**Brookfield** Asset Management

**www.brookfield.com** NYSE/TSX: BAM

# SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED December 31, 2006

## CONTENTS


| | |
|---|---|
| Introduction | 2 |
| Business Strategy and Capabilities | 2 |
| Performance Factors and Key Measures | 3 |
| Overview of 2006 Performance | 6 |
| Operations Review | 10 |
| Capital Resources and Liquidity | 35 |
| Consolidated Financial Analysis | 41 |
| Supplemental Information | 49 |


**Cautionary Statement Regarding Forward Looking Statements**

*This Supplemental Information contains forward-looking information within the meaning of Canadian provincial securities laws and other "forward-looking statements", within the meaning of certain securities laws including Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. We may make such statements in this report, in other filings with Canadian regulators or the SEC or in other communications. These forward-looking statements include among others, statements with respect to our financial and operating objectives and strategies to achieve those objectives, capital committed to our funds, the potential growth of our asset management business and the related revenue streams therefrom, statements with respect to the prospects for increasing our cash flow from or continued achievement of targeted returns on our investments, as well as the outlook for the Company's businesses and for the Canadian, United States and global economies and other statements with respect to our beliefs, outlooks, plans, expectations, and intentions.*

*The words "believe", "typically", "expect", "think", "potentially", "encouraging", "principally", "tend", "primarily", "generally" "represent", "anticipate" "position", "intend", "estimate", "encouraging" "expanding", "scheduled", "should", "endeavour", "promising", "seeking", "often" and other expressions of similar import, or the negative variations thereof, and similar expressions of future or conditional verbs such as "may" "will", "should"," "likely", "would" or "could" are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Although Brookfield Asset Management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.*

*Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: economic and financial conditions in the countries in which we do business; the behavior of financial markets including fluctuations in interest and exchange rates; availability of equity and debt financing; strategic actions including dispositions; the ability to effectively integrate acquisitions into existing operations and the ability to attain expected benefits; the Company's continued ability to attract institutional partners to its Specialty Investment Funds; adverse hydrology conditions; regulatory and political factors within the countries in which the company operates; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; and other risks and factors detailed from time to time in the company's form 40-F filed with the Securities and Exchange Commission as well as other documents filed by the company with the securities regulators in Canada and the United States including in the Annual Information Form under the heading "Business Environment and Risks".*

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

**Cautionary Statement Regarding Use of Non-GAAP Accounting Measures**

*This Supplemental Information and accompanying consolidated financial statements make reference to cash flow from operations on a total and per share basis. Management uses cash flow from operations as a key measure to evaluate performance and to determine the underlying value of its businesses. The consolidated statement of cash flow from operations provides a full reconciliation between this measure and net income. Readers are encouraged to consider both measures in assessing Brookfield's results.*

## INTRODUCTION

This document presents a review and analysis of our financial results and is intended to provide you with an assessment of our performance during 2006 and the comparable periods in the prior year, as well as our financial position and future prospects. The financial information in this section is organized on a total (consolidated) and net (deconsolidated) basis. The total invested capital and total operating cash flows are presented on a basis that is consistent with our consolidated financial statements, whereas the net invested capital and net operating cash flows reflects the various funds and operating units, with the exception of Brookfield Properties, after deducting associated financing costs, operating expenses and co-investor interests.

Our financial results are determined in accordance with Canadian generally accepted accounting principles ("GAAP"). The basis of presentation in this document differs from GAAP in that it is organized by business unit and utilizes operating cash flow as an important measure. This is reflective of how we manage the business and, in our opinion, enables the reader to better understand our affairs. We provide a reconciliation between the basis of presentation in this section and our consolidated financial statements in the Consolidated Financial Analysis section, and we specifically reconcile operating cash flow and net income on pages 9 and 47.

The information in this section should be read in conjunction with the Management's Discussion and Analysis and Consolidated Financial Statements contained in our most recent annual report. Additional information, is available on the Corporation's web site at www.brookfield.com and on SEDAR's web site at www.sedar.com. Unless the context indicates otherwise, references in this section of the interim report to the "Corporation" refer to Brookfield Asset Management Inc., and references to "Brookfield" or "the company" refer to the Corporation and its direct and indirect subsidiaries. All figures are presented in U.S. dollars, unless otherwise noted.

