,581
Equity accounted investments.....	9	13,277	11,618
Investment properties.....	10	38,336	33,161
Property, plant and equipment.....	11	31,019	31,148
Sustainable resources.....	12	502	3,516
Intangible assets.....	13	5,044	5,770
Goodwill.....	14	1,588	2,490
Deferred income tax assets.....	15	1,412	1,665
<b>Total Assets</b> .....		<b>\$ 112,745</b>	<b>\$ 108,862</b>
<b>Liabilities and Equity</b>			
Accounts payable and other.....	16	\$ 10,316	\$ 11,652
Corporate borrowings.....	17	3,975	3,526
Non-recourse borrowings			
Property-specific mortgages.....	18	35,495	33,720
Subsidiary borrowings.....	18	7,392	7,585
Deferred income tax liabilities.....	15	6,164	6,425
Capital securities.....	19	791	1,191
Interests of others in consolidated funds.....	20	1,086	425
Equity			
Preferred equity.....	21	3,098	2,901
Non-controlling interests.....	21	26,647	23,287
Common equity.....	21	17,781	18,150
Total equity.....		47,526	44,338
<b>Total Liabilities and Equity</b> .....		<b>\$ 112,745</b>	<b>\$ 108,862</b>

1. See Adoption of Accounting Standards, Financial Statement Note 2(b)

On behalf of the Board:



Frank J. McKenna, Director



George S. Taylor, Director

## CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Note	2013	2012 <sup>1</sup>
Total revenues and other gains.....	22	\$ 20,830	\$ 18,766
Direct costs.....	23	(13,928)	(13,961)
Other income.....	24	525	—
Equity accounted income.....	9	759	1,237
Expenses			
Interest.....		(2,553)	(2,500)
Corporate costs.....		(152)	(158)
Fair value changes.....	25	663	1,153
Depreciation and amortization.....		(1,455)	(1,263)
Income taxes.....	15	(845)	(519)
Net income.....		<u>\$ 3,844</u>	<u>\$ 2,755</u>
Net income attributable to:			
Shareholders.....		\$ 2,120	\$ 1,380
Non-controlling interests.....		1,724	1,375
		<u>\$ 3,844</u>	<u>\$ 2,755</u>
Net income per share:			
Diluted.....	21	\$ 3.12	\$ 1.97
Basic.....	21	<u>\$ 3.21</u>	<u>\$ 2.02</u>

1. See Adoption of Accounting Standards, Financial Statement Note 2(b)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31  
(MILLIONS)

	Note	2013	2012 <sup>1</sup>
Net income.....		<b>\$ 3,844</b>	\$ 2,755
Other comprehensive income (loss)			
Items that may be reclassified to net income			
Financial contracts and power sale agreements.....		442	(17)
Available-for-sale securities.....		(24)	57
Equity accounted investments.....	9	8	3
Foreign currency translation.....		(2,429)	(110)
Income taxes.....	15	(114)	3
		<b>(2,117)</b>	(64)
Items that will not be reclassified to net income			
Revaluations of property, plant and equipment.....		825	1,491
Revaluation of pension obligations.....		26	(58)
Equity accounted investments.....	9	231	142
Income taxes.....	15	(166)	(435)
		<b>916</b>	1,140
Other comprehensive (loss) income.....		<b>(1,201)</b>	1,076
Comprehensive income.....		<b>\$ 2,643</b>	\$ 3,831
Attributable to:			
Shareholders			
Net income.....		\$ 2,120	\$ 1,380
Other comprehensive (loss) income.....		(795)	513
Comprehensive income.....		<b>\$ 1,325</b>	\$ 1,893
Non-controlling interests			
Net income.....		\$ 1,724	\$ 1,375
Other comprehensive (loss) income.....		(406)	563
Comprehensive income.....		<b>\$ 1,318</b>	\$ 1,938

1. See Adoption of Accounting Standards, Financial Statement Note 2(b)

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEAR ENDED DECEMBER 31, 2013 (MILLIONS)	Accumulated Other Comprehensive Income							Common Equity	Preferred Equity	Non- controlling Interests	Total Equity
	Common Share Capital	Contributed Surplus	Retained Earnings	Ownership Changes <sup>1</sup>	Revaluation Surplus	Currency Translation	Other Reserves <sup>2</sup>				
Balance as at December 31, 2012...	\$ 2,855	\$ 149	\$ 6,813	\$ 2,088	\$ 5,289	\$ 1,405	\$ (449)	\$18,150	\$ 2,901	\$23,287	\$44,338
Changes in year											
Net income.....	—	—	2,120	—	—	—	—	2,120	—	1,724	3,844
Other comprehensive loss.....	—	—	—	—	101	(1,183)	287	(795)	—	(406)	(1,201)
Comprehensive income.....	—	—	2,120	—	101	(1,183)	287	1,325	—	1,318	2,643
Shareholder distributions											
Common equity.....	—	—	(1,287)	—	—	(32)	17	(1,302)	—	906	(396)
Preferred equity.....	—	—	(145)	—	—	—	—	(145)	—	—	(145)
Non-controlling interests....	—	—	—	—	—	—	—	—	—	(910)	(910)
Other items											
Equity issuances, net of redemptions.....	44	—	(331)	—	—	—	—	(287)	197	1,675	1,585
Share-based compensation..	—	10	(31)	—	—	—	—	(21)	—	45	24
Ownership changes.....	—	—	20	266	(225)	—	—	61	—	326	387
Total change in year.....	44	10	346	266	(124)	(1,215)	304	(369)	197	3,360	3,188
Balance as at December 31, 2013...	\$ 2,899	\$ 159	\$ 7,159	\$ 2,354	\$ 5,165	\$ 190	\$ (145)	\$17,781	\$ 3,098	\$26,647	\$47,526

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

2. Includes available-for-sale securities, cash flow hedges, actuarial changes on pension plans and equity accounted other comprehensive income, net of associated income taxes

YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Accumulated Other Comprehensive Income							Common Equity	Preferred Equity	Non- controlling Interests	Total Equity
	Common Share Capital	Contributed Surplus	Retained Earnings	Ownership Changes <sup>1</sup>	Revaluation Surplus <sup>3</sup>	Currency Translation	Other Reserves <sup>3</sup>				
Balance as at December 31, 2011 <sup>2</sup> ..	\$ 2,816	\$ 125	\$ 5,982	\$ 1,773	\$ 5,101	\$ 1,456	\$ (510)	\$16,743	\$ 2,140	\$18,516	\$37,399
Changes in accounting policies											
	—	—	6	—	—	—	(12)	(6)	—	96	90
Changes in year											
Net income.....	—	—	1,380	—	—	—	—	1,380	—	1,375	2,755
Other comprehensive income.....	—	—	—	—	491	(51)	73	513	—	563	1,076
Comprehensive income.....	—	—	1,380	—	491	(51)	73	1,893	—	1,938	3,831
Shareholder distributions											
Common equity.....	—	—	(340)	—	—	—	—	(340)	—	—	(340)
Preferred equity.....	—	—	(129)	—	—	—	—	(129)	—	—	(129)
Non-controlling interests....	—	—	—	—	—	—	—	—	—	(714)	(714)
Other items											
Equity issuances, net of redemptions.....	39	—	(111)	—	—	—	—	(72)	761	2,896	3,585
Share-based compensation..	—	24	—	—	—	—	—	24	—	41	65
Ownership changes.....	—	—	25	315	(303)	—	—	37	—	514	551
Total change in year.....	39	24	825	315	188	(51)	73	1,413	761	4,675	6,849
Balance as at December 31, 2012...	\$ 2,855	\$ 149	\$ 6,813	\$ 2,088	\$ 5,289	\$ 1,405	\$ (449)	\$18,150	\$ 2,901	\$23,287	\$44,338

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

2. See Basis of Presentation, Subsidiaries – Financial Statements Note 2(c)(i)

3. Includes available-for-sale securities, cash flow hedges, actuarial changes on pension plans and equity accounted other comprehensive income, net of associated income taxes



## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31  
(MILLIONS)

	Note	2013	2012 <sup>1</sup>
<b>Operating activities</b>			
Net income		\$ 3,844	\$ 2,755
Other income and gains	22, 24	(1,820)	(70)
Share of undistributed equity accounted earnings		(307)	(868)
Fair value changes		(663)	(1,153)
Depreciation and amortization		1,455	1,263
Deferred income taxes	15	686	384
Investments in residential inventory		(378)	(861)
Net change in non-cash working capital balances		(539)	55
		<u>2,278</u>	<u>1,505</u>
<b>Financing activities</b>			
Corporate borrowings arranged		949	852
Corporate borrowings repaid		(224)	(782)
Commercial paper and bank borrowings, net		(35)	(321)
Property-specific mortgages arranged		11,073	6,698
Property-specific mortgages repaid		(10,029)	(6,539)
Other debt of subsidiaries arranged		6,781	5,655
Other debt of subsidiaries repaid		(6,115)	(3,641)
Capital securities redeemed		(343)	(506)
Capital provided by interests of others in consolidated funds		541	103
Capital provided from non-controlling interests		3,218	3,681
Capital repaid to non-controlling interests		(1,543)	(785)
Preferred equity issuances		191	737
Common shares issued		85	54
Common shares repurchased		(388)	(106)
Distributions to non-controlling interests		(910)	(714)
Distributions to shareholders		(541)	(469)
		<u>2,710</u>	<u>3,917</u>
<b>Investing activities</b>			
<b>Acquisitions</b>			
Investment properties		(4,673)	(2,123)
Property, plant and equipment		(1,566)	(3,544)
Sustainable resources		(53)	(21)
Investments		(1,622)	(1,585)
Other financial assets		(2,745)	(1,327)
Cash assumed on acquisition of subsidiaries		292	323
<b>Dispositions</b>			
Investment properties		1,947	1,037
Property, plant and equipment		564	106
Sustainable resources		1,736	2
Investments		657	373
Other financial assets		1,502	2,215
Cash disposed on disposition of subsidiaries		(70)	(5)
Restricted cash and deposit		(10)	(13)
		<u>(4,041)</u>	<u>(4,562)</u>
<b>Cash and cash equivalents</b>			
Change in cash and cash equivalents		947	860
Foreign exchange revaluation		(134)	(41)
Balance, beginning of year		2,850	2,031
Balance, end of year	31	\$ <u>3,663</u>	\$ <u>2,850</u>

1. See Adoption of Accounting Standards, Financial Statement Note 2(b)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. CORPORATE INFORMATION

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were authorized for issuance by the Board of Directors of the company on March 28, 2014.

### b) Adoption of Accounting Standards

In 2013, the company has applied new and revised standards issued by the IASB that are effective for the period beginning on or after January 1, 2013 as follows:

#### 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”). IAS 27 is not applicable to the company as it relates only to entities with separate financial statements.

IFRS 10 replaces IAS 27 and SIC-12, *Consolidation-Special Purpose Entities* (“SIC-12”). The consolidation requirements previously included in IAS 27 have been included in IFRS 10. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12. An investor must have power with existing rights to direct the relevant activities of the investee, have exposure or rights to variable returns from involvement with the investee, and have the ability to use its power over the investee to affect the amount of its returns in order to conclude it controls an investee. IFRS 10 requires continuous reassessment if the facts and circumstances change to one or more of the elements of control. The company applied the principles of IFRS 10 retrospectively, and accordingly resulted in the consolidation of an investee which was previously equity accounted. The retrospective application of IFRS 10 increased consolidated assets, liabilities and non-controlling interests by \$218 million, \$114 million and \$104 million, respectively, as at December 31, 2012, and increased consolidated revenues and net income by \$69 million and \$8 million, respectively, for the year then ended, with no impact on common equity or net income attributable to shareholders during the year ended December 31, 2012.

IFRS 11 supersedes IAS 31, *Interests in Joint Ventures* and SIC-13, *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. IFRS 11 is applicable to all parties that have an interest in a joint arrangement. IFRS 11 establishes two types of joint arrangements: joint operations and joint ventures. In a joint operation, the parties to the joint arrangement have rights to the assets and obligations for the liabilities of the arrangement, and recognize their share of the assets, liabilities, revenues and expenses. In a joint venture, the parties to the joint 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. There was no impact of adoption of IFRS 11 on the company’s 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. As a result of the adoption of IFRS 12, the company has included more comprehensive disclosures surrounding consolidated subsidiaries and equity accounted investments in the consolidated financial statements.

#### ii. Employee Benefits

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

iii. *Fair Value Measurement*

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

iv. *Presentation of Other Comprehensive Income*

In September 2011, the IASB made amendments to IAS 1, *Presentation of Financial Statements* (“IAS 1”). The amendments require that items of other comprehensive income are grouped into two categories: items that may be reclassified subsequently to profit or loss and items that will not be reclassified subsequently to profit and loss. Income tax on items of other comprehensive income are required to be allocated on the same basis. The consolidated statements of comprehensive income were amended to reflect the changes in presentation.

v. *Financial Instruments: Disclosures*

The amendments to IFRS 7 *Financial Instruments: Disclosures* (“IFRS 7”) contain new disclosure requirements for financial assets and liabilities that are offset in the consolidated balance sheet or subject to master netting arrangements or similar arrangements. The amendments to IFRS 7 have been applied prospectively, however the application of these amendments had no material impact on the company’s consolidated financial statements.

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

(MILLIONS)	As at December 31, 2012			As at January 1, 2012		
	Previously Reported	Adjustment	Restated	Previously Reported	Adjustment	Restated
<b>Consolidated Balance Sheets:</b>						
Investments.....	\$ 11,689	\$ (71)	\$ 11,618	\$ 9,401	\$ (69)	\$ 9,332
Property, plant and equipment.....	31,114	34	31,148	28,366	33	28,399
Sustainable resources.....	3,283	233	3,516	3,155	226	3,381
<b>Total Assets.....</b>	<b>\$ 108,644</b>	<b>\$ 218</b>	<b>\$ 108,862</b>	<b>\$ 91,022</b>	<b>\$ 214</b>	<b>\$ 91,236</b>
Accounts payable and other.....	11,599	53	11,652	9,266	45	9,311
Property-specific mortgages.....	33,648	72	33,720	28,415	72	28,487
<b>Equity</b>						
Non-controlling interests.....	23,190	97	23,287	18,516	96	18,612
Common equity.....	18,160	(10)	18,150	16,743	(6)	16,737
<b>Total Liabilities and Equity.....</b>	<b>\$ 108,644</b>	<b>\$ 218</b>	<b>\$ 108,862</b>	<b>\$ 91,022</b>	<b>\$ 214</b>	<b>\$ 91,236</b>
<b>Year Ended December 31, 2012</b>						
(MILLIONS)	Previously Reported	Adjustment	Restated			
<b>Consolidated Statement of Operations:</b>						
Total revenues and other gains.....	\$ 18,697	\$ 69	\$ 18,766			
Net income.....	2,747	8	2,755			
Net income to shareholders.....	1,380	—	1,380			
<b>Consolidated Statement of Comprehensive Income:</b>						
Other comprehensive income.....	1,081	(5)	1,076			
Other comprehensive income to shareholders.....	517	(4)	513			
Comprehensive income.....	3,828	3	3,831			
Comprehensive income to shareholders.....	1,897	(4)	1,893			

### **c) Basis of Presentation**

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

#### *i. Subsidiaries*

The consolidated financial statements include the accounts of the company and its subsidiaries, which are the entities over which the company exercises control. Control exists when the company has the power to direct the relevant activities, exposure or rights to variable returns from involvement with the investee, and the ability to use its power over the investee to affect the amount of its returns. Subsidiaries are consolidated from the date the company obtains control, and continue to be consolidated until the date when control is lost. The company continually reassesses whether or not it controls an investee, particularly if facts and circumstances indicate there is a change to one or more of the control criteria previously mentioned. In certain circumstances when the company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The company considers all relevant facts and circumstances in assessing whether or not the company's voting rights are sufficient to give it power.

Non-controlling interests in the equity of the company's subsidiaries are included within equity on the Consolidated Balance Sheets. All intercompany balances, transactions, unrealized gains and losses are eliminated in full.

Gains or losses resulting from changes in the company's ownership interest of a subsidiary that do not result in a loss of control are accounted for as equity transactions and are recorded within ownership changes as a component of equity. When control of a subsidiary is lost, the difference between the carrying value and the proceeds from disposition is recognized within total revenues and other gains in the Consolidated Statement of Operations.

In connection with partial dispositions of a subsidiary in 2011 and 2012, the company adjusted the carrying amounts of common equity and non-controlling interests to reflect changes in their relative interests in the subsidiary; however, it did not reallocate certain individual components within common equity, particularly between ownership changes and revaluation surplus. These financial statements reflect the reallocation within common equity of \$1,298 million and \$303 million from revaluation surplus to ownership changes as at December 31, 2012 and 2011, respectively.

Refer to Note 4 for additional information on subsidiaries of the company with significant non-controlling interests.

#### *ii. Associates and Joint Ventures*

Associates are entities over which the company exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but without control or joint control over those policies. Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have the rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The company accounts for associates and joint ventures using the equity method of accounting within investments on the Consolidated Balance Sheets.

Interests in associates and joint ventures accounted for using the equity method are initially recognized at cost. At the time of initial recognition, if the cost of the associate or joint venture is lower than the proportionate share of the investment's underlying fair value, the company records a gain on the difference between the cost and the underlying fair value of the investment in net income. If the cost of the associate or joint venture is greater than the company's proportionate share of the underlying fair value, goodwill relating to the associate or joint venture is included in the carrying amount of the investment. Subsequent to initial recognition, the carrying value of the company's interest in an associate or joint venture is adjusted for the company's share of comprehensive income and distributions of the investee. Profit and losses resulting from transactions with an associate or joint venture are recognized in the consolidated financial statements based on the interests of unrelated investors in the investee.

#### *iii. Joint Operations*

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, related to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of parties sharing control. The company recognizes only its assets, liabilities and share of the results of operations of the joint operation. The assets, liabilities and results of joint operations are included within the respective line items of the Consolidated Balance Sheets, Consolidated Statement of Operations and Consolidated Statement of Comprehensive Income.

### **d) Foreign Currency Translation**

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

Assets and liabilities of foreign operations having a functional currency other than the U.S. dollar are translated at the rate of exchange prevailing at the reporting date and revenues and expenses at average rates during the period. Gains or losses

on translation are accumulated as a component of equity. On the disposal of a foreign operation, or the loss of control, joint control or significant influence, the component of accumulated other comprehensive income relating to that foreign operation is reclassified to net income. Gains or losses on foreign currency denominated balances and transactions that are designated as hedges of net investments in these operations are reported in the same manner.

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

**e) Cash and Cash Equivalents**

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

**f) Related Party Transactions**

In the normal course of operations, the company enters into various transactions on market terms with related parties, which have been measured at their exchange value and are recognized in the consolidated financial statements. Related party transactions are further described in Note 30. The company's subsidiaries with significant non-controlling interests are described in Note 4 and its associates and joint ventures are described in Note 9.

**g) Operating Assets**

*i. Investment Properties*

The company uses the fair value method to account for real estate classified as an investment property. A property is determined to be an investment property when it is principally held to earn either rental income or capital appreciation, or both. Investment properties also include properties that are under development or redevelopment for future use as investment property. Investment property is initially measured at cost including transaction costs. Subsequent to initial recognition, investment properties are carried at fair value. Gains or losses arising from changes in fair value are included in net income during the period in which they arise. Fair values are primarily determined by discounting the expected future cash flows of each property, generally over a term of 10 years, using discount and terminal capitalization rates reflective of the characteristics, location and market of each property. The future cash flows of each property are based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. The company determines fair value using internal valuations. The company uses external valuations to assist in determining fair value, but external valuations are not necessarily indicative of fair value.

*ii. Revaluation Method for Property, Plant and Equipment*

The company uses the revaluation method of accounting for certain classes of property, plant and equipment as well as certain assets which are under development for future use as property, plant and equipment. Property, plant and equipment measured using the revaluation method is initially measured at cost and subsequently carried at its revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Revaluations are performed on an annual basis. Where the carrying amount of an asset increases as a result of a revaluation, the increase is recognized in other comprehensive income and accumulated in equity in revaluation surplus, unless the increase reverses a previously recognized impairment recorded through net income, in which case that portion of the increase is recognized in net income. Where the carrying amount of an asset decreases, the decrease is recognized in other comprehensive income to the extent of any balance existing in revaluation surplus in respect of the asset, with the remainder of the decrease recognized in net income. Depreciation of an asset commences when it is available for use. On loss of control or partial disposition of an asset measured using the revaluation method, all accumulated revaluation surplus or the portion disposed of, respectively, is transferred into retained earnings or ownership changes, respectively.

*iii. Renewable Energy Generation*

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

Generally, the first 20 years of cash flow are discounted with a residual value based on the terminal value cash flows. The fair value and estimated remaining service lives are reassessed on an annual basis. The company determines fair value using internal valuations. The company uses external appraisers to review fair values of our renewable energy generating assets, but external valuations are not necessarily indicative of fair value.

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

(YEARS)	Useful Lives
Dams.....	Up to 115
Penstocks.....	Up to 60
Powerhouses.....	Up to 115
Hydroelectric generating units.....	Up to 115
Wind generating units.....	Up to 22
Other assets.....	Up to 60

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

*iv. Sustainable Resources*

Sustainable resources consist of standing timber and other agricultural assets and are measured at fair value after deducting the estimated selling costs and are recorded in sustainable resources on the Consolidated Balance Sheets. Estimated selling costs include commissions, levies, delivery costs, transfer taxes and duties. The fair value of standing timber is calculated using the present value of anticipated future cash flows for standing timber before tax and terminal dates of 20 to 28 years. Fair value is determined based on existing, sustainable felling plans and assessments regarding growth, timber prices and felling and silviculture costs. Changes in fair value are recorded in net income in the period of change. The company determines fair value of its standing timber using external valuations on an annual basis.

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

Land under standing timber, bridge, roads and other equipment used in sustainable resources production are accounted for using the revaluation method and included in property, plant and equipment. These assets are depreciated over their useful lives, generally 10 to 35 years.

*v. Infrastructure*

Utilities, transport and energy assets within our infrastructure operations as well as assets under development classified as property, plant and equipment are accounted for using the revaluation method. The company determines the fair value of its utilities, transport and energy assets using a discounted cash flow model, which includes estimates of forecasted revenue, operating costs, maintenance and other capital expenditures. Valuations are performed internally on an annual basis. Discount rates are selected for each asset, giving consideration to the volatility of its revenue streams and geography where they are located.

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

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

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

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

*vi. Hospitality Assets*

Hotel operating assets within our property operations are classified as property, plant and equipment and are accounted for using the revaluation method. The company determines the fair value for these assets by discounting the expected future cash flows. The company determines fair value using internal valuations. The company uses external valuations to assist in determining fair value, but external valuations are not necessarily indicative of fair value.

*vii. Other Property, Plant and Equipment*

The company accounts for its other property, plant and equipment using the revaluation method or the cost model, depending on the nature of the asset and the operating segment. Other property, plant and equipment measured using the revaluation method is initially measured at cost and subsequently carried at its revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and any accumulated impairment losses. Under the cost method, assets are initially recorded at cost and are subsequently depreciated over the assets' useful lives, unless an impairment is identified requiring a write-down to estimated fair value.

### *viii. Residential Development*

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

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

### *ix. Other Financial Assets*

Other financial assets are classified as either fair value through profit or loss or available-for-sale securities based on their nature and use within the company's business. Changes in the fair values of financial instruments classified as fair value through profit or loss and available-for-sale are recognized in net income and other comprehensive income, respectively. The cumulative changes in the fair values of available-for-sale securities previously recognized in accumulated other comprehensive income are reclassified to net income when the security is sold, or there is a significant or prolonged decline in fair value or when the company acquires a controlling interest in the underlying investment and commences consolidating the investment. Other financial assets are recognized on their trade date and initially recorded at fair value with changes in fair value recorded in net income or other comprehensive income in accordance with their classification. Fair values for financial instruments are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used.

The company assesses the carrying value of available-for-sale securities for impairment when there is objective evidence that the asset is impaired. When objective evidence of impairment exists, the cumulative loss in other comprehensive income is reclassified to net income.

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

### **h) Fair Value Measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Fair value measurement is disaggregated into three hierarchical levels: Level 1, 2 or 3. Fair value hierarchical levels are directly based on the degree to which the inputs to the fair value measurement are observable. The levels are as follows:

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

Level 2 – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the asset's or liability's anticipated life.

Level 3 – Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs in determining the estimate.

Further information on fair value measurements is available in Note 6, Note 10, Note 11 and Note 12.

### **i) Impairment**

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

## **j) Accounts Receivable**

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

## **k) Intangible Assets**

Finite life intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, and are amortized on a straight-line basis over their estimated useful lives. Amortization is recorded within depreciation and amortization in the Consolidated Statements of Operations.

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

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

## **l) Goodwill**

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

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

## **m) Interests of Others in Consolidated Funds**

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

Limited-life funds represent the interests of others in the company's consolidated funds that have a defined maximum fixed life where the company has an obligation to distribute the residual interests of the fund to fund partners based on their proportionate share of the fund's equity in the form of cash or other financial assets at cessation of the fund's life.

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

## **n) Revenue Recognition**

### *i. Asset Management*

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

Revenues from performance-based incentive fees are recorded on the accrual basis based on the amount that would be due under the incentive fee formula at the end of the measurement period established by the contract where it is no longer subject to adjustment based on future events, and are recorded within total revenues and other gains in the Consolidated Statements of Operations.

### *ii. Property Operations*

Property revenues primarily consist of rental revenues from leasing activities and hospitality revenues and interest and dividends from unconsolidated real estate investments.

Property rental income is recognized when the property is ready for its intended use. Office and retail properties are considered to be ready for their intended use when the property is capable of operating in the manner intended by management, which generally occurs upon completion of construction and receipt of all occupancy and other material permits.

The company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right



to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, as applicable, is recorded as a component of investment property for the difference between the amount of rental revenue recorded and the contractual amount received. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property, capital and similar taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

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

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

*iii. Renewable Energy Operations*

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

*iv. Sustainable Resources Operations*

Revenue from timberland operations is derived from the sale of logs and related products. The company recognizes sales to external customers when the product is shipped, title passes and collectibility is reasonably assured. Revenue from agricultural development operations is recognized at the time that the risks and rewards of ownership have transferred.

*v. Utility Operations*

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

*vi. Transport Operations*

Revenue from transport operations consists primarily of freight and transportation services revenue. Freight and transportation services revenue is recognized at the time of the provision of services.

*vii. Energy Operations*

Revenue from energy operations consists primarily of energy transmission, distribution and storage income. Energy revenue is recognized when services are provided and are rendered based upon usage or volume throughput during the period.

*viii. Private Equity Operations*

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

*ix. Residential Developments Operations*

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

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

*x. Service Activities*

Revenues from construction contracts are recognized using the percentage-of-completion method once the outcome of the construction contract can be estimated reliably, in proportion to the stage of completion of the contract, and to the extent to which collectibility is reasonably assured. The stage of completion is measured by reference to actual costs incurred as a percentage of estimated total costs of each contract. When the outcome cannot be reliably determined, contract costs are expensed as incurred and revenue is only recorded to the extent that the costs are determined to be recoverable. Where it is probable that a loss will arise from a construction contract, the excess of total expected costs over total expected revenue is recognized as an expense immediately. Other service revenues are recognized when the services are provided.

*xi. Other Financial Assets*

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

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

*xii. Other Gains*

Other gains represent the excess of proceeds over carrying values on the disposition of assets in the normal course of operations.

**o) Derivative Financial Instruments and Hedge Accounting**

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

*i. Items Classified as Hedges*

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

Unrealized gains and losses on interest rate contracts designated as hedges of future variable interest payments are included in equity as a cash flow hedge when the interest rate risk relates to an anticipated variable interest payment. The periodic exchanges of payments on interest rate swap contracts designated as hedges of debt are recorded on an accrual basis as an adjustment to interest expense. The periodic exchanges of payments on interest rate contracts designated as hedges of future interest payments are amortized into net income over the term of the corresponding interest payments.

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

*ii. Items Not Classified as Hedges*

Derivative financial instruments that are not designated as hedges are carried at their estimated fair value, and gains and losses arising from changes in fair value are recognized in net income in the period in which the change occurs. Realized and unrealized gains and losses on equity derivatives used to offset the change in share prices in respect of vested Deferred Share Units and Restricted Share Units are recorded together with the corresponding compensation expense. Realized and unrealized gains on other derivatives not designated as hedges are recorded in total revenues and other gains, direct costs or corporate costs, as applicable. Realized and unrealized gains and losses on derivatives which are considered economic hedges, and where hedge accounting is not able to be elected, are recorded in fair value changes in the Consolidated Statements of Operations.

**p) Income Taxes**

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

**q) Business Combinations**

Business combinations are accounted for using the acquisition method. The cost of a business acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date, except for non-current assets that are classified as held-for-sale which are recognized and measured at fair value less costs to sell. The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognized.

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

When a business combination is achieved in stages, previously held interests in the acquired entity are re-measured to fair value at the acquisition date, which is the date control is obtained, and the resulting gain or loss, if any, is recognized in net income, other than amounts transferred directly to retained earnings. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to net income. Acquisition costs are recorded as an expense in net income as incurred.

**r) Other Items**

*i. Capitalized Costs*

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

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

*ii. Capital Securities*

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

*iii. Share-based Payments*

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

**s) Critical Judgments and Estimates**

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

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

*i. Critical Estimates*

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

**a. Investment Properties**

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

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

**b. Revaluation Method for Property, Plant and Equipment**

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

Further information on estimates used in the revaluation method for property, plant and equipment is provided in Note 11.

c. Sustainable Resources

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

Further information on estimates used for sustainable resources is provided in Note 12.

d. Financial Instruments

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

Further information on estimates used in determining the carrying value of financial instruments is provided in Notes 6, 26 and 27.

e. Inventory

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

f. Other

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

ii. *Critical Judgments*

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

a. Control or Level of Influence

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

b. Investment Properties

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

c. Property, Plant and Equipment

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

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

d. Common Control Transactions

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

e. Indicators of Impairment

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

f. Income Taxes

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

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

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

h. Other

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

**t) Future Changes in Accounting Standards**

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

IFRS 9, *Financial Instruments* ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is tentatively effective for annual periods beginning on or after January 1, 2018. The company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

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

### **3. SEGMENTED INFORMATION**

**a) Operating Segments**

Our operations are organized into eight operating segments which are regularly reported regularly to our Chief Executive Officer (our Chief Operating Decision Maker). We measure performance primarily using the funds from operations generated by each operating segment and the amount of capital attributable to each segment.

Our operating segments are described below:

- i. Asset management operations consist of managing our listed entities, private funds and public securities on behalf of ourselves and our clients. We generate contractual base management fees for these activities and we also are entitled to earn performance fees, including incentive distributions, performance fees and carried interests. We also provide transaction and advisory services.

- ii. Property operations include the ownership and operation of predominantly office, retail, industrial, multifamily and other property investments located primarily in major North American, Australian, Brazilian and European cities.
- iii. Renewable energy operations include the ownership and operation of primarily hydroelectric power generating facilities on river systems in North America and Brazil and wind power generating facilities in North America.
- iv. Infrastructure operations include the ownership and operation of utilities, transport, energy and timberland and agricultural operations located in Australia, North America, Europe and South America.
- v. Private equity operations include the investments and activities overseen by our private equity group. These include direct investments and investments in our private equity funds. Our private equity funds have a mandate to invest in a broad range of industries.
- vi. Residential development operations consist predominantly of homebuilding and land development in North America, and condominium development in Brazil.
- vii. Service activities include the provision of construction management and contracting, and property services operations which include global corporate relocation, facilities management and residential brokerage services.
- viii. Corporate activities include the investment of the company's cash and financial assets, as well as the management of our corporate capitalization, including corporate borrowings, capital securities and preferred equity which fund a portion of the capital invested in our other operations. Certain corporate costs such as technology and operations are incurred on behalf of all of our business segments and specifically allocated to each business segment based on an internal pricing framework.

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

## **b) Basis of Measurement**

### *i. Funds from Operations*

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

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 segmented FFO to net income in Note 3(c)(v) of the consolidated financial statements.

Our definition of FFO 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. Generally Accepted Accounting Principles, as opposed to IFRS. The key differences between our definition of FFO and the determination of funds from operations by REALPAC and/or NAREIT, are that we include the following: realized disposition gains or losses that occur as normal part of our business and cash taxes payable on those gains, if any; foreign exchange gains or losses on monetary items not forming part of our net investment in foreign operations; and gains or losses on the sale of an investment in a foreign operation.

### *ii. Segment Balance Sheet Information*

The company uses common equity by operating segment as its measure of segment assets, because it is utilized by the company's Chief Operating Decision Maker for capital allocation decisions.

### *iii. Segment Allocation and Measurement*

Segment measures include amounts earned from consolidated entities that are eliminated on consolidation. The two principal adjustments are to include asset management revenues charged to consolidated entities as revenues within the company's asset management segment with the corresponding expense recorded as corporate costs within the relevant segment; and interest charged on loans between consolidated entities, which are presented as revenues and interest expense within the relevant segments. These amounts are based on the in-place terms of the asset management contracts and loan agreements amongst the consolidated entities. Inter-segment revenues are made under terms that approximate market value.

The company allocates the costs of shared functions, which would otherwise be included within its corporate activities segment such as information technology and internal audit, pursuant to formal policies.

### c) Reportable Segment Measures

YEAR ENDED DECEMBER 31, 2013 (MILLIONS)	Asset Management	Property	Renewable Energy	Infrastructure	Private Equity	Residential Development	Service Activities	Corporate Activities	Total Segments	Notes
External revenues.....	\$ 764	\$ 4,569	\$ 1,620	\$ 2,388	\$ 4,804	\$ 2,521	\$ 3,817	\$ 347	\$ 20,830	
Inter-segment revenues..	419	—	—	—	—	—	—	—	419	i
Segmented revenues, ...	1,183	4,569	1,620	2,388	4,804	2,521	3,817	347	21,249	
Equity accounted income.....	—	429	21	333	7	15	27	12	844	ii
Interest expense.....	—	(1,123)	(409)	(407)	(132)	(167)	—	(315)	(2,553)	iii
Current income taxes...	—	(59)	(19)	(26)	(9)	(23)	—	(23)	(159)	iv
Funds from operations...	865	554	447	472	612	46	157	223	3,376	v
Common equity.....	216	13,339	4,428	2,171	1,105	1,435	1,286	(6,199)	17,781	
Equity accounted investments.....	—	9,732	290	2,615	21	273	211	135	13,277	
Additions to non-current assets <sup>1</sup> .....	—	8,711	1,614	2,061	591	93	110	8	13,188	

1. Includes equity accounted investments, investment properties, property, plant and equipment, sustainable resources, intangible assets and goodwill

YEAR ENDED DECEMBER 31, 2012 (MILLIONS)	Asset Management	Property	Renewable Energy	Infrastructure	Private Equity	Residential Development	Service Activities	Corporate Activities	Total Segments	Notes
External revenues.....	\$ 162	\$ 3,947	\$ 1,179	\$ 2,178	\$ 4,424	\$ 2,476	\$ 4,140	\$ 260	\$ 18,766	
Inter-segment revenues..	288	35	—	—	—	—	—	—	323	i
Segmented revenues, ...	450	3,982	1,179	2,178	4,424	2,476	4,140	260	19,089	
Equity accounted income.....	4	386	13	216	8	7	—	25	659	ii
Interest expense.....	—	(1,076)	(412)	(402)	(133)	(143)	—	(369)	(2,535)	iii
Current income taxes...	—	(9)	(12)	(16)	(12)	(67)	—	(19)	(135)	iv
Funds from operations...	194	537	313	224	227	34	229	(402)	1,356	v
Common equity.....	245	12,958	4,976	2,571	957	1,617	1,325	(6,499)	18,150	
Equity accounted investments.....	—	8,143	344	2,535	26	210	67	293	11,618	
Additions to non-current assets <sup>1</sup> .....	—	7,654	1,534	6,119	372	16	449	165	16,309	

1. Includes equity accounted investments, investment properties, property, plant and equipment, sustainable resources, intangible assets and goodwill

#### i. Inter-Segment Revenues

The adjustment to external revenues, when determining segmented revenues, consists of management fees earned from consolidated entities totalling \$419 million (2012 – \$288 million) and interest income on loans between consolidated entities totalling \$nil (2012 – \$35 million), which were eliminated on consolidation to arrive at the company's consolidated revenues.

#### ii. Equity Accounted Income

The company defines equity accounted profit or loss to be the company's share of FFO from its investments in associates (equity accounted investments), determined by applying the same methodology utilized in adjusting net income of consolidated entities. The following table reconciles equity accounted income on a segmented basis to the company's Consolidated Statements of Operations.