## BUSINESS STRATEGY AND CAPABILITIES

Brookfield is a global asset management company, with a primary focus on property, power and infrastructure assets. Our objective is to earn attractive long-term returns for shareholders through the cash flows and value created from the direct and indirect ownership of high quality assets on our own behalf as well as by managing these assets for institutional and retail investors. As an asset manager, we raise, invest and manage capital on behalf of ourselves and our co-investors, and develop and maintain leading operating platforms that enable us to effectively manage these assets and enhance their values over time.

### Business Strategy

We concentrate our investment efforts on the ownership of high quality long-life assets that generate sustainable cash flows, require minimal sustaining capital expenditures and tend to appreciate in value over time. Often these assets will benefit from some form of barrier to entry due to regulatory, physical or cost structure factors. Consistent with this focus, we own and operate large portfolios of core office properties, hydro-electric power generating stations, private timberlands and regulated transmission systems that, in our opinion, share these common characteristics. These assets represent important components of the infrastructure that supports the global economy.

Our goal is to establish Brookfield as a global asset manager of choice for investors, primarily those who wish to benefit from the ownership of infrastructure assets such as those described above. We have spent many years building high quality operating platforms that enable us to acquire, finance and optimize the value of infrastructure assets for our own benefit, and for our partners whose capital we manage.

Managing assets for others provides a number of benefits to Brookfield. We earn income from our co-investors for conducting these activities on their behalf. This provides an important source of cash flow that is in addition to the returns that we earn from our ownership of the assets. The capital provided to us by our co-investors enables us to pursue a broader range of opportunities and to undertake large transactions while at the same time containing risk. We believe that all of these factors will enhance shareholder returns over the longer term.

We have chosen to focus on property and infrastructure assets for several reasons. First and foremost, we have extensive background and well established platforms from which to operate these assets. In addition, the demand from institutional investors to own assets of this nature is increasing as they seek to earn increasing yields to meet their investment objectives. We believe that demand for these assets will continue to be strong because, in our view, they represent attractive alternatives to traditional fixed income investments, providing in many cases a "real return" that increases over time, relatively low volatility and strong capital protection. Finally, there is a substantial supply of investment opportunities in the form of existing assets as well as the need for continued development in an ever expanding global economy. At the same time there are relatively few organizations focussed on managing assets of this nature as a core strategy.

Our strategy for growth is centered around expanding our assets under management, which should lead to increased fee revenues and opportunities to earn performance returns. We plan to achieve this within our existing operating platforms, through geographic expansion beyond our current focus in North America, Europe and South America, and by developing and acquiring platforms to operate new asset classes that demonstrate characteristics that are similar to our existing assets. We also plan to achieve growth by expanding our distribution capabilities to access a broader range of investment partners, thereby increasing our access to capital. This increased capital, when coupled with new investment opportunities, should increase our assets under management and the associated income as well as direct investment returns, thereby increasing shareholder value.

### Our Capabilities

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

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

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

We have established strong relationships with a number of leading institutions and are well positioned to expand our sources of co-investment capital and clients. In order to expand our assets under management, we are investing in our distribution capabilities to encourage existing and potential clients to commit capital to our investment strategies. We are devoting expanded resources to these activities, and our efforts continue to be assisted by strong investment performance.

Our commitment to invest considerable capital alongside our investors creates a strong alignment of interest between us and our investment partners and also differentiates us from many of our competitors. Accordingly, our strategy calls for us to maintain considerable surplus financial resources relative to other managers. This capital also supports our ability to commit to investment opportunities in anticipation of future syndications.

## PERFORMANCE FACTORS AND KEY MEASURES

We believe that the best way to create long-term shareholder value is to generate increasing operating cash flows, measured on a per share basis, over a very long period of time. This is impacted by our ability to generate attractive returns on the capital invested on behalf of ourselves and our clients, and our ability to expand the magnitude of the capital that we manage on behalf of our clients. These two criteria are linked, in that the quality of our investment returns will encourage clients to commit capital to us, and our access to this capital will enable us to pursue a broader range of investment opportunities.