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Segmented equity accounted income.....	\$ 844	\$ 659
Fair value changes and other non-FFO items.....	(85)	578
Equity accounted income.....	\$ 759	\$ 1,237

iii. *Interest Expense*

The adjustment to interest expense consists of interest on loans between consolidated entities totalling \$nil (2012 – \$35 million) that is eliminated on consolidation, along with the associated revenue. The following table reconciles segment interest expense to consolidated interest expense:

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Segment interest expense.....	\$ (2,553)	\$ (2,535)
Inter-company interest expense.....	—	35
Interest expense.....	<u>\$ (2,553)</u>	<u>\$ (2,500)</u>

iv. *Current Income Taxes*

Current income taxes are included in segmented FFO, but are aggregated with deferred income taxes in income tax expense on the company's Consolidated Statements of Operations. The following table reconciles segment current tax expense to consolidated income taxes:

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Segment current tax expense.....	\$ (159)	\$ (135)
Deferred income tax.....	(686)	(384)
Income tax expense.....	<u>\$ (845)</u>	<u>\$ (519)</u>

v. *Reconciliation of FFO to Net Income*

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

YEARS ENDED DECEMBER 31 (MILLIONS)	Notes	<u>2013</u>	<u>2012</u>
Total operating segment FFO.....		\$ 3,376	\$ 1,356
Realized disposition gains not recorded in net income.....	vi	(434)	(183)
Non-controlling interests in FFO.....		2,465	1,498
Financial statement components not included in FFO			
Equity accounted fair value changes and other non-FFO items.....	ii	(85)	578
Fair value changes.....		663	1,153
Depreciation and amortization.....		(1,455)	(1,263)
Deferred income taxes.....		(686)	(384)
Net income.....		<u>\$ 3,844</u>	<u>\$ 2,755</u>

vi. *Realized Disposition Gains*

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

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Ownership changes in common equity.....	\$ 160	\$ 29
Prior period fair value changes and revaluation surplus.....	274	154
	<u>\$ 434</u>	<u>\$ 183</u>



#### d) Geographic Allocation

The company's revenue by location of operations and consolidated assets by location of assets are as follows:

AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS)	2013		2012	
	Revenue	Assets	Revenue	Assets
United States.....	\$ 7,818	\$ 49,020	\$ 6,222	\$ 44,381
Canada.....	3,513	21,669	3,343	21,543
Australia.....	4,855	14,258	4,528	16,781
Brazil.....	1,684	13,074	1,614	12,941
Europe.....	1,293	9,099	1,432	6,750
Other.....	1,667	5,625	1,627	6,466
	<u>\$ 20,830</u>	<u>\$ 112,745</u>	<u>\$ 18,766</u>	<u>\$ 108,862</u>

Intangible assets and goodwill by geographic segments are included in Note 13 and 14, respectively.

#### e) Total Revenues and Other Gains Allocation

Total external revenues and other gains by product or service are as follows:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Asset management.....	\$ 764	\$ 162
Property		
Office properties.....	2,579	2,577
Retail properties.....	207	215
Multifamily, industrial and other.....	1,783	1,155
Renewable energy		
United States.....	761	420
Canada.....	563	427
Brazil.....	296	332
Infrastructure		
Utilities.....	962	868
Transport.....	690	520
Energy.....	221	152
Sustainable resources and other.....	515	638
Private equity.....	4,804	4,424
Residential development.....	2,521	2,476
Service activities.....	3,817	4,140
Corporate activities.....	347	260
Total revenues and other gains.....	<u>\$ 20,830</u>	<u>\$ 18,766</u>

#### 4. SUBSIDIARIES

The following table presents the details of the company's subsidiaries with significant non-controlling interests:

	Jurisdiction of Formation	Voting Rights Held by Non-Controlling Interests <sup>1</sup>		Ownership Interest Held by Non-Controlling Interests	
		Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Brookfield Property Partners L.P. ("BPY") <sup>2</sup>	Bermuda	—	—	10.6% <sup>3</sup>	—
Brookfield Office Properties Inc. ("BPO") <sup>2</sup>	Canada	49.3%	49.3%	49.3%	49.3%
Brookfield Renewable Energy Partners L.P. ("BREP")	Bermuda	—	—	35.0% <sup>4</sup>	32.0%
Brookfield Infrastructure Partners L.P. ("BIP")	Bermuda	—	—	71.5%	71.5%
Brookfield Residential Properties Inc. ("BRPI")	Canada	31.5%	31.1%	31.5%	31.1%
Brookfield Incorporações S.A. ("BISA")	Brazil	46.7%	48.0%	55.0% <sup>6</sup>	56.3%

- Control of the limited partnerships (BPY, BREP and BIP) resides with their respective general partners which are wholly owned subsidiaries of the company. The company's general partner interest is entitled to earn base management fees and incentive distribution rights
- BPY was formed during 2013 through a special dividend of approximately 36 million limited partnership ("LP") units, equivalent to a 7.6% economic interest in BPY, to the shareholders of the company's Class A shares and Class B shares. On formation of BPY, the company's ownership interest in BPO was transferred to BPY
- During the fourth quarter of 2013, BPY completed an equity issuance which resulted in a decrease in the company's economic ownership of BPY from 92.5% to 89.4%
- During the first quarter of 2013, the company sold 8.1 million BREP units, decreasing its economic ownership interest by 3% to 65%
- The company exercises control over BISA through its 45.0% ownership and influence over 8.3% of the shares held by previous members of management through voting agreements

The table below presents the exchanges in which the company's subsidiaries with significant non-controlling interests are publicly listed:

	TSX	NYSE	BVMF
BPY	BPY.UN	BPY	—
BPO	BPO	BPO	—
BREP	BEP.UN	BEP	—
BIP	BIP.UN	BIP	—
BRPI	BRP	BRP	—
BISA	—	—	BISA3

All publicly listed entities subject to independent governance. Accordingly, the company has no direct access to the assets of these subsidiaries.

Summarized financial information with respect to the company's subsidiaries with non-controlling interest are set out below. The summarized financial information represents amounts before intra-group eliminations:

AS AT DECEMBER 31, 2013 (MILLIONS)	BPY	BREP	BIP	BRPI	BISA
Current assets	\$ 3,011	\$ 604	\$ 1,268	\$ 1,410	\$ 2,261
Non-current assets	49,435	16,373	14,414	1,878	2,337
Current liabilities	(6,973)	(898)	(598)	(333)	(1,550)
Non-current liabilities	(20,483)	(8,543)	(8,479)	(1,480)	(2,122)
Non-controlling interests	(12,810)	(4,002)	(5,127)	(515)	(505)
Common equity	\$ 12,180	\$ 3,534	\$ 1,478	\$ 960	\$ 421

FOR THE YEAR ENDED DECEMBER 31, 2013  
(MILLIONS)

	BPY	BREP	BIP	BRPI	BISA
Revenue.....	\$ 4,287	\$ 1,717	\$ 1,826	\$ 1,356	\$ 1,099
Net income (loss) attributable to:					
Non-controlling interests.....	\$ 928	\$ 126	\$ 82	\$ 51	\$ (106)
Shareholders.....	835	89	(17)	98	(88)
	\$ 1,763	\$ 215	\$ 65	\$ 149	\$ (194)
Other comprehensive income (loss) attributable to:					
Non-controlling interests.....	\$ (222)	\$ (162)	\$ 155	\$ (16)	\$ (96)
Shareholders.....	(241)	(386)	46	(35)	(80)
	\$ (463)	\$ (548)	\$ 201	\$ (51)	\$ (176)
Distributions paid to Non-controlling interests.....	\$ (262)	\$ (166)	\$ (260)	\$ —	\$ —
Cashflows from (used in):					
Operating activities.....	421	746	694	(52)	(18)
Investing activities.....	(1,622)	(408)	(162)	(66)	103
Financing activities.....	1,669	(263)	(232)	391	58

AS AT DECEMBER 31, 2012  
(MILLIONS)

	BPO	BREP	BIP	BRPI	BISA
Current assets.....	\$ 990	\$ 522	\$ 746	\$ 1,089	\$ 2,139
Non-current assets.....	26,489	16,403	18,972	1,725	3,241
Current liabilities.....	(2,860)	(961)	(1,291)	(373)	(1,471)
Non-current liabilities.....	(11,655)	(8,156)	(10,619)	(1,137)	(2,612)
Non-controlling interests.....	(7,850)	(3,538)	(6,376)	(410)	(727)
Common equity.....	\$ 5,114	\$ 4,270	\$ 1,432	\$ 894	\$ 570

FOR THE YEAR ENDED DECEMBER 31, 2012  
(MILLIONS)

	BPO	BREP	BIP	BRPI	BISA
Revenue.....	\$ 2,282	\$ 1,325	\$ 1,524	\$ 1,340	\$ 1,006
Net income (loss) attributable to:					
Non-controlling interests.....	\$ 815	\$ (47)	\$ 261	\$ 26	\$ (85)
Shareholders.....	653	(48)	30	67	(66)
	\$ 1,468	\$ (95)	\$ 291	\$ 93	\$ (151)
Other comprehensive income (loss) attributable to:					
Non-controlling interests.....	\$ 41	\$ 151	\$ 437	\$ —	\$ (61)
Shareholders.....	26	276	148	2	(48)
	\$ 67	\$ 427	\$ 585	\$ 2	\$ (109)
Distributions paid to non-controlling interests.....	\$ (229)	\$ (130)	\$ (207)	\$ —	\$ (26)
Cashflows from (used in):					
Operating activities.....	346	398	635	43	(362)
Investing activities.....	(715)	(813)	(1,764)	16	(1)
Financing activities.....	297	335	1,238	(9)	525

The following table outlines the composition of accumulated non-controlling interests presented within the company's consolidated financial statements:

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
BPY.....	\$ 12,810	\$ —
BPO.....	—	7,850
BREP.....	4,002	3,538
BIP.....	5,127	6,376
BRPI.....	515	410
BISA.....	505	727
Individually immaterial subsidiaries with non-controlling interests.....	3,688	4,386
	<u>\$ 26,647</u>	<u>\$ 23,287</u>

## 5. ACQUISITIONS OF CONSOLIDATED ENTITIES

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

### a) Completed During 2013

The following table summarizes the balance sheet impact as a result of business combinations that occurred in 2013:

(MILLIONS)	<u>Property</u>	<u>Renewable Energy</u>	<u>Other</u>	<u>Total</u>
Cash and cash equivalents.....	\$ 280	\$ 8	\$ 4	\$ 292
Accounts receivable and other.....	176	118	5	299
Investments.....	346	4	—	350
Investment properties.....	5,530	—	—	5,530
Property, plant and equipment.....	29	1,387	199	1,615
Intangible assets.....	20	—	—	20
Total Assets.....	<u>6,381</u>	<u>1,517</u>	<u>208</u>	<u>8,106</u>
Less:				
Accounts payable and other.....	(391)	(79)	(4)	(474)
Non-recourse borrowings.....	(2,940)	(1,075)	(40)	(4,055)
Deferred income tax liabilities.....	—	(65)	—	(65)
Non-controlling interests <sup>1</sup> .....	(163)	(68)	—	(231)
	<u>(3,494)</u>	<u>(1,287)</u>	<u>(44)</u>	<u>(4,825)</u>
Net assets acquired.....	<u>\$ 2,887</u>	<u>\$ 230</u>	<u>\$ 164</u>	<u>\$ 3,281</u>
Consideration <sup>2</sup> .....	<u>\$ 2,861</u>	<u>\$ 230</u>	<u>\$ 161</u>	<u>\$ 3,252</u>

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition

2. Total consideration, including amounts paid by non-controlling interests

Brookfield recorded \$163 million of revenue and \$82 million in net income from the acquired operations as a result of the acquisitions made during the year. Total revenue and net income that would have been recorded if the acquisitions had occurred at the beginning of the year would have been \$568 million and \$112 million, respectively. Certain of the current year business combinations were completed in close proximity to the year end date of December 31, 2013 and accordingly, the fair values of the acquired assets and liabilities for these operations have been determined on a provisional basis, pending finalization of the post-acquisition review of the fair value of the acquired net assets.

Significant business contributions completed during 2013 are as follows, all of which were in the company's property operations:

In June 2013, a subsidiary of Brookfield acquired a 95% equity interest in EZW Gazeley Limited ("Gazeley"), a UK-based industrial real estate company, for \$370 million. Brookfield recorded \$17 million of revenue and \$16 million in net income from the acquired operation during the year. Total revenue and net income that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$55 million and \$9 million, respectively.

In October 2013, a subsidiary of Brookfield acquired a 100% interest in Industrial Developments International Inc. ("IDI"), a U.S.-based industrial real estate company which owns and operates a high-quality industrial portfolio, for total consideration of

\$595 million. Brookfield recorded \$3 million of revenue and \$3 million in net loss from the acquired operation during the year. Total revenue and net loss that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$13 million and \$11 million, respectively.

In October 2013, a subsidiary of Brookfield completed the acquisition of MPG Office Trust, Inc. (“MPG”), an owner and operator of office properties in Los Angeles for total consideration of \$443 million. Brookfield recorded \$36 million of revenue and \$7 million in net income from the acquired operation during the year. Total revenue and net income that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$172 million and \$13 million, respectively.

The following table summarizes the balance sheet impact as a result of significant business combinations that occurred in 2013:

(MILLIONS)	Gazeley	IDI	MPG
Cash and cash equivalents.....	\$ 40	\$ 28	\$ 156
Accounts receivable and other.....	41	36	46
Investments.....	—	346	—
Investment properties.....	484	525	1,817
Property, plant and equipment.....	—	1	—
Intangible assets.....	20	—	—
<b>Total Assets.....</b>	<b>585</b>	<b>936</b>	<b>2,019</b>
Less:			
Accounts payable and other.....	(45)	(46)	(45)
Non-recourse borrowings.....	(119)	(261)	(1,531)
Non-controlling interests <sup>1</sup> .....	(21)	(34)	—
	<u>(185)</u>	<u>(341)</u>	<u>(1,576)</u>
<b>Net assets acquired.....</b>	<b>\$ 400</b>	<b>\$ 595</b>	<b>\$ 443</b>
<b>Consideration<sup>2</sup>.....</b>	<b>\$ 370</b>	<b>\$ 595</b>	<b>\$ 443</b>

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Total consideration, including amounts paid by non-controlling interests

## b) Completed During 2012

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

(MILLIONS)	Property	Renewable Energy	Infrastructure	Total
Cash and cash equivalents.....	\$ 142	\$ 50	\$ 120	\$ 312
Accounts receivable and other.....	418	13	77	508
Inventory.....	393	—	—	393
Investments.....	11	—	—	11
Investment properties.....	2,793	—	—	2,793
Property, plant and equipment.....	2,446	1,374	2,728	6,548
Intangible assets.....	376	—	1,540	1,916
Goodwill.....	15	—	45	60
<b>Total Assets.....</b>	<b>6,594</b>	<b>1,437</b>	<b>4,510</b>	<b>12,541</b>
Less:				
Accounts payable and other.....	(534)	(96)	(529)	(1,159)
Non-recourse borrowings.....	(3,576)	(449)	(1,693)	(5,718)
Deferred income tax liabilities.....	—	—	(488)	(488)
Non-controlling interests <sup>1</sup> .....	(281)	(695)	(854)	(1,830)
	<u>(4,391)</u>	<u>(1,240)</u>	<u>(3,564)</u>	<u>(9,195)</u>
<b>Net assets acquired.....</b>	<b>\$ 2,203</b>	<b>\$ 197</b>	<b>\$ 946</b>	<b>\$ 3,346</b>
<b>Consideration<sup>2</sup>.....</b>	<b>\$ 2,203</b>	<b>\$ 197</b>	<b>\$ 946</b>	<b>\$ 3,346</b>

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Total consideration, including amounts paid by non-controlling interests

As a result of the acquisitions made during 2012, Brookfield recorded \$1,144 million of revenue and \$38 million in net losses from the acquired operations in 2012. Total revenue and net losses, including fair value changes, that would have been recorded if the acquisitions had occurred at the beginning of the year would have been \$2,095 million and \$130 million, respectively.

*i. Property*

In December 2011, a subsidiary of Brookfield commenced acquiring debentures secured by a 39% ownership interest in Thakral Holdings Group (“Thakral”) shares. Brookfield converted its debentures into shares of Thakral and acquired all of the remaining shares outstanding for total consideration of \$507 million in October 2012 and commenced consolidation of Thakral. Thakral’s assets include prime office assets, a multifamily property portfolio and various industrial properties within Australia. Brookfield recorded \$68 million of revenue and \$3 million in net income from the acquired operation during the year. Total revenue and net income that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$283 million and \$8 million, respectively.

In April 2012, a subsidiary of Brookfield acquired a 100% interest in Paradise Island Holdings Limited (“Atlantis”), a hotel and casino resort located in the Bahamas, through a financial restructuring whereby Brookfield converted its \$175 million of previously held debt instruments for equity. The transaction was measured at fair value on the date of acquisition. Brookfield completed the acquisition and commenced consolidating Atlantis in the second quarter of 2012. Brookfield recorded \$544 million of revenue and \$31 million in net losses from the acquired operation during the year. Total revenue and net losses that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$867 million and \$80 million, respectively.

In July 2012, a subsidiary of Brookfield entered into a merger agreement resulting in the acquisition of Verde Realty (“Verde”), a privately-owned industrial real estate investment trust with assets located in the United States and Mexico. A subsidiary of Brookfield acquired 81% of the outstanding equity for total consideration of \$275 million, and commenced consolidation of Verde in the fourth quarter of 2012. Brookfield recorded \$2 million of revenue and \$1 million in net losses from the acquired operation during the year. Total revenue and net losses that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$80 million and \$161 million, respectively.

*ii. Infrastructure*

In November 2012, a subsidiary of Brookfield acquired a 100% equity interest in Inexus Group Limited (“Inexus”), a UK-based regulated distribution operation, for total consideration of \$468 million and commenced consolidation of Inexus in the fourth quarter of 2012. Brookfield recorded \$20 million of revenue and \$1 million in net losses from the acquired operation during the year. Total revenue and net income that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$121 million and \$41 million, respectively.

In December 2011, Brookfield acquired a 55% interest in Sociedad Concesionario Vespucio Norte Express S.A. (“VNE”), a Chilean toll road, but as a result of an agreement limiting the company’s control, did not consolidate the investment. In October 2012, Brookfield acquired the remaining 45% equity interest of VNE it did not already own for \$170 million, increasing its total consideration to \$333 million, and commenced consolidation. Brookfield recorded \$27 million of revenue and \$12 million in net income from the acquired operation during the year. Total revenue and net income that would have been recorded if the acquisition had occurred at the beginning of the year would have been \$13 million and \$4 million, respectively.