Investment returns are influenced by a number of factors that are specific to each asset and industry segment. There are however, four key activities that we focus on across the organization.

- Acquire assets "for value", meaning that the projected cash flows and value appreciation of the asset represent an attractive risk-adjusted return to ourselves and our co-investors.
- Optimize the cash returns and value of the asset on an ongoing basis. In most cases, this is the responsibility of one of our operating platforms, and is evidenced by the return on asset metrics and operating margins.
- Finance assets effectively, using a prudent amount of leverage. We believe this is very important in maximizing the net returns to investors from property and infrastructure assets, given the lower return on assets compared to a number of other businesses. Fortunately, these assets are well suited to support a relatively high level of investment grade secured debt given the predictability of the cash flows and tendency of these assets to retain substantial value throughout economic cycles. This is reflected in our return on net capital deployed, our overall return on capital and our cost of capital.
- Have the ability to realize the maximum value of assets through a direct or indirect sale or monetization of the assets. Many of our assets tend to appreciate in value over time and accordingly they may be held for very long periods of time. As a result, this "back-end" appreciation may not be recognized until there is a specific transaction.

Our ability to expand our assets and capital under management is influenced heavily by our investment and operating performance, which are important considerations for clients who wish to entrust us with their capital. In addition to this, it is important that we continue to expand our distribution capabilities so that we can establish a broad range of clients who understand our product offering.

## Financial Targets

The long-term rate of growth of operating cash flow on a per share basis is our key performance measure. This reflects our ability to generate increasing returns from our invested capital and to increase the contribution from our asset management activities. We also measure the cash return on equity, which demonstrates how effective we are at deploying the capital with which we have been entrusted by shareholders. Our current targets are 12% and 20%, respectively. We revisit these targets periodically in light of the current operating environment to ensure that they are realistic and can be achieved without exposing the organization to inappropriate risk.

In considering our results, it is important to keep in mind that our operating results include both current cash flows and realization gains. The current return typically includes net operating income from physical assets, and investment income from securities. The realization gains represent amounts recorded for accounting purposes that represent the appreciation in value that we expect to achieve in many of our long-life assets and which is included in assessing the expected return on our initial investment. This portion of the return may not be recognized for many years, if ever, and a realization event usually takes the form of gains on a direct or indirect disposition of the assets, including the transfer of assets to funds. This appreciation in value represents an important component of our long-term investment returns, but is only recognized in our results at irregular points in time.

Our primary financial targets and results are set out in the following table:

| | | *Five-Year* | *Annual Results* | | | | |
|---|---|---|---|---|---|---|---|
| YEARS ENDED DECEMBER 31 | *Objective* | *Results* | ***2006*** | *2005* | *2004* | *2003* | *2002* |
| Operating cash flow and gains per share | | | **$ 4.43** | $ 2.19 | $ 1.55 | $ 1.43 | $ 1.05 |
| Annual growth | **12%** | 37% | **102%** | 41% | 8% | 35% | 15% |
| Cash return on equity per share | **20%** | 22% | **34%** | 21% | 19% | 18% | 16% |

### Operating Cash Flow

We achieved 102% growth during 2006, and 37% annualized growth over the last five years. These results exceed our long-term expectations due in large measure to the realization gains recorded during the year. Accordingly, shareholders should not expect us to generate this rate of growth on an ongoing basis. We will discuss our results in the next section.

We define operating cash flow as net income prior to items such as depreciation and amortization, future income tax expense and certain non-cash items that in our view are not reflective of the actual underlying operations.

Depreciation as prescribed by GAAP, for example, implies these assets decline in value on a pre-determined basis over time, whereas we believe that the value of most of our assets, as long as regular sustaining capital expenditures are made, will typically increase over time. This increase in value will inevitably vary based on a number of market and other conditions that cannot be determined in advance, and may sometimes be negative in a particular period. Future income tax expense, in our case, is derived primarily from changes in the magnitude and quality of our tax losses and the differences between the tax values and book values of our assets, as opposed to current cash liabilities. Brookfield has access to significant tax shields as a result of the nature of our asset base, and we do not expect to incur any meaningful cash tax liability in the near future from ongoing operations, other than in our U.S. home building operations which, because they are owned separately, do not enjoy the benefits of tax shields from our other U.S. operations.

We also include dividends from our principal equity and cost accounted investments that would not otherwise be included in net income under GAAP, and exclude any equity accounted earnings from such investments. A number of our equity accounted investments operate in environments that lead to significant variations in their operating results that are not necessarily indicative of long-term value creation and unduly distort our operating results.

Operating cash flow is a non-GAAP measure, and may differ from definitions of operating cash flow used by other companies. It is provided to investors as a consistent measurement tool which we believe assists in analysis of the company, in addition to other traditional measures, which we also provide. We recognize the importance of net income as a GAAP measure to investors and provide a full reconciliation between these measures.

### Return on Invested Capital

Our cash return on equity reached 34% in 2006, as a result of the continued growth in operating cash flow and a number of realization gains during the year. As stated above, realization gains may occur at irregular intervals, but they nonetheless reflect a portion of the appreciation in value of our underlying assets, which is an important part of the initial return on investment decisions. Over the past five years our return averaged 22%.

We define cash return on capital as the operating cash flow per share as a percentage of the average book value per common share during the period, and for an individual operation as the operating cash flow as a percentage of the net invested capital. The numerator in calculating return on invested capital is our operating cash flow and the denominator of the average net book value over the measurement period.

## Asset Management

Our ability to earn increasing management revenues is tangible evidence of the growth in our business. Accordingly, assets under management and asset management revenues are also important measures.

| | *Annual Results* | | |
|---|---|---|---|
| *YEARS ENDED DECEMBER 31 (MILLIONS)* | ***2006*** | *2005* | *2004* |
| Total assets under management | **$ 71,121** | $ 49,700 | $ 27,146 |
| Asset management revenues | **257** | 246 | 168 |

### Assets Under Management

Assets under management increased to $71 billion from $50 billion at the end of 2006 due to the formation of a number of new funds and continued expansions of assets under management within existing funds and platforms. Assets under management are discussed in more detail beginning on page 10 and elsewhere throughout our Operations Review.

Our calculation of assets under management may differ from that employed by other asset managers and, as a result, this measure may not be comparable to similar measures presented by other asset managers. Our assets under management include, for example, our own assets in addition to the assets that are managed on behalf of others. This is because we invest capital alongside our clients in many of our funds, and because we continue to own a number of assets that we acquired prior to the formation of our asset management operations and are therefore not part of any fund. A number of these assets are not subject to fee bearing arrangements for the same reasons. Assets under management include the assets reflected in our consolidated financial statements and, as a result, are based on book values that may differ materially from current market values, particularly in the case of long-life assets that we have owned for many years. We also include the assets managed on behalf of others that are not included in our consolidated financial statements as well as capital commitments from ourselves and clients that have not yet been drawn.

**Asset Management Income**

Asset management income has increased substantially since 2004, in large part due to increased assets under management. This is consistent with our overall strategy and is generally in line with our expectations. These results are discussed in more detail beginning on page 13.

Asset management income includes base management fees, transaction fees and performance returns. The management agreements which govern these earnings vary from fund to fund. For example, base fees may be calculated based on net asset value, capital commitments, invested equity or total capital as defined in each agreement. Our entitlement to performance returns is typically based on results over a prescribed measurement period, and any payments to us prior to the end of the period may be required to be returned if they exceed the actual amount determined at the end of the period (i.e. "clawed back"). We do not accrue any performance returns until such time as there is sufficient certainty that the amount recorded will not be impacted by future events, and therefore no longer subject to a clawback, even if such amounts are paid to us. Unless specifically noted, asset management income does not include any amounts earned by us on our own invested capital or assets.