In 2012, the company also acquired a Canadian sustainable energy service provider, a North American gas storage business, a Colombian regulated distribution operation, a U.S. residential development business, a property development in London, England and various wind and hydroelectric generating assets, of which the largest investment was \$204 million.

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

(MILLIONS)	Property			Infrastructure	
	Thakral	Atlantis	Verde	Inexus	VNE
Cash and cash equivalents.....	\$ 5	\$ 85	\$ 37	\$ 5	\$ 69
Accounts receivable and other....	33	282	36	14	53
Inventory.....	65	—	—	—	—
Investments.....	—	—	10	—	—
Investment properties.....	240	—	911	—	—
Property, plant and equipment....	688	1,758	—	1,410	—
Intangible assets.....	—	359	17	97	1,443
Goodwill.....	—	—	—	27	—
Total assets.....	1,031	2,484	1,011	1,553	1,565
Less:					
Accounts payable and other....	(52)	(170)	(48)	(393)	(32)
Non-recourse borrowings.....	(472)	(2,139)	(571)	(545)	(772)
Deferred income tax liability..	—	—	—	(147)	(108)
Non-controlling interests <sup>1</sup> .....	—	—	(117)	—	(320)
	(524)	(2,309)	(736)	(1,085)	(1,232)
Net assets acquired.....	\$ 507	\$ 175	\$ 275	\$ 468	\$ 333
Consideration <sup>2</sup> .....	\$ 507	\$ 175	\$ 275	\$ 468	\$ 333

1. Includes non-controlling interests recognized on business combinations measured as the proportionate share of fair value of the assets and liabilities on the date of acquisition
2. Total consideration, including amounts paid by non-controlling interests

### c) Business Combinations Achieved in Stages

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

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Carrying value of investment immediately before acquisition.....	\$ (256)	\$ (234)
Fair value of investment immediately before acquiring control.....	248	222
Amounts recognized in other comprehensive income <sup>1</sup> .....	6	27
Remeasurement (loss) gain recorded in net income.....	\$ (2)	\$ 15
Remeasurement gain recorded in retained earnings.....	\$ —	\$ 5

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

## 6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables list the company's financial instruments by their respective classification as at December 31, 2013 and 2012:

AS AT DECEMBER 31, 2013 (MILLIONS) FINANCIAL INSTRUMENT CLASSIFICATION	FVTPL <sup>1</sup>	Available- for-Sale	Held- to-Maturity	Loans and Receivables/ Other Financial Liabilities	Total
MEASUREMENT BASIS	(Fair Value)	(Fair Value)	(Amortized Cost)	(Amortized Cost)	
<b>Financial assets</b>					
Cash and cash equivalents.....	\$ —	\$ —	\$ —	\$ 3,663	\$ 3,663
Other financial assets.....					
Government bonds.....	75	104	—	—	179
Corporate bonds.....	36	283	—	—	319
Fixed income securities.....	68	144	—	—	212
Common shares and warrants.....	2,493	265	—	—	2,758
Loans and notes receivable.....	31	—	—	1,448	1,479
	<u>2,703</u>	<u>796</u>	<u>—</u>	<u>1,448</u>	<u>4,947</u>
Accounts receivable and other <sup>2</sup> .....	1,163	—	—	4,013	5,176
	<u>\$ 3,866</u>	<u>\$ 796</u>	<u>\$ —</u>	<u>\$ 9,124</u>	<u>\$ 13,786</u>
<b>Financial liabilities</b>					
Corporate borrowings.....	\$ —	\$ —	\$ —	\$ 3,975	\$ 3,975
Property-specific mortgages.....	—	—	—	35,495	35,495
Subsidiary borrowings.....	—	—	—	7,392	7,392
Accounts payable and other <sup>2</sup> .....	1,305	—	—	9,011	10,316
Capital securities.....	—	—	—	791	791
Interests of others in consolidated funds ..	1,086	—	—	—	1,086
	<u>\$ 2,391</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 56,664</u>	<u>\$ 59,055</u>

1. Financial instruments classified as fair value through profit or loss

2. Includes derivative instruments which are elected for hedge accounting totalling \$752 million included in accounts receivable and other and \$792 million of derivative instruments included in accounts payable and other, of which changes in fair value are recorded in other comprehensive income



AS AT DECEMBER 31, 2012  
(MILLIONS)  
FINANCIAL INSTRUMENT CLASSIFICATION

MEASUREMENT BASIS	FVTPL <sup>1</sup> (Fair Value)	Available- for-Sale (Fair Value)	Held- to-Maturity (Amortized Cost)	Loans and Receivables/ Other Financial Liabilities (Amortized Cost)	Total
<b>Financial assets</b>					
Cash and cash equivalents	\$ —	\$ —	\$ —	\$ 2,850	\$ 2,850
Other financial assets					
Government bonds	92	86	—	—	178
Corporate bonds	58	180	—	—	238
Fixed income securities	51	94	—	—	145
Common shares and warrants	1,794	240	—	—	2,034
Loans and notes receivable	35	—	261	220	516
	2,030	600	261	220	3,111
Accounts receivable and other <sup>2</sup>	768	—	—	4,457	5,225
	<u>\$ 2,798</u>	<u>\$ 600</u>	<u>\$ 261</u>	<u>\$ 7,527</u>	<u>\$ 11,186</u>
<b>Financial liabilities</b>					
Corporate borrowings	\$ —	\$ —	\$ —	\$ 3,526	\$ 3,526
Property-specific mortgages	—	—	—	33,720	33,720
Subsidiary borrowings	—	—	—	7,585	7,585
Accounts payable and other <sup>2</sup>	1,287	—	—	10,365	11,652
Capital securities	—	—	—	1,191	1,191
Interests of others in consolidated funds	425	—	—	—	425
	<u>\$ 1,712</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 56,387</u>	<u>\$ 58,099</u>

1. Financial instruments classified as fair value through profit or loss

2. Includes derivative instruments which are elected for hedge accounting totalling \$499 million included in accounts receivable and other and \$850 million of derivative instruments included in accounts payable and other, of which changes in fair value are recorded in other comprehensive income

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

During the year ended December 31, 2013, \$35 million of net deferred gains (2012 – \$52 million) previously recognized in accumulated other comprehensive income were reclassified to net income as a result of the disposition of available-for-sale securities.

Available-for-sale securities are recorded on the balance sheet at fair value, and are assessed for impairment at each reporting date. As at December 31, 2013, the net unrealized gain relating to the fair value of available-for-sale securities amounted to \$19 million (2012 – net unrealized gain of \$49 million).

Financial assets and liabilities are offset with the net amount reported in the Consolidated Balance Sheet where the company currently has a legally enforceable right to offset and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

The following table provides the carrying values and fair values of financial instruments as at December 31, 2013 and December 31, 2012:

(MILLIONS)	Dec. 31, 2013		Dec. 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
Cash and cash equivalents.....	\$ 3,663	\$ 3,663	\$ 2,850	\$ 2,850
Other financial assets.....				
Government bonds.....	179	179	178	178
Corporate bonds.....	319	319	238	238
Fixed income securities.....	212	212	145	145
Common shares and warrants.....	2,758	2,758	2,034	2,034
Loans and notes receivable.....	1,479	1,479	516	516
	<u>4,947</u>	<u>4,947</u>	<u>3,111</u>	<u>3,111</u>
Accounts receivable and other.....	5,176	5,176	5,225	5,225
	<u>\$ 13,786</u>	<u>\$ 13,786</u>	<u>\$ 11,186</u>	<u>\$ 11,186</u>
<b>Financial liabilities</b>				
Corporate borrowings.....	\$ 3,975	\$ 4,323	\$ 3,526	\$ 3,793
Property-specific mortgages.....	35,495	36,389	33,720	35,053
Subsidiary borrowings.....	7,392	7,225	7,585	7,781
Accounts payable and other.....	10,316	10,316	11,652	11,652
Capital securities.....	791	812	1,191	1,232
Interests of others in consolidated funds.....	1,086	1,086	425	425
	<u>\$ 59,055</u>	<u>\$ 60,151</u>	<u>\$ 58,099</u>	<u>\$ 59,936</u>

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

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Current.....	\$ 942	\$ 380
Non-current.....	4,005	2,731
Total.....	<u>\$ 4,947</u>	<u>\$ 3,111</u>

## Hedging Activities

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

### i. Cash Flow Hedges

The company uses the following cash flow hedges: energy derivative contracts to hedge the sale of power; interest rate swaps to hedge the variability in cash flows or future cash flows related to a variable rate asset or liability; and equity derivatives to hedge the long-term compensation arrangements. For the year ended December 31, 2013, pre-tax net unrealized gains of \$29 million (2012 – loss of \$36 million) were recorded in other comprehensive income for the effective portion of the cash flow hedges. As at December 31, 2013, there was a net unrealized derivative asset balance of \$30 million relating to derivative contracts designated as cash flow hedges (2012 – liability of \$272 million). The unrealized losses on cash flow hedges are expected to be realized in net income by 2024.

### ii. Net Investment Hedges

The company uses foreign exchange contracts and foreign currency denominated debt instruments to manage its foreign currency exposures arising from net investments in foreign operations. For the year ended December 31, 2013, unrealized pre-tax net gains of \$1 million (2012 – losses of \$207 million) were recorded in other comprehensive income for the effective portion of hedges of net investments in foreign operations. As at December 31, 2013, there was a net unrealized derivative liability balance of \$70 million relating to derivative contracts designated as net investment hedges (2012 – \$79 million).

## Fair Value Hierarchy Levels

Assets and liabilities measured at fair value on a recurring basis include \$2,729 million (2012 – \$2,334 million) of financial assets and \$1,089 million (2012 – \$680 million) of financial liabilities which are measured at fair value using unobservable valuation inputs or based on management's best estimates. The following table categorizes financial assets and liabilities, which are carried at fair value, based upon the fair value hierarchy levels:

(MILLIONS)	Dec. 31, 2013			Dec. 31, 2012		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial assets</b>						
Other financial assets						
Government bonds.....	\$ 41	\$ 138	\$ —	\$ 52	\$ 126	\$ —
Corporate bonds.....	20	299	—	59	179	—
Fixed income securities.....	44	55	113	88	—	57
Common shares and warrants.....	838	1	1,919	423	—	1,611
Loans and notes receivables.....	—	23	8	—	25	10
Accounts receivable and other.....	131	343	689	—	112	656
	<u>\$ 1,074</u>	<u>\$ 859</u>	<u>\$ 2,729</u>	<u>\$ 622</u>	<u>\$ 442</u>	<u>\$ 2,334</u>
<b>Financial liabilities</b>						
Accounts payable and other.....	\$ 117	\$ 1,046	\$ 142	\$ 262	\$ 697	\$ 328
Interests of others in consolidated funds..	—	139	947	—	73	352
	<u>\$ 117</u>	<u>\$ 1,185</u>	<u>\$ 1,089</u>	<u>\$ 262</u>	<u>\$ 770</u>	<u>\$ 680</u>

There were no transfers between level 1 and level 2 in 2013 or 2012.

Fair values for financial instruments are determined by reference to quoted bid or ask prices, as appropriate. Where bid and ask prices are unavailable, the closing price of the most recent transaction of that instrument is used. In the absence of an active market, fair values are determined based on prevailing market rates for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market inputs.

Level 2 financial assets and financial liabilities include foreign currency forward contracts, interest rate swap agreements, energy derivatives, interests of others in consolidated funds and equity derivatives.

The following table summarizes the valuation techniques and key inputs used in the fair value measurement of level 2 financial instruments:

Type of asset/liability	Valuation technique(s) and key input(s)
Foreign currency forward contracts.....	Discounted cash flow model – forward exchange rates (from observable forward exchange rates at the end of the reporting period) and discounted at credit adjusted rate
Interest rate contracts.....	Discounted cash flow model – forward interest rates (from observable yield curves) and applicable credit spreads discounted at a credit adjusted rate
Energy derivatives.....	Quoted market prices, or in their absence internal valuation models corroborated with observable market data
Interest of others in consolidated funds.....	Adjusted public pricing

Fair values determined using valuation models (level 3 financial assets and liabilities) require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, the company looks primarily to readily observable external market inputs such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable.

The following table summarizes the valuation techniques and significant unobservable inputs used in the fair value measurement level 3 financial instruments:

<u>Type of asset/liability</u>	<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Investment in common shares...	Net asset valuation	<ul style="list-style-type: none"> <li>Forward exchange rates (from observable forward exchange rates at the end of the reporting period)</li> <li>Discount rate</li> </ul>	<ul style="list-style-type: none"> <li>Increases (decreases) in the forward exchange rate would increase (decrease) fair value</li> <li>Increases (decreases) in discount rate will decrease (increase) the fair value</li> </ul>
Warrants.....	Black-Scholes model	<ul style="list-style-type: none"> <li>Volatility</li> </ul>	<ul style="list-style-type: none"> <li>Increases (decreases) in volatility would increase (decrease) fair value</li> </ul>
Interest of others in consolidated funds.....	Discounted cash flows	<ul style="list-style-type: none"> <li>Future cash flows</li> <li>Discount rate</li> <li>Terminal capitalization rate</li> <li>Investment horizon</li> </ul>	<ul style="list-style-type: none"> <li>Increases (decreases) in future cash flows increase (decrease) fair value</li> <li>Increases (decreases) in discount rate will decrease (increase) the fair value</li> <li>Increases (decreases) in terminal capitalization rate will decrease (increase) the fair value</li> <li>Increases (decreases) in the investment horizon will increase (decrease) the fair value</li> </ul>

The following table presents the change in the balance of financial assets and liabilities classified as Level 3 as at December 31, 2013 and December 31, 2012:

(MILLIONS)	Financial Assets		Financial Liabilities	
	2013	2012	2013	2012
Balance at beginning of year.....	\$ 2,334	\$ 1,820	\$ 680	\$ 618
Fair value changes in net income.....	(24)	20	(35)	(17)
Fair value changes in other comprehensive income <sup>1</sup> .....	104	111	36	(21)
Additions, net of disposals.....	315	383	408	100
Balance at end of year.....	<u>\$ 2,729</u>	<u>\$ 2,334</u>	<u>\$ 1,089</u>	<u>\$ 680</u>

1. Includes foreign currency translation

There were no transfers in or out of level 3 financial assets or liabilities in 2013 or 2012.

## 7. ACCOUNTS RECEIVABLE AND OTHER

(MILLIONS)	Note	Dec. 31, 2013	Dec. 31, 2012
Accounts receivable.....	(a)	\$ 4,299	\$ 4,379
Prepaid expenses and other assets.....		1,490	1,727
Restricted cash.....	(b)	877	846
Total.....		<u>\$ 6,666</u>	<u>\$ 6,952</u>

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

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Current.....	\$ 4,840	\$ 4,996
Non-current.....	1,826	1,956
Total.....	<u>\$ 6,666</u>	<u>\$ 6,952</u>

### a) Accounts Receivable

Accounts receivable includes \$592 million (2012 – \$647 million) of unrealized mark-to-market gains on energy sales contracts and \$764 million (2012 – \$994 million) of completed contracts and work-in-progress related to contracted sales from the company's

residential development operations. Also included in this balance are loans receivable from employees of the company and its consolidated subsidiaries of \$4 million (2012 – \$5 million).

## b) Restricted Cash

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

## 8. INVENTORY

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Residential properties under development.....	\$ 2,785	\$ 2,700
Land held for development.....	2,541	2,676
Completed residential properties.....	443	477
Forest products and other.....	522	728
Total carrying value.....	<u>\$ 6,291</u>	<u>\$ 6,581</u>

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

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Current.....	\$ 2,839	\$ 2,708
Non-current.....	3,452	3,873
Total.....	<u>\$ 6,291</u>	<u>\$ 6,581</u>

During the year ended December 31, 2013, the company recognized as an expense \$5,388 million (2012 – \$5,449 million) of inventory relating to cost of goods sold and \$33 million (2012 – \$4 million) relating to impairments of inventory. The carrying amount of inventory pledged as security at December 31, 2013 was \$930 million (2012 – \$1,060 million).