## OVERVIEW OF 2006 PERFORMANCE

Our 2006 financial results were among the best in our history. This reflects a number of important accomplishments within our operations, which we will highlight throughout the next few pages. Results for the past three years are summarized as follows:

| *AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS, EXCEPT PER SHARE AMOUNTS)* | *Total* | | | *Per Share* | | |
|---|---|---|---|---|---|---|
| | ***2006*** | *2005* | *2004* | ***2006*** | *2005* | *2004* [1] |
| Net income | **$ 1,170** | $ 1,662 | $ 555 | **$ 2.85** | $ 4.08 | $ 1.35 |
| Operating cash flow | **1,801** | 908 | 626 | **4.43** | 2.19 | 1.55 |
| Common equity capitalization [2] | **19,947** | 13,870 | 9,976 | **48.18** | 33.55 | 24.01 |
| Assets under management | **71,121** | 49,700 | 27,146 | **175.46** | 123.30 | 67.07 |

*1 Revised to conform to current presentation*

*2 Based on December 31 stock market prices*

Net income and operating cash flow exceeded our expectations due to a number of realization gains during the current year. Aside from these items, performance was generally in line with our objectives and represented solid growth over the 2005 results.

Our common equity capitalization increased during each of the past two years on a book value and market value basis due to the operating results and appreciation in the value of our underlying assets.

Assets under management ("AUM") have also increased over the past two years as we continue to launch new funds and expand existing ones. The market value of these assets has been derived by adding the difference between the book value and market value of our common equity and therefore does not fully reflect an appreciation in value of assets managed for others. AUM per share provides a measure of the potential leverage to a common share from management income derived from those assets. An increase in this metric represents the potential for increased income and cash flows on a per share basis.

The discussion and analysis of our results is organized by principal operating segment within each of our core areas: property, power, timber, transmission and specialty funds. We present our invested capital and operating cash flows on a "total" basis, which is similar to our consolidated financial statements and a "net" basis. Net invested capital and net operating cash flows are, with the exception of the operations of Brookfield Properties Corporation, presented on a deconsolidated basis meaning that the assets are presented net of associated liabilities and non-controlling interests, and the net cash flows represent the operating income less carrying charges associated with the related liabilities and cash flow attributable to the related non-controlling interests. We include Brookfield Properties because it enables us to present the underlying core property and residential businesses separately. This basis of presentation is intended to enable the reader to better understand the net capital that we have invested in our various businesses and the associated operating cash flows, which is reflective of how we manage our business.

The following is a summary of our financial position at book values and operating results over the past two years:

| AS AT, FOR THE YEARS ENDED DECEMBER 31 | *Assets Under Management* | *Invested Capital* | | | | *Operating Cash Flow* | | | | *Return on Capital* | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | *Total* | | *Net* | | *Total* | | *Net* | | *Net* | |
| (MILLIONS, EXCEPT PER SHARE AMOUNTS) | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| **Asset management income** | | | | | | **$ 257** | $ 246 | **$ 257** | $ 246 | | |
| **Operating assets** | | | | | | | | | | | |
| Property | **$ 26,027** | **$ 22,144** | $ 11,859 | **$ 5,556** | $ 4,181 | **1,947** | 1,393 | **1,259** | 811 | **27%** | 20% |
| Power generation | **5,390** | **5,390** | 4,752 | **1,368** | 1,197 | **620** | 469 | **337** | 230 | **25%** | 19% |
| Timberlands | **1,190** | **1,190** | 1,057 | **315** | 304 | **113** | 40 | **58** | 18 | **18%** | 9% |
| Transmission infrastructure | **3,143** | **3,143** | 156 | **549** | 42 | **119** | 24 | **37** | 20 | **20%** | 77% |
| Specialty investment funds | **28,327** | **1,797** | 499 | **1,182** | 499 | **229** | 54 | **164** | 54 | **17%** | 8% |
| Investments | **3,450** | **3,450** | 3,386 | **1,404** | 1,293 | **231** | 117 | **146** | 65 | **11%** | 4% |
| Cash and financial assets | **1,673** | **1,673** | 2,558 | **1,149** | 2,130 | **413** | 245 | **396** | 236 | **31%** | 17% |
| Other assets | **1,921** | **1,921** | 1,791 | **1,921** | 1,791 | **—** | — | **—** | — | **—** | — |
| | **$ 71,121** | **40,708** | 26,058 | **13,444** | 11,437 | **3,929** | 2,588 | **2,654** | 1,680 | **22%** | 14% |
| **Financial obligations** | | | | | | | | | | | |
| Corporate borrowings / interest | | **(1,507)** | (1,620) | **(1,507)** | (1,620) | **(126)** | (119) | **(126)** | (119) | **7%** | 6% |
| Property specific mortgages / interest | | **(17,148)** | (8,756) | **—** | — | **(751)** | (519) | **—** | — | **—** | — |
| Subsidiary borrowings / interest | | **(4,153)** | (2,510) | **(668)** | (605) | **(212)** | (153) | **(64)** | (69) | **10%** | 10% |
| Other liabilities / operating expenses | | **(6,497)** | (4,561) | **(1,771)** | (1,386) | **(475)** | (413) | **(320)** | (251) | **22%** | 6% |
| Capital securities / interest | | **(1,585)** | (1,598) | **(1,585)** | (1,598) | **(96)** | (90) | **(96)** | (90) | **6%** | 6% |
| Non-controlling interests in net assets | | **(3,734)** | (1,984) | **(1,829)** | (1,199) | **(468)** | (386) | **(247)** | (243) | **19%** | 20% |
| **Net assets/operating cash flow** | | **6,084** | 5,029 | **6,084** | 5,029 | **1,801** | 908 | **1,801** | 908 | **33%** | 20% |
| Preferred equity/distributions | | **(689)** | (515) | **(689)** | (515) | **(35)** | (35) | **(35)** | (35) | **6%** | 6% |
| **Common equity/operating cash flow** | | **$ 5,395** | $ 4,514 | **$ 5,395** | $ 4,514 | **$ 1,766** | $ 873 | **$ 1,766** | $ 873 | **36%** | 20% |
| **Per share** [1] | | **$ 14.06** | $ 11.81 | **$ 14.06** | $ 11.81 | **$ 4.43** | $ 2.19 | **$ 4.43** | $ 2.19 | **36%** | 21% |