## 9. EQUITY ACCOUNTED INVESTMENTS

The following table presents the voting interests and carrying values of the company's investments in associates and joint ventures, all of which are accounted for using the equity method:

(MILLIONS)	Investment Type	Voting Interest		Carrying Value	
		<u>Dec. 31 2013</u>	<u>Dec. 31 2012</u>	<u>Dec. 31 2013</u>	<u>Dec. 31 2012</u>
<b>Property</b>					
General Growth Properties <sup>1</sup> .....	Associate	28%	23%	\$ 6,044	\$ 4,831
245 Park Avenue <sup>2</sup> .....	Joint Venture	51%	51%	653	657
Grace Building.....	Joint Venture	50%	50%	695	625
Rouse Properties.....	Associate	39%	43%	399	381
Other property joint ventures <sup>2,3</sup> .....	Joint Venture	25 – 75%	25 – 75%	1,586	1,250
Other property investments.....	Associate	20 – 75%	20 – 75%	366	412
<b>Renewable energy</b>					
Other power investments.....	Associate	14 – 50%	14 – 50%	290	344
<b>Infrastructure</b>					
South American transmission operations.....	Associate	28%	28%	717	669
Brazilian toll road.....	Associate	49%	49%	1,203	642
Australasian energy distribution.....	Associate	—	42%	—	384
Other infrastructure investments <sup>4</sup> .....	Associate	26 – 50%	26 – 50%	694	831
Other joint ventures.....	Joint Venture	25 – 50%	25 – 50%	343	360
Other investments.....	Associate	28 – 50%	25 – 50%	287	232
Total.....				<u>\$ 13,277</u>	<u>\$ 11,618</u>

1. The company's carrying value includes \$303 million (2012 – \$552 million) of goodwill recognized on acquisition

2. Investments in which the company's ownership interest is greater than 50% represent investments in equity accounted joint ventures where control is either shared or does not exist resulting in the investment being equity accounted

3. Other property joint ventures include Darling Park Trust, E&Y Centre Sydney and 450 West 33<sup>rd</sup> Street

4. Other infrastructure investments include a European port operation, a Texas electricity transmission project and other social infrastructure assets

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

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Balance at beginning of year.....	\$ 11,618	\$ 9,332
Additions, net of disposals.....	1,099	1,221
Acquisitions through business combinations.....	350	11
Share of net income.....	759	1,237
Share of other comprehensive income.....	239	145
Distributions received.....	(452)	(369)
Foreign exchange.....	(336)	41
Balance at end of year.....	<u>\$ 13,277</u>	<u>\$ 11,618</u>

The following table presents current and non-current assets as well as current and non-current liabilities of the company's investments in associates and joint ventures:

(MILLIONS)	Dec. 31, 2013				Dec. 31, 2012			
	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities	Current Assets	Non-Current Assets	Current Liabilities	Non-Current Liabilities
Property								
General Growth Properties.....	\$ 1,132	\$ 38,335	\$ 754	\$ 16,224	\$ 1,085	\$ 37,235	\$ 1,314	\$ 17,574
245 Park Avenue.....	20	2,057	14	791	33	2,058	15	789
Grace Building.....	15	1,742	369	—	12	1,614	16	359
Rouse Properties.....	99	2,449	66	1,455	45	2,194	55	1,281
Other property investments <sup>1</sup> .....	603	8,217	855	1,999	430	5,737	233	3,540
Renewable energy								
Other renewable energy investments.....	54	958	27	405	66	1,259	46	592
Infrastructure								
South American transmission operation.....	1,254	4,543	1,189	2,055	233	5,404	1,185	2,054
Brazilian toll road.....	805	4,758	532	2,578	603	4,612	609	2,248
Australian energy distribution.....	—	—	—	—	30	2,283	141	1,261
Other infrastructure investments <sup>2</sup> .....	542	8,087	383	6,229	608	10,203	1,462	7,603
Other.....	1,579	1,024	459	654	1,424	570	390	534
	<u>\$ 6,103</u>	<u>\$ 72,170</u>	<u>\$ 4,648</u>	<u>\$ 32,390</u>	<u>\$ 4,569</u>	<u>\$ 73,169</u>	<u>\$ 5,466</u>	<u>\$ 37,835</u>

1. Other property investments include Darling Park Trust, E&Y Centre Sydney and 450 West 33<sup>rd</sup> Street

2. Other infrastructure investments include a European port operation, a Texas electricity transmission project and other social infrastructure assets

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

The following table presents revenues, net income, other comprehensive income (“OCI”) and dividends received of the company’s investments in associates and joint ventures:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013				2012			
	Revenue	Net Income	OCI	Dividends Received	Revenue	Net Income	OCI	Dividends Received
Property								
General Growth Properties.....	\$ 3,079	\$ 2,835	\$ 64	\$ 107	\$ 3,102	\$ 4,330	\$ (74)	\$ 110
245 Park Avenue.....	145	55	—	29	144	130	—	30
Grace Building.....	100	154	—	—	100	27	—	—
Rouse Properties.....	263	146	—	11	258	75	—	10
Other property investments <sup>1</sup> .....	921	448	—	128	1,182	390	—	118
Renewable energy								
Other renewable energy investments.....	110	20	—	18	106	(12)	—	12
Infrastructure								
South American transmission operation.....	446	113	264	68	440	55	321	45
Brazilian toll road.....	1,125	(15)	(193)	—	65	11	35	—
Australian energy distribution.....	308	206	(45)	19	322	45	206	17
Other infrastructure investments <sup>2</sup> .....	1,459	(1,032)	204	34	1,472	(95)	(39)	7
Other.....	488	178	(18)	38	546	75	(2)	20
Total.....	<u>\$ 8,444</u>	<u>\$ 3,108</u>	<u>\$ 276</u>	<u>\$ 452</u>	<u>\$ 7,737</u>	<u>\$ 5,031</u>	<u>\$ 447</u>	<u>\$ 369</u>

1. Other property investments include Darling Park Trust, E&Y Centre Sydney and 450 West 33<sup>rd</sup> Street

2. Other infrastructure investments include a European port operation, a Texas electricity transmission project and other social infrastructure assets

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

(MILLIONS)	Dec. 31, 2013		Dec. 31, 2012	
	Public Price	Carrying Value	Public Price	Carrying Value
General Growth Properties.....	\$ 5,125	\$ 6,044	\$ 4,207	\$ 4,831
Rouse Properties.....	430	399	304	381
Other.....	31	23	38	24
	<u>\$ 5,586</u>	<u>\$ 6,466</u>	<u>\$ 4,549</u>	<u>\$ 5,236</u>

The fair value gains at General Growth Properties, Inc. (“GGP”) during 2013 were based on the redevelopment of certain of GGP’s investment properties progressing ahead of projections and increased operating budgets. Management reviewed the carrying value of the embedded goodwill associated with its investment for impairment, which considered the variance between the value of the investment as determined using the publicly-traded share price and the carrying value of the investment and the estimated the recoverable amount of the value in use of the investment in GGP discounting the expected cash flows to be received in the form of dividends plus the disposition value. As a result, the company recorded a \$249 million impairment of the goodwill associated with redevelopment options at GGP. This impairment loss is included within equity accounted income within our property segment.

During 2013, the company’s infrastructure operations recorded an impairment charge through equity accounted income of \$275 million relating to its investment in a North American natural gas transmission operation based on weak market fundamentals in the U.S. natural gas market. Throughout 2013, the U.S. natural gas market experienced compressed basis spreads (a primary driver of revenue) due to the build out of pipeline infrastructure as well as a decrease in gas prices driven by a fundamental shift in supply dynamics in the U.S. These factors, in conjunction with regulatory approvals occurring in the later part of the year which approved the further build out or reversal of certain pipelines, triggered an impairment of the operations’ property, plant and equipment.

## 10. INVESTMENT PROPERTIES

The following table presents the change in the fair value of investment properties, all of which are considered level 3 within the fair value hierarchy:

YEARS ENDED DECEMBER 31 (MILLIONS)	<b>2013</b>	2012
Fair value at beginning of year.....	\$ <b>33,161</b>	\$ 28,366
Additions.....	<b>1,835</b>	1,715
Acquisitions through business combinations.....	<b>5,530</b>	2,793
Disposals.....	<b>(1,908)</b>	(1,136)
Fair value changes.....	<b>1,031</b>	1,276
Foreign currency translation.....	<b>(1,313)</b>	147
Fair value at end of year.....	<u><u>\$ <b>38,336</b></u></u>	<u><u>\$ 33,161</u></u>

Investment properties include the company's commercial, retail, multifamily and industrial properties as well as higher-and-better use land within the company's sustainable resource operations.

Significant unobservable inputs (level 3) are utilized when determining the fair value of investment properties. The significant level 3 inputs include:

<b>Valuation technique(s)</b>	<b>Significant unobservable input(s)</b>	<b>Relationship of unobservable input(s) to fair value</b>
Discounted cash flow models	<ul style="list-style-type: none"> <li>• Future cash flows primarily driven by net operating income</li> <li>• Discount rate</li> <li>• Terminal capitalization rate</li> <li>• Investment horizon</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows will increase (decrease) the fair value</li> <li>• Increases (decreases) in discount rate will decrease (increase) the fair value</li> <li>• Increases (decreases) in terminal capitalization rate will decrease (increase) the fair value</li> <li>• Increases (decreases) in the investment horizon will increase (decrease) the fair value</li> </ul>

Key valuation metrics of the company's investment properties are presented in the following table on a weighted-average basis:

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

## 11. PROPERTY, PLANT AND EQUIPMENT

(MILLIONS)	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Cost.....	\$ <b>23,466</b>	\$ 22,858
Accumulated fair value changes.....	<b>11,599</b>	11,398
Accumulated depreciation.....	<b>(4,046)</b>	(3,108)
Total.....	<u><u>\$ <b>31,019</b></u></u>	<u><u>\$ 31,148</u></u>

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



The company's property, plant and equipment relates to the operating segments as shown in the following table:

(MILLIONS)	Note	Carried at Fair Value		Carried at Amortized Cost		Total	
		Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
Renewable energy.....	(a)	\$ 16,611	\$ 16,532	\$ —	\$ —	\$ 16,611	\$ 16,532
Infrastructure.....	(b)	8,564	8,736	—	—	8,564	8,736
Property.....	(c)	3,042	2,968	—	—	3,042	2,968
Private equity and other.....	(d)	—	—	2,802	2,912	2,802	2,912
		<u>\$ 28,217</u>	<u>\$ 28,236</u>	<u>\$ 2,802</u>	<u>\$ 2,912</u>	<u>\$ 31,019</u>	<u>\$ 31,148</u>

The table above outlines property, plant and equipment measured at fair value, all of which are classified as level 3 in the fair value hierarchy given the inclusion of unobservable inputs outlined below.

#### a) Renewable Energy

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Cost.....	\$ 8,784	\$ 7,617
Accumulated fair value changes.....	10,058	10,712
Accumulated depreciation.....	(2,231)	(1,797)
Total.....	<u>\$ 16,611</u>	<u>\$ 16,532</u>

Renewable energy assets include the company's hydroelectric generating stations, wind energy, pumped storage and natural gas-fired co-generation facilities.

Renewable energy assets are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2013. Valuations utilize significant unobservable inputs (level 3) when determining the fair value of renewable energy assets. The significant level 3 inputs include:

Valuation technique(s)	Significant unobservable input(s)	Relationship of unobservable input(s) to fair value
Discounted cash flow models	<ul style="list-style-type: none"> <li>• Future cash flows – primarily driven by future electricity price assumptions</li> <li>• Discount rate</li> <li>• Terminal capitalization rate</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows will increase (decrease) the fair value</li> <li>• Increases (decreases) in discount rate will decrease (increase) the fair value</li> <li>• Increases (decreases) in terminal capitalization rate will decrease (increase) the fair value</li> </ul>

The company's estimate of future renewable power pricing is based on management's estimate of the cost of securing new energy from renewable sources to meet future demand by 2020, which will maintain system reliability and provide adequate levels of reserve generations.

The key valuation metrics of the company's hydro and wind generating facilities at the end of 2013 and 2012 are summarized below.

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

Terminal values are included in the valuation of hydroelectric assets in the United States and Canada. For the hydroelectric assets in Brazil, cash flows have been included based on the duration of the authorization or useful life of a concession asset without consideration of potential renewal value. The weighted-average remaining duration at December 31, 2013 is 16 years (2012 – 17 years). Consequently, there is no terminal value attributed to the hydroelectric assets in Brazil.

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 7,617	\$ 6,149
Additions, net of disposals.....	186	136
Acquisitions through business combinations.....	1,387	1,374
Foreign currency translation.....	<u>(406)</u>	<u>(42)</u>
Balance at end of year.....	<u>\$ 8,784</u>	<u>\$ 7,617</u>

As at December 31, 2013, the cost of generating facilities under development includes \$9 million of capitalized costs (2012 – \$8 million).

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 10,712	\$ 9,887
Fair value changes.....	(150)	830
Foreign currency translation.....	<u>(504)</u>	<u>(5)</u>
Balance at end of year.....	<u>\$ 10,058</u>	<u>\$ 10,712</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (1,797)	\$ (1,309)
Depreciation expense.....	(551)	(489)
Foreign currency translation.....	117	1
Balance at end of year.....	<u>\$ (2,231)</u>	<u>\$ (1,797)</u>

## b) Infrastructure

Our infrastructure property, plant and equipment is comprised of the following:

(MILLIONS)	Note	<u>2013</u>	<u>2012</u>
Utilities.....	(i)	\$ 3,624	\$ 3,310
Transportation.....	(ii)	3,110	3,157
Energy.....	(iii)	1,029	857
Sustainable resources.....	(iv)	801	1,412
		<u>\$ 8,564</u>	<u>\$ 8,736</u>

### i. Infrastructure – Utilities

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 3,367	\$ 3,201
Accumulated fair value changes.....	479	214
Accumulated depreciation.....	<u>(222)</u>	<u>(105)</u>
Total.....	<u>\$ 3,624</u>	<u>\$ 3,310</u>

The company's utilities assets are comprised of terminals, electricity transmission and distribution networks, which are operated primarily under regulated rate base arrangements.

Utilities assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2013. The company determined fair value to be the current replacement cost. Valuations utilize significant unobservable inputs (level 3) when determining the fair value of utility assets. The significant level 3 inputs include:

<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow model	<ul style="list-style-type: none"> <li>• Future cash flows – primarily driven by a regulated return on asset base</li> <li>• Discount rate</li> <li>• Terminal capitalization multiple</li> <li>• Investment Horizon</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows will increase (decrease) the fair value</li> <li>• Increases (decreases) in discount rate will decrease (increase) the fair value</li> <li>• Increases (decreases) in terminal capitalization multiple will decrease (increase) the fair value</li> <li>• Increases (decreases) in the investment horizon will decrease (increase) the fair value</li> </ul>

Key assumptions used in the December 31, 2013 valuation process include: discount rates ranging from 8% to 13% (2012 – 8% to 13%), terminal capitalization multiples ranging from 10x to 16x (2012 – 9x to 17x), and an investment horizon between 10 to 20 years (2012 – 10 to 20 years).

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 3,201	\$ 984
Additions, net of disposals.....	165	92
Acquisitions through business combinations .....	—	2,040
Foreign currency translation.....	1	85
Balance at end of year.....	<u>\$ 3,367</u>	<u>\$ 3,201</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 214	\$ 49
Fair value changes.....	271	165
Foreign currency translation.....	(6)	—
Balance at end of year.....	<u>\$ 479</u>	<u>\$ 214</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (105)	\$ (40)
Depreciation expense.....	(121)	(63)
Foreign currency translation.....	4	(2)
Balance at end of year.....	<u>\$ (222)</u>	<u>\$ (105)</u>

ii. *Infrastructure – Transport*

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 2,561	\$ 2,729
Accumulated fair value changes.....	840	615
Accumulated depreciation.....	(291)	(187)
Total.....	<u>\$ 3,110</u>	<u>\$ 3,157</u>

The company's transport assets consists of railroads, toll roads, and ports.

Transport assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2013. The company determined fair value to be the current replacement cost.

Valuations utilize significant unobservable inputs (level 3) when determining the fair value of transport assets. The significant level 3 inputs include:

<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	• Future cash flows – primarily driven by traffic or freight volumes and tariff rates	• Increases (decreases) in future cash flows will increase (decrease) the fair value
	• Discount rate	• Increases (decreases) in discount rate will decrease (increase) the fair value
	• Terminal capitalization multiple	• Increases (decreases) in terminal capitalization multiple will decrease (increase) the fair value
	• Investment Horizon	• Increases (decreases) in the investment horizon will decrease (increase) the fair value

Key assumptions used in the December 31, 2013 valuation process include: discount rates ranging from 11% to 12% (2012 – 11% to 12%), terminal capitalization multiples ranging from 7x to 11x (2012 – 8x to 11x), and an investment horizon of 10 years (2012 – 10 years).

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 2,729	\$ 2,228
Additions, net of disposals.....	160	452
Acquisitions through business combinations.....	—	—
Foreign currency translation.....	(328)	49
Balance at end of year.....	<u>\$ 2,561</u>	<u>\$ 2,729</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 615	\$ 244
Fair value changes.....	317	366
Foreign currency translation.....	(92)	5
Balance at end of year.....	<u>\$ 840</u>	<u>\$ 615</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (187)	\$ (76)
Depreciation expense.....	(127)	(109)
Foreign currency translation.....	23	(2)
Balance at end of year.....	<u>\$ (291)</u>	<u>\$ (187)</u>

### iii. Infrastructure – Energy

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 961	\$ 833
Accumulated fair value changes.....	117	33
Accumulated depreciation.....	(49)	(9)
Total.....	<u>\$ 1,029</u>	<u>\$ 857</u>

The company's energy assets consist of energy transmission and storage, distribution and storage and district energy assets.

Energy assets are accounted for under the revaluation model, and the most recent date of revaluation was December 31, 2013.

The company determined fair value to be the current replacement cost.

Valuations utilize significant unobservable inputs (level 3) when determining the fair value of energy assets. The significant level 3 inputs include:

<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	• Future cash flows – primarily driven by transmission, distribution and storage volumes and pricing	• Increases (decreases) in future cash flows will increase (decrease) the fair value
	• Discount rate	• Increases (decreases) in discount rate will decrease (increase) the fair value
	• Terminal capitalization multiple	• Increases (decreases) in terminal capitalization multiple will decrease (increase) the fair value
	• Investment Horizon	• Increases (decreases) in the investment horizon will decrease (increase) the fair value

Key assumptions used in the December 31, 2013 valuation process include: discount rates ranging from 15% to 16% (2012 – 12% to 15%), terminal capitalization multiples ranging from 8x to 12x (2012 – 7x to 8x), and an investment horizon of 10 years (2012 – 10 years).

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 833	\$ 118
Additions, net of disposals.....	33	17
Acquisitions through business combinations.....	142	685
Foreign currency translation.....	(47)	13
Balance at end of year.....	<u>\$ 961</u>	<u>\$ 833</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 33	\$ —
Fair value changes.....	83	33
Foreign currency translation.....	1	—
Balance at end of year.....	<u>\$ 117</u>	<u>\$ 33</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (9)	\$ —
Depreciation expense.....	(37)	(9)
Foreign currency translation.....	(3)	—
Balance at end of year.....	<u>\$ (49)</u>	<u>\$ (9)</u>

iv. *Infrastructure – Sustainable Resources*

Sustainable resources assets represents timberlands and other agricultural land.

(MILLIONS)	<u>2013</u>	<u>2012</u>
Cost.....	\$ 666	\$ 1,461
Accumulated fair value changes.....	165	(18)
Accumulated depreciation.....	(30)	(31)
Total.....	<u>\$ 801</u>	<u>\$ 1,412</u>

Property, plant and equipment within our sustainable resources operations are accounted for under the revaluation model and the most recent date of revaluation was December 31, 2013.

Valuations utilize significant unobservable inputs (level 3) when determining the fair value of sustainable resource assets. The significant level 3 inputs include:

<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	<ul style="list-style-type: none"> <li>• Future cash flows – primarily driven by avoided cost or future replacement value</li> <li>• Discount rate</li> <li>• Terminal valuation date</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows will increase (decrease) the fair value</li> <li>• Increases (decreases) in discount rate will decrease (increase) the fair value</li> <li>• Increases (decreases) in terminal valuation date will decrease (increase) the fair value</li> <li>• Increases (decreases) in the exit date will decrease (increase) the fair value</li> </ul>

Key valuation assumptions included a weighted average discount rate of 7% (2012 – 6%), and a terminal valuation date of 3 to 35 years (2012 – 3 to 35 years).

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 1,461	\$ 1,339
Disposals, net of additions.....	(784)	139
Foreign currency translation.....	(11)	(17)
Balance at end of year.....	<u>\$ 666</u>	<u>\$ 1,461</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (18)	\$ (132)
Fair value changes.....	49	142
Dispositions.....	133	—
Foreign currency translation.....	1	(28)
Balance at end of year.....	<u>\$ 165</u>	<u>\$ (18)</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (31)	\$ (12)
Depreciation expense.....	(3)	(20)
Dispositions.....	3	—
Foreign currency translation.....	1	1
Balance at end of year.....	<u>\$ (30)</u>	<u>\$ (31)</u>

### c) Property

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 3,168	\$ 3,130
Accumulated fair value changes.....	170	4
Accumulated depreciation.....	(296)	(166)
Total.....	<u>\$ 3,042</u>	<u>\$ 2,968</u>

The company's property assets include hospitality assets accounted for under the revaluation model and the most recent date of revaluation was December 31, 2013. The company determines fair value for these assets by discounting the expected future cash flows using internal valuations.

Valuations utilize significant unobservable inputs (level 3) when determining the fair value of property assets. The significant level 3 inputs include:

<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	• Future cash flows – primarily driven by pricing, volumes and direct operating costs	• Increases (decreases) in future cash flows will increase (decrease) the fair value
	• Discount rate	• Increases (decreases) in discount rate will decrease (increase) the fair value
	• Terminal capitalization rate	• Increases (decreases) in terminal capitalization rate will decrease (increase) the fair value
	• Investment horizon	• Increases (decreases) in the investment horizon will decrease (increase) the fair value

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

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 3,130	\$ 640
Additions, net of disposals.....	137	44
Acquisitions through business combinations.....	—	2,446
Foreign currency translation.....	(99)	—
Balance at end of year.....	<u>\$ 3,168</u>	<u>\$ 3,130</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 4	\$ —
Fair value changes.....	166	4
Foreign currency translation.....	—	—
Balance at end of year.....	<u>\$ 170</u>	<u>\$ 4</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (166)	\$ —
Depreciation expense.....	(130)	(166)
Balance at end of year.....	<u>\$ (296)</u>	<u>\$ (166)</u>

#### **d) Private Equity and Other**

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 3,984	\$ 3,887
Accumulated fair value changes.....	(256)	(162)
Accumulated depreciation.....	(926)	(813)
Total.....	<u>\$ 2,802</u>	<u>\$ 2,912</u>

Other property, plant and equipment includes asset owned by the company's private equity, residential development and service operations held directly or consolidated through funds.

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 3,887	\$ 3,433
Additions, net of disposals.....	124	405
Acquisitions through business combinations.....	86	—
Foreign currency translation.....	(113)	49
Balance at end of year.....	<u>\$ 3,984</u>	<u>\$ 3,887</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (162)	\$ (104)
Impairment charges.....	(94)	(58)
Balance at end of year.....	<u>\$ (256)</u>	<u>\$ (162)</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ (813)	\$ (533)
Depreciation expense.....	(217)	(283)
Disposals.....	110	—
Foreign currency translation.....	(6)	3
Balance at end of year.....	<u>\$ (926)</u>	<u>\$ (813)</u>

## 12. SUSTAINABLE RESOURCES

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Timberlands.....	\$ 449	\$ 3,473
Other agricultural assets.....	53	43
Total.....	<u>\$ 502</u>	<u>\$ 3,516</u>

The company held 1,437 million acres of consumable freehold timberlands at December 31, 2013 (2012 – 2,512 million), of which 203 million acres (2012 – 850 million) were classified as mature and available for harvest. Additionally, the company provides management services to approximately 1.3 million acres (2012 – 1.3 million) of licensed timberlands.

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Balance at beginning of year.....	\$ 3,516	\$ 3,381
Disposals of operations, net of additions.....	(2,991)	18
Fair value adjustments.....	205	374
Decrease due to harvest.....	(186)	(239)
Foreign currency changes.....	(42)	(18)
Balance at end of year.....	<u>\$ 502</u>	<u>\$ 3,516</u>



The carrying values are based on external appraisals that are completed annually as of December 31. The appraisals utilize a combination of the discounted cash flow and sales comparison approaches to arrive at the estimated value. The significant unobservable inputs (level 3) included in the discounted cash flow models used when determining the fair value of standing timber and agricultural assets include:

<u>Valuation technique(s)</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	• Future cash flows	• Increases (decreases) in future cash flows will increase (decrease) the fair value
	• Growth assessments	• Increases (decreases) in growth assessments will increase (decrease) the fair value
	• Timber/Agricultural prices	• Increases (decreases) in price will increase (decrease) the fair value
	• Discount rate	• Increases (decreases) in discount rate or terminal cap rate will decrease (increase) the fair value

Key valuation assumptions include a weighted average discount and terminal capitalization rate of 6.9% (2012 – 6.2%), and terminal valuation dates of 20 to 28 years (2012 – 20 to 90 years). Timber and agricultural asset prices were based on a combination of forward prices available in the market and price forecasts.

### 13. INTANGIBLE ASSETS

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 5,441	\$ 6,115
Accumulated amortization and impairment losses.....	(397)	(345)
Total.....	<u>\$ 5,044</u>	<u>\$ 5,770</u>

Intangible assets are allocated to the following cash-generating units:

(MILLIONS)	Note	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Property – Industrial, Multifamily and Other.....		\$ 327	\$ 460
Infrastructure – Utilities.....	(a)	2,231	2,592
Infrastructure – Transport.....	(b)	1,633	1,769
Private equity.....		257	280
Service Activities.....		297	371
Renewable energy.....		94	106
Other.....		205	192
Net intangible assets.....		<u>\$ 5,044</u>	<u>\$ 5,770</u>

#### a) Infrastructure – Utilities

The company's Australian regulated terminal operation has access agreements with the users of the terminal which entails 100% take or pay contracts at a designated tariff rate based on the asset value. The concession arrangement has an expiration date of 2051 and with an option to extend the arrangement an additional 50 years. The aggregate duration of the arrangement and the extension option represents the remaining useful life of the concession.

#### b) Infrastructure – Transport

The company's Chilean toll road concession provides the right to charge a tariff to users of the road over the term of the concession. The concession arrangement has an expiration date of 2033, which is the basis for the company's determination of its remaining useful life. Also included within the company's transport operations is \$355 million (2012 – \$348 million) of indefinite life intangible assets which represent perpetual conservancy rights associated with the company's UK port operation.

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Cost at beginning of year.....	\$ 6,115	\$ 4,216
Disposals, net of additions.....	(13)	(3)
Acquisitions through business combinations.....	20	1,916
Foreign currency translation and other.....	(681)	(14)
Cost at end of year.....	<u>\$ 5,441</u>	<u>\$ 6,115</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Accumulated amortization and impairment losses at beginning of year.....	\$ (345)	\$ (242)
Amortization.....	(105)	(124)
Foreign currency translation and other.....	53	21
Accumulated amortization and impairment losses at end of year.....	<u>\$ (397)</u>	<u>\$ (345)</u>

The following table presents intangible assets by geography:

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
United States.....	\$ 481	\$ 614
Canada.....	266	292
Australia.....	2,535	2,963
Brazil.....	28	32
Europe.....	456	448
Chile.....	1,278	1,421
	<u>\$ 5,044</u>	<u>\$ 5,770</u>

Intangible assets, including trademarks, concession agreements and conservancy rights, are recorded at amortized cost and are tested for impairment annually using a discounted cash flow valuation. This valuation utilizes the following significant unobservable inputs assumptions:

<u>Valuation technique</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	<ul style="list-style-type: none"> <li>• Future cash flows</li> <li>• Discount rate</li> <li>• Terminal capitalization rate</li> <li>• Exit date</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows will increase (decrease) the recoverable amount</li> <li>• Increases (decreases) in discount rate will decrease (increase) the recoverable amount</li> <li>• Increases (decreases) in terminal capitalization rate will decrease (increase) the recoverable amount</li> <li>• Increases (decreases) in the exit date will decrease (increase) the recoverable amount</li> </ul>

## 14. GOODWILL

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Cost.....	\$ 1,638	\$ 2,540
Accumulated impairment losses.....	(50)	(50)
Total.....	<u>\$ 1,588</u>	<u>\$ 2,490</u>

Goodwill is allocated to the following cash-generating units:

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Services – Construction.....	\$ 720	\$ 840
Infrastructure – Sustainable resources.....	—	591
Residential development – Brazil.....	277	373
Property – Retail property.....	120	138
Services – Property services.....	54	102
Asset management.....	216	205
Other.....	201	241
Total.....	<u>\$ 1,588</u>	<u>\$ 2,490</u>

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

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Cost at beginning of year.....	\$ 2,540	\$ 2,652
Acquisitions through business combinations.....	—	60
Disposals.....	(645)	(101)
Foreign currency translation and other.....	(257)	(71)
Cost at end of year.....	<u>\$ 1,638</u>	<u>\$ 2,540</u>

The following table reconciles accumulated impairment losses:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Accumulated impairment at beginning of year.....	\$ (50)	\$ (45)
Impairment losses.....	—	(5)
Accumulated impairment at end of year.....	<u>\$ (50)</u>	<u>\$ (50)</u>

The following table presents goodwill by geography:

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
United States.....	\$ 230	\$ 819
Canada.....	56	57
Australia.....	861	1,052
Brazil.....	397	518
Europe.....	27	28
Other.....	17	16
	<u>\$ 1,588</u>	<u>\$ 2,490</u>

The recoverable amounts used in goodwill impairment testing are calculated using discounted cash flow models based on the following significant unobservable inputs:

<u>Valuation technique</u>	<u>Significant unobservable input(s)</u>	<u>Relationship of unobservable input(s) to fair value</u>
Discounted cash flow models	<ul style="list-style-type: none"> <li>• Future cash flows</li> <li>• Discount rate</li> <li>• Terminal capitalization rate</li> <li>• Exit date</li> </ul>	<ul style="list-style-type: none"> <li>• Increases (decreases) in future cash flows will increase (decrease) the recoverable amount</li> <li>• Increases (decreases) in discount rate will decrease (increase) the recoverable amount</li> <li>• Increases (decreases) in terminal capitalization rate will decrease (increase) the recoverable amount</li> <li>• Increases (decreases) in the exit date will decrease (increase) the recoverable amount</li> </ul>

## 15. INCOME TAXES

The major components of income tax expense for the years ended December 31, 2013 and December 31, 2012 are set out below:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Current income taxes.....	\$ 159	\$ 135
Deferred income tax expense/(recovery)		
Origination and reversal of temporary differences.....	871	479
Recovery arising from previously unrecognized tax assets.....	(130)	(93)
Change of tax rates and imposition of new legislation.....	(55)	(2)
Total deferred income taxes.....	<u>686</u>	<u>384</u>
Income taxes.....	<u>\$ 845</u>	<u>\$ 519</u>

The company's Canadian domestic statutory income tax rate has remained consistent at 26% throughout 2013. The company's effective tax rate is different from the company's domestic statutory income tax rate due to the following differences set out below:

YEARS ENDED DECEMBER 31	<u>2013</u>	<u>2012</u>
Statutory income tax rate.....	26%	26%
Increase (reduction) in rate resulting from:		
Portion of gains subject to different tax rates.....	(1)	(1)
International operations subject to different tax rates.....	(3)	(9)
Taxable income attribute to non-controlling interest.....	(7)	(1)
Recognition of deferred tax assets.....	(2)	(1)
Non-recognition of the benefit of current year's tax losses.....	3	3
Other.....	2	(1)
Effective income tax rate.....	<u>18%</u>	<u>16%</u>

Deferred income tax assets and liabilities as at December 31, 2013 and 2012 relate to the following:

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Non-capital losses (Canada).....	\$ 878	\$ 834
Capital losses (Canada).....	215	166
Losses (U.S.).....	385	408
Losses (International).....	511	705
Difference in basis.....	(6,741)	(6,873)
Total net deferred tax liabilities.....	<u>\$ (4,752)</u>	<u>\$ (4,760)</u>

The aggregate amount of temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized as at December 31, 2013 is approximately \$8 billion (2012 – approximately \$7 billion).

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

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

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

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
2014.....	\$ 2	\$ 1
2015.....	2	2
2016.....	1	2
After 2021.....	327	311
Do not expire.....	1,491	589
Total.....	<u>\$ 1,823</u>	<u>\$ 905</u>

The components of the income taxes in other comprehensive income for the years ended December 31, 2013 and 2012 are set out below:

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Revaluation of property, plant and equipment.....	\$ 135	\$ 433
Financial contracts and power sale agreements.....	129	5
Available-for-sale securities.....	(10)	10
Equity accounted investments.....	37	(10)
Foreign currency translation.....	(10)	(4)
Revaluation of pension obligation.....	(1)	(2)
Total deferred tax in other comprehensive income.....	<u>\$ 280</u>	<u>\$ 432</u>

## 16. ACCOUNTS PAYABLE AND OTHER

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Accounts payable.....	\$ 6,344	\$ 7,203
Other liabilities.....	3,972	4,449
Total.....	<u>\$ 10,316</u>	<u>\$ 11,652</u>

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

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Current.....	\$ 5,994	\$ 6,212
Non-current.....	4,322	5,440
Total.....	<u>\$ 10,316</u>	<u>\$ 11,652</u>

Included in accounts payable and other liabilities are \$2,308 million (2012 – \$2,388 million) of accounts payable and other liabilities related to the company's residential development operations. Accounts payable and other liabilities also includes \$360 million (2012 – \$418 million) of insurance deposits, claims and other liabilities incurred by the company's insurance subsidiaries.

## 17. CORPORATE BORROWINGS

(MILLIONS)	<u>Maturity</u>	<u>Annual Rate</u>	<u>Currency</u>	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Term debt					
Private – U.S.....	Oct. 23, 2013	6.65%	US\$	\$ —	\$ 75
Private – Canadian.....	Apr. 30, 2014 <sup>1</sup>	6.26%	C\$	—	27
Private – Canadian.....	Jun. 2, 2014 <sup>1</sup>	8.95%	C\$	—	151
Public – Canadian.....	Sept. 8, 2016	5.20%	C\$	282	302
Public – U.S.....	Apr. 25, 2017	5.80%	US\$	239	239
Public – Canadian.....	Apr. 25, 2017	5.29%	C\$	235	252
Public – Canadian.....	Apr. 9, 2019	3.95%	C\$	568	428
Public – Canadian.....	Mar. 1, 2021	5.30%	C\$	330	353
Public – Canadian.....	Mar. 31, 2023	4.54%	C\$	568	428
Public – Canadian.....	Mar. 8, 2024	5.04%	C\$	472	—
Public – U.S.....	Mar. 1, 2033	7.38%	US\$	250	250
Public – Canadian.....	Jun. 14, 2035	5.95%	C\$	396	302
				<u>3,340</u>	<u>2,807</u>
Commercial paper and bank borrowings.....		1.24%	US\$/C\$/£	662	744
Deferred financing costs <sup>1</sup> .....				(27)	(25)
Total.....				<u>\$ 3,975</u>	<u>\$ 3,526</u>

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

Corporate borrowings have a weighted average interest rate of 4.5% (2012 – 4.7%), and include \$3,356 million (2012 – \$2,679 million) repayable in Canadian dollars of C\$3,565 million (2012 – C\$2,658 million) and \$nil (2012 – \$165 million) repayable in British pounds of £nil (2012 – £102 million).

On January 28, 2014, the company issued C\$500 million of 4.82% term debt due January 28, 2026.

## 18. NON-RECOURSE BORROWINGS

### a) Property-Specific Mortgages

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

(MILLIONS)	Property	Renewable Energy	Infrastructure	Private Equity	Residential Development	Service Activities	Corporate Activities	Total
2014.....	\$ 4,391	\$ 517	\$ 76	\$ 162	\$ 765	\$ 271	\$ 106	\$ 6,288
2015.....	1,402	501	132	1	877	—	—	2,913
2016.....	3,702	258	913	51	417	—	—	5,341
2017.....	3,857	576	109	66	122	—	—	4,730
2018.....	2,900	278	297	35	22	—	—	3,532
Thereafter.....	5,325	2,777	4,551	27	11	—	—	12,691
<b>Total – Dec. 31, 2013..</b>	<b>\$ 21,577</b>	<b>\$ 4,907</b>	<b>\$ 6,078</b>	<b>\$ 342</b>	<b>\$ 2,214</b>	<b>\$ 271</b>	<b>\$ 106</b>	<b>\$ 35,495</b>
Total – Dec. 31, 2012..	\$ 18,709	\$ 4,347	\$ 7,093	\$ 641	\$ 2,569	\$ 351	\$ 10	\$ 33,720

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

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Current.....	\$ 6,288	\$ 4,419
Non-current.....	29,207	29,301
Total.....	<b>\$ 35,495</b>	<b>\$ 33,720</b>

Property-specific mortgages by currency include the following:

(MILLIONS)	Dec. 31, 2013	Local Currency	Dec. 31, 2012	Local Currency
U.S. dollars.....	\$ 20,205	US\$ 20,205	\$ 17,855	US\$ 17,855
Australian dollars.....	3,708	A\$ 4,157	4,939	A\$ 4,751
Canadian dollars.....	5,217	C\$ 5,542	4,552	C\$ 4,517
Brazilian reais.....	2,988	R\$ 5,542	3,232	R\$ 6,604
British pounds.....	2,447	£ 1,478	2,093	£ 1,288
Chilean unidad de fomento.....	689	UF\$ 16	754	CLF\$ 16
Colombian pesos.....	207	COP\$ 400,155	179	COP\$ 316,127
New Zealand dollars.....	32	N\$ 39	109	N\$ 131
European Union euros.....	2	€\$ 1	7	€\$ 4
Total.....	<b>\$ 35,495</b>		<b>\$ 33,720</b>	

### b) Subsidiary Borrowings

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

(MILLIONS)	Property	Renewable Energy	Infrastructure	Private Equity	Residential Development	Corporate Activities	Total
2014.....	\$ 1,606	\$ —	\$ 10	\$ 50	\$ 188	\$ —	\$ 1,854
2015.....	507	—	10	66	—	—	583
2016.....	338	594	10	—	—	—	942
2017.....	198	—	387	500	—	—	1,085
2018.....	235	188	13	38	—	—	474
Thereafter.....	191	935	5	245	1,078	—	2,454
<b>Total – Dec. 31, 2013....</b>	<b>\$ 3,075</b>	<b>\$ 1,717</b>	<b>\$ 435</b>	<b>\$ 899</b>	<b>\$ 1,266</b>	<b>\$ —</b>	<b>\$ 7,392</b>
Total – Dec. 31, 2012....	\$ 1,896	\$ 1,772	\$ 967	\$ 1,041	\$ 779	\$ 1,130	\$ 7,585