1 *Adjusted to reflect three-for-two stock split on April 27, 2006*

## Operating Cash Flow

We discuss our operating results in more detail on a segment by segment basis within the Operations Review starting on page 10. The principal highlights are as follows:

Operating cash flow nearly doubled to $1.8 billion or $4.43 per share from $0.9 billion or $2.19 per share during 2005. This reflects continued growth in operations in nearly all of our businesses, as well as a number of realization gains. These gains represent the culmination of a number of important initiatives and reflect a small portion of the value that we have been building in our business over the years that has not otherwise been reflected in our financial results.

Asset management income increased to $257 million in 2006 compared with $246 million in 2005. The increase is due to the continued expansion of our asset management activities. We formed new funds which contributed towards the overall increase in assets under management from $49.7 billion to $71.1 billion.

Property operations contributed net operating cash flow of $1.3 billion, an increase of 55% over 2005. We benefitted from realization gains recorded within our core office, residential and retail property segments. The balance of our core property operations demonstrated stable growth over last year's results, due to acquisitions in several markets. Residential operations benefitted from the diversification of our operations as continued strength in Canada and Brazil offset a weaker environment in the United States. We recorded a gain of $269 million from taking our Brazilian operations public during the fourth quarter of 2006, we completed the initial fundraising for our Opportunity fund and we established a Brazil retail fund which monetized a portion of our existing holdings, resulting in a realization gain of $79 million. Finally, we recorded a gain on the dilution of our interests in our North American core property operations that totalled $110 million.

The net operating cash flow from our power generation operations increased to $337 million, an increase of 47% over 2005. We continue to expand these operations through a combination of operational enhancements, acquisitions and select greenfield developments. The increase was largely due to improved hydrology conditions during 2006 compared to 2005, as well as the contribution from acquisitions and developments. Despite lower market prices in 2006, contracts and market initiatives helped to provide a modest increase in realized revenues.

We expanded our transmission operations with the acquisition of a large transmission system in Chile on behalf of ourselves and institutional co-investors and further expanded our timber operations with the formation of a publicly listed east coast timber fund.

The net operating cash flow generated by our investments increased to $146 million from $65 million in 2005. We recorded a monetization gain of $126 million on the sale of our non-core service business in Brazil while our pulp and paper operations faced a challenging operating environment resulting in operating losses and impairment charges.