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

(MILLIONS)	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Current.....	<b>\$ 1,854</b>	\$ 1,039
Non-current.....	<b>5,538</b>	6,546
Total.....	<b>\$ 7,392</b>	\$ 7,585

Subsidiary borrowings by currency include:

(MILLIONS)	<b>Dec. 31, 2013</b>	<b>Local Currency</b>	Dec. 31, 2012	<b>Local Currency</b>
U.S. dollars.....	<b>\$ 4,346</b>	<b>US\$ 4,346</b>	\$ 4,113	US\$ 4,113
Canadian dollars.....	<b>2,283</b>	<b>C\$ 2,421</b>	2,569	C\$ 2,549
Australian dollars.....	<b>696</b>	<b>A\$ 780</b>	882	A\$ 849
Brazilian reais.....	<b>59</b>	<b>R\$ 139</b>	21	R\$ 43
British pounds.....	<b>8</b>	<b>£ 5</b>	—	£ —
Total.....	<b>\$ 7,392</b>		<b>\$ 7,585</b>	

## 19. CAPITAL SECURITIES

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

(MILLIONS)	Note	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Corporate preferred shares.....	(a)	<b>\$ 163</b>	\$ 325
Subsidiary preferred shares.....	(b)	<b>628</b>	866
Total.....		<b>\$ 791</b>	\$ 1,191

### a) Corporate Preferred Shares

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

(MILLIONS, EXCEPT SHARE INFORMATION)	Shares Outstanding	Cumulative Dividend Rate	Currency	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Class A preferred shares					
Series 12.....	7,000,000	5.40%	C\$	<b>\$ 165</b>	\$ 176
Series 21.....	—	5.00%	C\$	—	151
Deferred financing costs.....				<b>(2)</b>	(2)
Total.....				<b>\$ 163</b>	\$ 325

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

### b) Subsidiary Preferred Shares

Subsidiary preferred shares are composed of Brookfield Office Properties Class AAA preferred shares and capital securities of fund subsidiaries as follows:

(MILLIONS, EXCEPT SHARE INFORMATION)	Shares Outstanding	Cumulative Dividend Rate	Currency	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Class AAA preferred shares					
Series F.....	—	—	C\$	<b>\$ —</b>	\$ 202
Series G.....	4,400,000	5.25%	US\$	<b>110</b>	110
Series H.....	8,000,000	5.75%	C\$	<b>188</b>	202
Series J.....	8,000,000	5.00%	C\$	<b>188</b>	202
Series K.....	6,000,000	5.20%	C\$	<b>142</b>	151
Deferred financing costs.....				—	(1)
Total.....				<b>\$ 628</b>	\$ 866

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

	Earliest Permitted Redemption Date	Company's Conversion Option	Holder's Conversion Option
Class AAA preferred shares			
Series G	Jun. 30, 2011	Jun. 30, 2011	Sept. 30, 2015
Series H	Dec. 31, 2011	Dec. 31, 2011	Dec. 31, 2015
Series J	Jun. 30, 2010	Jun. 30, 2010	Dec. 31, 2014
Series K	Dec. 31, 2012	Dec. 31, 2012	Dec. 31, 2016

## 20. INTERESTS OF OTHERS IN CONSOLIDATED FUNDS

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

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Limited-life funds	\$ 947	\$ 352
Redeemable fund units	139	73
	<u>\$ 1,086</u>	<u>\$ 425</u>

## 21. EQUITY

Equity is comprised of the following:

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Preferred equity	\$ 3,098	\$ 2,901
Non-controlling interests	26,647	23,287
Common equity	17,781	18,150
	<u>\$ 47,526</u>	<u>\$ 44,338</u>

### a) Preferred Equity

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

(MILLIONS, EXCEPT SHARE INFORMATION)	Rate	Issued and Outstanding		Dec. 31, 2013	Dec. 31, 2012
		Dec. 31, 2013	Dec. 31, 2012		
Class A preferred shares					
Series 2	70% P	10,465,100	10,465,100	\$ 169	\$ 169
Series 4	70% P/8.5%	2,800,000	2,800,000	45	45
Series 8	Variable up to P	1,652,394	1,652,394	29	29
Series 9	3.80%	2,347,606	2,347,606	35	35
Series 13	70% P	9,297,700	9,297,700	195	195
Series 15	B.A. + 40 b.p. <sup>1</sup>	2,000,000	2,000,000	42	42
Series 17	4.75%	8,000,000	8,000,000	174	174
Series 18	4.75%	8,000,000	8,000,000	181	181
Series 22	7.00% <sup>2</sup>	12,000,000	12,000,000	274	274
Series 24	5.40% <sup>2</sup>	11,000,000	11,000,000	269	269
Series 26	4.50% <sup>2</sup>	10,000,000	10,000,000	245	245
Series 28	4.60% <sup>2</sup>	9,400,000	9,400,000	235	235
Series 30	4.80% <sup>2</sup>	10,000,000	10,000,000	247	247
Series 32	4.50% <sup>2</sup>	12,000,000	12,000,000	304	304
Series 34	4.20% <sup>2</sup>	10,000,000	10,000,000	256	256
Series 36	4.85%	8,000,000	8,000,000	201	201
Series 37	4.90%	8,000,000	—	197	—
Total				<u>\$ 3,098</u>	<u>\$ 2,901</u>

1. Rate determined in a quarterly auction

2. Dividend rates are fixed for five years from the quarter end dates after issuance, September 30, 2009, June 30, 2011, March 31, 2012, June 30, 2012, December 31, 2012, March 31, 2013 and September 30, 2013, respectively, and reset after five years to the 5-year Government of Canada bond rate plus between 180 and 445 basis points.

P – Prime Rate, B.A. – Bankers' Acceptance Rate, b.p. – Basis Points



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

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

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

#### b) Non-controlling Interests

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

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Common equity.....	\$ 23,828	\$ 20,933
Preferred equity.....	2,819	2,354
Total.....	<u>\$ 26,647</u>	<u>\$ 23,287</u>

Further information on non-controlling interest is provided in Note 4, Subsidiaries.

#### c) Common Equity

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

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Common shares.....	\$ 2,899	\$ 2,855
Contributed surplus.....	159	149
Retained earnings.....	7,159	6,813
Ownership changes.....	2,354	2,088
Accumulated other comprehensive income.....	5,210	6,245
Common equity.....	<u>\$ 17,781</u>	<u>\$ 18,150</u>

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

The holders of the company's common shares received cash dividends of \$0.64 per share during 2013 (2012 – \$0.55 per share). In addition, the company distributed a 7.6% interest in BPY to the holders of its common shares on April 15, 2013 valued at \$1.47 per common share.

The number of issued and outstanding common shares and unexercised options at December 31, 2013 and 2012 are as follows:

	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Class A shares <sup>1</sup> .....	615,386,476	619,514,229
Class B shares.....	85,120	85,120
Shares outstanding <sup>1</sup> .....	615,471,596	619,599,349
Unexercised options <sup>2</sup> .....	35,603,974	38,402,078
Total diluted shares.....	<u>651,075,570</u>	<u>658,001,427</u>

1. Net of 9,550,000 (2012 – 5,450,000) Class A shares held by the company to satisfy long-term compensation agreements

2. Includes management share option plan and escrowed stock plan

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

	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Outstanding at beginning of year <sup>1</sup> .....	<b>619,599,349</b>	619,288,769
Issued (repurchased)		
Repurchases.....	<b>(8,772,646)</b>	(2,569,272)
Long-term share ownership plans <sup>2</sup> .....	<b>4,442,362</b>	2,648,936
Dividend reinvestment plan.....	<b>202,531</b>	230,916
Outstanding at end of year <sup>1</sup> .....	<b>615,471,596</b>	619,599,349

1. Net of 9,550,000 (2012 – 5,450,000) Class A shares held by the company to satisfy long-term compensation agreements
2. Includes management share option plan and restricted stock plan

*i. Earnings Per Share*

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<b>2013</b>	2012
Net income attributable to shareholders.....	<b>\$ 2,120</b>	\$ 1,380
Preferred share dividends.....	<b>(145)</b>	(129)
Net income available to shareholders – basic.....	<b>1,975</b>	1,251
Capital securities dividends <sup>1</sup> .....	<b>13</b>	25
Net income available for shareholders – diluted.....	<b>\$ 1,988</b>	\$ 1,276

1. Subject to the approval of the Toronto Stock Exchange, the Series 12 preferred shares, unless redeemed by the company for cash, are convertible into Class A shares at a price equal to the greater of 95% at the market price at the time of conversion and C\$2.00, at the option of either the company or the holder. The Series 21 preferred shares were redeemed by the company during 2013

(MILLIONS)	<b>Dec. 31, 2013</b>	Dec. 31, 2012
Weighted average – common shares.....	<b>616.1</b>	618.9
Dilutive effect of the conversion of options and escrowed shares using treasury stock method.....	<b>12.8</b>	12.1
Dilutive effect of the conversion of capital securities <sup>1,2</sup> .....	<b>7.9</b>	18.0
Common shares and common share equivalents.....	<b>636.8</b>	649.0

1. Subject to the approval of the Toronto Stock Exchange, the Series 12 preferred shares, unless redeemed by the company for cash, are convertible into Class A shares at a price equal to the greater of 95% at the market price at the time of conversion and C\$2.00, at the option of either the company or the holder. The Series 21 preferred shares were redeemed by the company during 2013
2. The number of shares is based on 95% of the quoted market price at year end

*ii. Stock-Based Compensation*

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<b>2013</b>	2012
Expense arising from equity-settled share-based payment transactions.....	<b>\$ 66</b>	\$ 59
Expense arising from cash-settled share-based payment transactions.....	<b>96</b>	144
Total expense arising from share-based payment transactions.....	<b>162</b>	203
Effect of hedging program.....	<b>(77)</b>	(136)
Total expense included in consolidated income.....	<b>\$ 85</b>	\$ 67

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2013 or 2012.

**1) Equity – Settled Share-Based Awards**

*a) Management Share Option Plan*

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

The changes in the number of options during 2013 and 2012 were as follows:

	Number of Options (000's) <sup>1</sup>	Weighted Average Exercise Price	Number of Options (000's) <sup>2</sup>	Weighted Average Exercise Price
Outstanding at January 1, 2013	23,575	C\$ 22.40	14,128	US\$ 26.90
Granted	—	—	3,586	37.82
Exercised	(3,534)	17.79	(722)	24.96
Cancelled	(214)	20.85	(183)	30.78
Converted <sup>3</sup>	(2,014)	11.47	—	—
Outstanding at December 31, 2013	17,813	C\$ 24.56	16,809	US\$ 29.27

- Options to acquire TSX listed Class A shares
- Options to acquire NYSE listed Class A shares
- Options converted into restricted shares at maturity

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

- Options to acquire TSX listed Class A shares
- Options to acquire NYSE listed Class A shares
- Options converted to restricted shares of maturity

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

YEARS ENDED DECEMBER 31	Unit	2013	2012
Weighted average share price	US\$	37.82	31.35
Weighted average fair value per option	US\$	7.87	6.54
Average term to exercise	Years	7.5	7.5
Share price volatility <sup>1</sup>	%	31.2	32.6
Liquidity discount	%	25.0	25.0
Weighted average annual dividend yield	%	1.5	1.8
Risk-free rate	%	1.3	1.4

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

At December 31, 2013, the following options to purchase Class A shares were outstanding:

Exercise Price	Weighted Average Remaining Life	Options Outstanding (000's)		
		Vested	Unvested	Total
C\$13.37 – C\$19.03	5.1 years	5,727	1,763	7,490
C\$20.21 – C\$30.22	1.8 years	5,028	80	5,108
C\$31.62 – C\$46.59	3.7 years	5,215	—	5,215
US\$23.18 – US\$35.06	6.9 years	6,125	7,133	13,258
US\$37.82	9.2 years	110	3,441	3,551
		22,205	12,417	34,622

At December 31, 2012, the following options to purchase Class A shares were outstanding:

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

*b) Escrowed Stock Plan*

The Escrowed Stock Plan (the “ES Plan”) provides executives with increased indirect ownership of Class A shares. Under the ES Plan, executives are granted common shares (the “ES Shares”) in one or more private companies that own the company’s Class A shares. The Class A shares are purchased on the open market with the purchase cost funded with the proceeds from preferred shares issued to the company. The ES Shares vest over one to five years and must be held until the fifth anniversary of the grant date. At a date no less than five years, and no more than 10 years, from the grant date, all outstanding ES Shares will be exchanged for Class A shares issued by the company, based on the market value of Class A shares at the time of the exchange.

During 2013, 4.1 million Class A shares were purchased in respect of ES Shares of which 2.35 million were granted to executives under the ES Plan (2012 – 2.25 million Class A shares) during the year. For the year ended December 31, 2013, the total expense incurred with respect to the ES Plan totalled \$14.0 million (2012 – \$6.3 million).

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

YEARS ENDED DECEMBER 31	Unit	2013	2012
Weighted average share price	US\$	<b>37.82</b>	31.35
Weighted average fair value per share	US\$	<b>7.34</b>	6.05
Average term to exercise	Years	<b>7.5</b>	7.5
Share price volatility <sup>1</sup>	%	<b>31.2</b>	32.6
Liquidity discount	%	<b>30.0</b>	30.0
Weighted average annual dividend yield	%	<b>1.5</b>	1.8
Risk-free rate	%	<b>1.3</b>	1.4

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

*c) Restricted Stock Plan*

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

During 2013, Brookfield granted 386,273 Class A shares pursuant to the terms and conditions of the Restricted Stock Plan, resulting in the recognition of \$10.6 million (2012 – \$8.5 million) within compensation expense. In addition, Brookfield exchanged 2,014,265 fully vested, in-the-money options of certain executives for 1,416,142 Class A shares under the Restricted Stock Plan.

**2) Cash – Settled Share Based Awards**

*a) Restricted Share Unit Plan*

The Restricted Share Unit Plan provides for the issuance of the Deferred Share Units (“DSUs”), as well as Restricted Share Units (“RSUs”). Under this plan, qualifying employees and directors receive varying percentages of their annual incentive bonus or directors’ fees in the form of DSUs. The DSUs and RSUs vest over periods of up to five years, and DSUs accumulate additional DSUs at the same rate as dividends on common shares based on the market value of the common shares at the time of the dividend. Participants are not allowed to convert DSUs and RSUs into cash until retirement or cessation of employment. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time

the conversion takes place. The value of the RSUs, when converted into cash, will be equivalent to the difference between the market price of equivalent number of common shares at the time the conversion takes place and the market price on the date the RSUs are granted. The company uses equity derivative contracts to offset its exposure to the change in share prices in respect of vested and unvested DSUs and RSUs. The fair value of the vested DSUs and RSUs as at December 31, 2013 was \$508 million (2012 – \$436 million).

Employee compensation expense for these plans is charged against income over the vesting period of the DSUs and RSUs. The amount payable by the company in respect of vested DSUs and RSUs changes as a result of dividends and share price movements. All of the amounts attributable to changes in the amounts payable by the company are recorded as employee compensation expense in the period of the change, and for the year ended December 31, 2013, including those of operating subsidiaries, totalled \$19 million (2012 – \$8 million), net of the impact of hedging arrangements.

The change in the number of DSUs and RSUs during 2013 and 2012 was as follows:

	DSUs		RSUs	
	Number of Units (000's)	Number of Units (000's)	Weighted Average Exercise Price	
Outstanding at January 1, 2013	7,447	8,030	C\$	13.56
Granted and reinvested	1,830	—		—
Exercised and cancelled	(206)	(750)		12.76
Outstanding at December 31, 2013	9,071	7,280	C\$	13.64

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

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

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

	Unit	Dec. 31, 2013	Dec. 31, 2012
Share price on date of measurement	C\$	41.22	36.44
Weighted average exercise price	C\$	13.64	13.56
Term to exercise	Years	8.2	9.2
Share price volatility	%	23.35	24.11
Weighted average of expected annual dividend yield	%	2.4	1.4
Risk-free rate	%	3.0	2.2
Weighted average fair value of a unit	C\$	24.18	21.47

## 22. REVENUES AND OTHER GAINS

The following table summarizes revenue and other gains for 2013 and 2012:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Revenues	\$ 20,093	\$ 18,696
Other gains	737	70
	<u>\$ 20,830</u>	<u>\$ 18,766</u>

Revenues include \$12,834 million (2012 – \$12,511 million) from the sale of goods, \$6,448 million (2012 – \$5,764 million) from the rendering of services, of which \$558 million (2012 – \$nil) was earned in our asset management segment and received in kind, and \$811 million (2012 – \$421 million) from other activities.

## 23. DIRECT COSTS

Direct costs include all attributable expenses except interest, depreciation and amortization, taxes and fair value changes and are primarily related to cost of sales and compensation. The following table lists direct costs for 2013 and 2012 by nature:

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Cost of sales.....	\$ 10,416	\$ 10,846
Compensation.....	1,125	1,018
Selling, general and administrative expenses.....	975	534
Property taxes, sales taxes and other.....	1,412	1,563
	<u>\$ 13,928</u>	<u>\$ 13,961</u>

## 24. OTHER INCOME

Other income includes a \$525 million gain on the settlement of a long-dated interest rate swap contract. In August 2013, the company paid \$905 million to terminate the contract, which had accrued to \$1,440 million in our Consolidated Financial Statements at the time of settlement. The gain was determined based on the difference between the accrued liability immediately prior to termination and the termination payment amount, adjusted for associated transaction costs and recorded in our corporate activities segment.

## 25. FAIR VALUE CHANGES

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

YEARS ENDED DECEMBER 31 (MILLIONS)	<u>2013</u>	<u>2012</u>
Investment properties.....	\$ 1,031	\$ 1,276
Power contracts.....	(134)	9
Interest rate and inflation contracts.....	10	(81)
Private equity and residential development.....	(127)	(119)
Sustainable resources.....	19	135
Redeemable units.....	(20)	(11)
Other.....	(116)	(56)
	<u>\$ 663</u>	<u>\$ 1,153</u>

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

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

The aggregate notional amount of the company's derivative positions at December 31, 2013 and 2012 is as follows:

(MILLIONS)	Note	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Foreign exchange.....	(a)	\$ 11,194	\$ 6,159
Interest rates.....	(b)	16,757	18,671
Credit default swaps.....	(c)	800	865
Equity derivatives.....	(d)	<u>1,633</u>	<u>1,112</u>
Commodity instruments	(e)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Energy (GWh).....		102,331	73,902
Natural gas (MMBtu – 000's).....		<u>12,764</u>	<u>41,922</u>

## a) Foreign Exchange

The company held the following foreign exchange contracts with notional amounts at December 31, 2013 and December 31, 2012:

(MILLIONS)	Notional Amount (U.S. Dollars)		Average Exchange Rate	
	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2012
<b>Foreign exchange contracts</b>				
British pounds.....	\$ 2,782	\$ 752	\$ 1.60	\$ 1.60
Australian dollars.....	1,932	894	0.94	1.03
Canadian dollars.....	1,387	1,089	\$ 0.95	\$ 0.99
European Union euros.....	922	199	1.37	1.28
Brazilian reais.....	702	2	2.34	2.08
Japanese yen.....	1	5	101.0	86.8
New Zealand dollars.....	—	321	—	0.77
<b>Cross currency interest rate swaps</b>				
Australian dollars.....	1,333	895	1.01	1.00
Canadian dollars.....	654	655	0.91	0.89
British pounds.....	300	—	1.49	—
Japanese yen.....	98	98	75.47	75.47
Brazilian reais.....	—	66	—	1.81
<b>Foreign exchange options</b>				
Japanese yen.....	548	548	105.0	105.0
European Union euros.....	413	—	1.28	—
British pounds.....	123	—	1.86	—
Australian dollars.....	—	416	—	1.05
Brazilian reais.....	—	219	—	1.50

Included in net income are unrealized net gains on foreign currency derivative contracts amounting to \$48 million (2012 – net loss of \$2 million) and included in the cumulative translation adjustment account in other comprehensive income are losses in respect of foreign currency contracts entered into for hedging purposes amounting to \$71 million (2012 – net losses of \$45 million).

## b) Interest Rates

At December 31, 2013, the company held interest rate swap contracts having an aggregate notional amount of \$600 million (2012 – \$1,351 million), and interest rate swaptions with an aggregate notional amount of \$1,704 million (2012 – \$263 million). The company's subsidiaries held interest rate swap contracts with an aggregate notional amount of \$8,654 million (2012 – \$11,636 million), interest rate cap contracts with an aggregate notional amount of \$5,799 million (2012 – \$4,951 million), and bond forwards with an aggregate notional value of \$nil (2012 – \$471 million).

## c) Credit Default Swaps

As at December 31, 2013, the company held credit default swap contracts with an aggregate notional amount of \$800 million (2012 – \$865 million). Credit default swaps are contracts which are designed to compensate the purchaser for any change in the value of an underlying reference asset, based on measurement in credit spreads, upon the occurrence of pre-determined credit events. The company is entitled to receive payments in the event of a pre-determined credit event for up to \$800 million (2012 – \$815 million) of the notional amount and could be required to make payments in respect of \$nil (2012 – \$50 million) of the notional amount.

## d) Equity Derivatives

At December 31, 2013, the company and its subsidiaries held equity derivatives with a notional amount of \$1,633 million (2012 – \$1,112 million) which includes \$765 million (2012 – \$600 million) notional amount that hedges long-term compensation arrangements. The balance represents common equity positions established in connection with the company's investment activities. The fair value of these instruments was reflected in the company's Consolidated Financial Statements at year end.

## e) Commodity Instruments

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

### Other Information Regarding Derivative Financial Instruments

The following table classifies derivatives elected for hedge accounting during the years ended December 31, 2013 and 2012 as either: cash flow hedges or net investment hedges. Changes in the fair value of the effective portion of the hedge are recorded in either other comprehensive income or net income, depending on the hedge classification, whereas changes in the fair value of the ineffective portion of the hedge are recorded in net income:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013			2012		
	Notional	Effective Portion	Ineffective Portion	Notional	Effective Portion	Ineffective Portion
Cash flow hedges <sup>1</sup> .....	\$ 10,452	\$ 37	\$ (141)	\$ 14,872	\$ (36)	\$ (80)
Net investment hedges.....	6,146	(58)	—	1,787	(45)	—
	<u>\$ 16,598</u>	<u>\$ (21)</u>	<u>\$ (141)</u>	<u>\$ 16,659</u>	<u>\$ (81)</u>	<u>\$ (80)</u>

1. Notional amount does not include 42,199 GWh and 41,731 GWh of commodity derivatives at December 31, 2013 and December 31, 2012, respectively

The following table presents the change in fair values of the company's derivative positions during the years ended December 31, 2013 and 2012, for derivatives that are fair valued through profit or loss, and derivatives that qualify for hedge accounting:

(MILLIONS)	Unrealized Gains During 2013	Unrealized Losses During 2013	Net Change During 2013	Net Change During 2012
Foreign exchange derivatives.....	\$ 200	\$ (226)	\$ (26)	\$ (46)
Interest rate derivatives				
Interest rate swaps.....	144	(63)	81	(187)
Bond forwards.....	—	—	—	1
Interest rate caps.....	—	(1)	(1)	(1)
Interest rate swaptions.....	25	—	25	(5)
	<u>169</u>	<u>(64)</u>	<u>105</u>	<u>(192)</u>
Credit default swaps.....	—	(2)	(2)	(16)
Equity derivatives.....	38	—	38	223
Commodity derivatives.....	126	(280)	(154)	(18)
	<u>\$ 533</u>	<u>\$ (572)</u>	<u>\$ (39)</u>	<u>\$ (49)</u>



The following table presents the notional amounts underlying the company's derivative instruments by term to maturity as at December 31, 2013 and the comparative notional amounts at December 31, 2012, for derivatives that are classified as fair value through profit or loss, and derivatives that qualify for hedge accounting:

(MILLIONS)	Dec. 31, 2013				Dec. 31, 2012	
	< 1 year	1 to 5 years	> 5 years	Total Notional Amount	Total Notional Amount	
<b>Fair value through profit or loss</b>						
Foreign exchange derivatives.....	\$ 2,275	\$ 721	\$ —	\$ 2,996	\$ 2,794	
Interest rate derivatives						
Interest rate swaps.....	387	410	75	872	1,319	
Interest rate swaptions.....	161	1,543	—	1,704	263	
Interest rate caps.....	3,836	1,963	—	5,799	3,811	
	<u>4,384</u>	<u>3,916</u>	<u>75</u>	<u>8,375</u>	<u>5,393</u>	
Credit default swaps.....	—	800	—	800	865	
Equity derivatives.....	249	1,366	—	1,615	1,096	
Commodity instruments						
Energy (GWh).....	23,209	35,613	1,310	60,132	32,171	
Natural gas (MMBtu – 000's).....	11,702	1,063	—	12,765	41,922	
<b>Elected for hedge accounting</b>						
Foreign exchange derivatives.....	\$ 5,871	\$ 652	\$ 1,675	\$ 8,198	\$ 3,365	
Interest rate derivatives						
Interest rate swaps.....	2,166	4,844	1,372	8,382	11,667	
Bond forwards.....	—	—	—	—	471	
Interest rate caps.....	—	—	—	—	1,140	
	<u>2,166</u>	<u>4,844</u>	<u>1,372</u>	<u>8,382</u>	<u>13,278</u>	
Equity derivatives.....	10	8	—	18	16	
Commodity instruments						
Energy (GWh).....	<u>4,496</u>	<u>11,718</u>	<u>25,986</u>	<u>42,199</u>	<u>41,731</u>	

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

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

### a) Market Risk

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

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

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

#### *Interest Rate Risk*

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

The company's assets largely consist of long-duration interest-sensitive physical assets. Accordingly, the company's financial liabilities consist primarily of long-term fixed-rate debt or floating-rate debt that has been swapped with interest rate derivatives. These financial liabilities are, with few exceptions, recorded at their amortized cost. The company also holds interest rate caps to

limit its exposure to increases in interest rates on floating rate debt that has not been swapped, and holds interest rate contracts to lock in fixed rates on anticipated future debt issuances and as an economic hedge against the values of long duration interest sensitive physical assets that have not been otherwise matched with fixed rate debt.

The result of a 50 basis-point increase in interest rates on the company's net floating rate financial assets and liabilities would have resulted in a corresponding decrease in net income before tax of \$41 million (2012 – \$50 million) on an annualized basis.

Changes in the value of fair value through profit or loss interest rate contracts are recorded in net income and changes in the value of contracts that are elected for hedge accounting together with changes in the value of available-for-sale financial instruments are recorded in other comprehensive income. The impact of a 10 basis-point parallel increase in the yield curve on the aforementioned financial instruments is estimated to result in a corresponding increase in net income of \$2 million (2012 – \$12 million) and an increase in other comprehensive income of \$37 million (2012 – \$57 million), before tax for the year ended December 31, 2013.

#### *Currency Exchange Rate Risk*

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

The company holds financial instruments with net unmatched exposures in several currencies, changes in the translated value of which are recorded in net income. The impact of a 1% increase in the U.S. dollar against these currencies would have resulted in a \$14 million (2012 – \$10 million) increase in the value of these positions on a combined basis. The impact on cash flows from financial instruments would be insignificant. The company holds financial instruments to limit its exposure to the impact of foreign currencies on its net investments in foreign operations whose functional and reporting currencies are other than the U.S. dollar. A 1% increase in the U.S. dollar would increase the value of these hedging instruments by \$82 million (2012 – \$55 million) as at December 31, 2013, which would be recorded in other comprehensive income and offset by changes in the U.S. dollar carrying value of the net investment being hedged.

#### *Other Price Risk*

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

Financial instruments held by the company that are exposed to equity price risk include equity securities and equity derivatives. A 5% decrease in the market price of equity securities and equity derivatives held by the company, excluding equity derivatives that hedge compensation arrangements, would have decreased net income by \$126 million (2012 – \$90 million) and decreased other comprehensive income by \$13 million (2012 – \$7 million), prior to taxes. The company's liability in respect of equity compensation arrangements is subject to variability based on changes in the company's underlying common share price. The company holds equity derivatives to hedge almost all of the variability. A 5% change in the common equity price of the company in respect of compensation agreements would increase the compensation liability and compensation expense by \$36 million (2012 – \$30 million). This increase would be offset by a \$37 million (2012 – \$30 million) change in value of the associated equity derivatives of which \$36 million (2012 – \$29 million) would offset the above mentioned increase in compensation expense and the remaining \$1 million (2012 – \$1 million) would be recorded in other comprehensive income.

The company sells power and generation capacity under long-term agreements and financial contracts to stabilize future revenues. Certain of the contracts are considered financial instruments and are recorded at fair value in the financial statements, with changes in value being recorded in either net income or other comprehensive income as applicable. A 5% increase in energy prices would have decreased net income for the year ended December 31, 2013 by approximately \$49 million (2012 – decrease of \$70 million) and decreased other comprehensive income by \$27 million (2012 – \$21 million), prior to taxes. The corresponding increase in the value of the revenue or capacity being contracted, however, is not recorded in net income until subsequent periods.

The company held credit default swap contracts with a total notional amount of \$1,000 million (2012 – \$865 million) at December 31, 2013. The company is exposed to changes in the credit spread of the contracts' underlying reference asset. A 10 basis-point increase in the credit spread of the underlying reference assets would have increased net income by \$2 million (2012 – \$3 million) for the year ended December 31, 2013, prior to taxes.

#### **b) Credit Risk**

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

The company assesses the credit worthiness of each counterparty before entering into contracts and ensures that counterparties meet minimum credit quality requirements. Management evaluates and monitors counterparty credit risk for derivative financial instruments and endeavours to minimize counterparty credit risk through diversification, collateral arrangements, and other credit risk mitigation techniques. The credit risk of derivative financial instruments is generally limited to the positive fair value of the instruments, which, in general, tends to be a relatively small proportion of the notional value. Substantially all of the

company's derivative financial instruments involve either counterparties that are banks or other financial institutions in North America, the United Kingdom and Australia, or arrangements that have embedded credit risk mitigation features. The company does not expect to incur credit losses in respect of any of these counterparties. The maximum exposure in respect of loans receivable and credit investments is equal to the carrying value.

### c) Liquidity Risk

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

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

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

## 28. CAPITAL MANAGEMENT

The capital of the company consists of the components of equity in the company's consolidated balance sheet (i.e., common and preferred equity) as well as the company's capital securities, which include corporate preferred shares that are convertible into common shares at the option of either the holder or the company. As at December 31, 2013, the recorded values of these items in the company's consolidated financial statements totalled \$21.0 billion (2012 – \$21.4 billion).

The company's objectives when managing this capital are to maintain an appropriate balance between holding a sufficient amount of capital to support its operations, which includes maintaining investment-grade ratings at the corporate level, and providing shareholders with a prudent amount of leverage to enhance returns. Corporate leverage, which consists of corporate debt as well as subsidiary obligations that are guaranteed by the company or are otherwise considered corporate in nature, totalled \$4.0 billion based on carrying values at December 31, 2013 (2012 – \$4.7 billion). The company monitors its capital base and leverage primarily in the context of its deconsolidated debt-to-total capitalization ratios. The ratio as at December 31, 2013 was 15% (2012 – 17%).

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

The company is subject to limited covenants in respect of its corporate debt and is in full compliance with all such covenants as at December 31, 2013 and 2012. The company and its consolidated entities are also in compliance with all covenants and other capital requirements related to regulatory or contractual obligations of material consequence to the company.

## 29. POST-EMPLOYMENT BENEFITS

The company offers pension and other post-employment benefit plans to employees of certain of its subsidiaries. The company's obligations under its defined benefit pension plans are determined periodically through the preparation of actuarial valuations. The benefit plans' in year valuation change was \$26 million (2012 – \$23 million). The discount rate used was 5% (2012 – 5%) with an increase in the rate of compensation of 3% (2012 – 3%) and an investment rate of 5% (2012 – 5%).

(MILLIONS)	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Plan assets.....	\$ 662	\$ 1,141
Less accrued benefit obligation:		
Defined benefit pension plan.....	(796)	(1,324)
Other post-employment benefits.....	(36)	(51)
Net liability.....	(170)	(234)
Less: net actuarial losses.....	3	39
Accrued benefit liability.....	<u>\$ (167)</u>	<u>\$ (195)</u>

## 30. RELATED PARTY TRANSACTIONS

### a) Related Parties

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

### b) Key Management Personnel and Directors

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

The remuneration of Directors and other key management personnel of the company during the years ended December 31, 2013 and 2012 was as follows:

YEARS ENDED DECEMBER 31 (MILLIONS)	2013	2012
Salaries, incentives and short-term benefits.....	\$ 21	\$ 21
Share-based payments.....	41	29
	<u>\$ 62</u>	<u>\$ 50</u>

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

### c) Related Party Transactions

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

The following table lists the related party balances included within the Consolidated Financial Statements as at and for the years ended December 31, 2013 and 2012:

(MILLIONS)	Dec. 31, 2013	Dec. 31, 2012
Financial assets.....	\$ 868	\$ 406
Investment and other income, net of interest expense.....	25	111
Management fees received.....	<u>43</u>	<u>20</u>

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

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

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

## 31. OTHER INFORMATION

### a) Commitments, Guarantees and Contingencies

In the normal course of business, the company and its subsidiaries enter into contractual obligations which include commitments to provide bridge financing, letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations. At the end of 2013, the company and its subsidiaries had \$1,755 million (2012 – \$2,222 million) of such commitments outstanding of which \$269 million (2012 – \$297 million) is included in accounts payable and other liabilities in the Consolidated Balance Sheets.

In addition, the company and its consolidated subsidiaries execute agreements that provide for indemnifications and guarantees to third parties in transactions or dealings such as business dispositions, business acquisitions, sales of assets, provision of services, securitization agreements, and underwriting and agency agreements. The company has also agreed to indemnify its

directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the company from making a reasonable estimate of the maximum potential amount the company could be required to pay third parties, as in most cases, the agreements do not specify a maximum amount, and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Neither the company nor its consolidated subsidiaries have made significant payments in the past nor do they expect at this time to make any significant payments under such indemnification agreements in the future.

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

The company and its subsidiaries are contingently liable with respect to litigation and claims that arise in the normal course of business. It is not reasonably possible that any of the ongoing litigation as at December 31, 2013 could result in a material settlement liability.

The company has up to \$4 billion of insurance for damage and business interruption costs sustained as a result of an act of terrorism. However, a terrorist act could have a material effect on the company's assets to the extent damages exceed the coverage.

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

#### **b) Insurance**

The company conducts insurance operations as part of its corporate activities. As at December 31, 2013, the company held insurance assets of \$158 million (2012 – \$206 million) in respect of insurance contracts that are accounted for using the deposit method which were offset in each year by an equal amount of reserves and other liabilities. During 2013, net underwriting losses on reinsurance operations were \$27 million (2012 – \$59 million) representing \$nil (2012 – \$5 million) of premium and other revenues offset by \$27 million (2012 – \$64 million) of reserves and other expenses.

#### **c) Supplemental Cash Flow Information**

Cash flow from operating activities includes cash taxes paid of \$293 million (2012 – \$273 million) and cash interest paid of \$2,699 million (2012 – \$2,235 million). Sustaining capital expenditures in the company's renewable energy operations were \$79 million (2012 – \$55 million), in its property operations were \$215 million (2012 – \$97 million) and in its infrastructure operations were \$66 million (2012 – \$79 million).

During the year, the company has capitalized \$197 million (2012 – \$238 million) of interest primarily to investment properties and residential inventory under development.

Included in cash and cash equivalents is \$3,128 million (2012 – \$2,102 million) of cash and \$535 million of short-term deposits at December 31, 2013 (2012 – \$748 million).

### **32. SUBSEQUENT EVENT**

On February 12, 2014, BPY announced the commencement of its exchange offer to acquire any or all of the common shares of BPO that it does not currently own (the "Offer"). Under the terms of the Offer, each BPO shareholder can elect to receive consideration per BPO common share of either 1.0 limited partnership unit of BPY or \$20.34 in cash, subject in each case to pro-rata based on a maximum number of BPY's limited partnership units and maximum cash consideration equating to 67% and 33%, respectively, of the total number of BPO common shares subject to the Offer. On March 20, 2014, BPY announced that BPO shareholders tendered 195.9 million common shares pursuant to the Offer and extended the Offer until March 31, 2014. BPY now owns, directly or indirectly, 84.4% of the issued and outstanding common shares of BPO on a fully-diluted basis.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This Annual Report contains “forward-looking information” within the meaning of Canadian provincial securities laws and “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, “safe harbour” provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as “expects,” “anticipates,” “plans,” “believes,” “estimates,” “seeks,” “intends,” “targets,” “projects,” “forecasts” or negative versions thereof and other similar expressions, or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.”

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of the Corporation to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; changes in tax laws, catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; and other risks and factors detailed from time to time in our documents filed with the securities regulators in Canada and the United States.

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