Specialty investment funds, which include our bridge, restructuring, real estate finance and public securities operations, demonstrated strong growth during the year. These operations generated net operating cash flow of $164 million in 2006, an increase from $54 million in 2005 due to increased activity, higher levels of invested capital and monetization gains.

Operating cash flow from cash and financial assets increased relative to 2005, due to a higher level of invested capital over the year as well as a number of investment gains on selected equity investments.

Carrying charges on corporate and subsidiary debt and capital securities, totalled $286 million in 2006 compared with $278 million in 2005.

Operating expenses, which in the summary table includes current tax expense, were higher in 2006, reflecting increased activity within our expanded operating platform. Operating cash flow attributable to non-controlling interests was higher in 2006, reflecting the interests of other shareholders in a higher level of disposition gains recorded by partially owned subsidiaries than in 2005.

## Net Income

Net income was $1.2 billion in 2006. Net income in 2005 was $1.7 billion, which included the after-tax gain of $1.1 billion on the sale of our investment in Falconbridge. The improvement in net income, excluding the Falconbridge gain, is due to the substantial increase in operating cash flow for the reasons discussed above, offset to some degree by increased depreciation on our expanded asset base and a reduction in earnings from equity accounted investments. Net income is reconciled to cash flow as set forth below:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 | 2004 [1] |
|---|---|---|---|
| Operating cash flow and gains | **$ 1,801** | $ 908 | $ 626 |
| Less: dividends from Falconbridge and Norbord | **(66)** | (86) | (64) |
| dividends from Canary Wharf | **(87)** | (183) | — |
| | **1,648** | 639 | 562 |
| Non-cash items, net of non-controlling interests | | | |
| Equity accounted income (loss) from investments | **(36)** | 219 | 332 |
| Gains on disposition of Falconbridge, net of tax | **—** | 1,350 | — |
| Depreciation and amortization | **(376)** | (290) | (169) |
| Future income tax and other provisions | **(66)** | (256) | (170) |
| **Net income** | **$ 1,170** | $ 1,662 | $ 555 |

*1 Revised to conform to current presentation*

We recorded net equity accounted losses of $36 million during the year, compared to $219 million of income for the same period in 2005. The 2005 income included seven months of earnings from Falconbridge which, together with Norbord, was benefitting from very strong prices for their principal products during that period. Norbord and Fraser Papers faced a weak price environment for their principal products during 2006, in addition to higher input costs.

We recorded a gain of $1.4 billion on the monetization of our investment in Falconbridge during 2005 through the sale of approximately 121 million common shares for aggregate proceeds of approximately $2.7 billion.

Depreciation and amortization increased in 2006 due to the acquisition of additional property, power and timberland assets during 2005 and 2006.

Future income taxes and other provisions include non-cash charges in respect of GAAP prescribed tax obligations, and in 2005 included approximately $250 million related to the Falconbridge gain, as well as the impact of revaluation gains and losses.

## Financial Position

The following table summarizes key elements of our consolidated financial position at the end of the past three years:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 | 2004 |
|---|---|---|---|
| Consolidated assets | **$ 40,708** | $ 26,058 | $ 20,007 |
| Common equity – book value | **5,395** | 4,514 | 3,277 |
| Common equity – market value | **19,947** | 13,870 | 9,976 |

Consolidated assets increased to $40.7 billion at December 31, 2006 from $26.1 billion and $20.0 billion at the end of 2005 and 2004, respectively. The increase is due to the continued expansion of our operations. Acquisitions in 2006 included a $7.7 billion U.S. core office portfolio, a major transmission system in Chile and a number of other property, power and timber assets. During 2005, we acquired a Canadian core office portfolio, a number of smaller property and power assets and also completed an acquisition of timberland assets.

Net invested capital (i.e. assets less associated liabilities and non-controlling interests) increased by $1.9 billion overall during 2006. The amount of net capital invested in our property operations increased by approximately $1.4 billion, reflecting the purchase of the core office portfolio as well as growth in our opportunity investments. Net capital invested in transmission assets increased by $0.5 billion and our net capital dedicated to specialty funds increased by approximately $0.7 billion. We monetized a number of financial assets during the year, the proceeds of which were redeployed into these other areas.

Property-specific mortgages increased due to long-term mortgages assumed with the purchase of the U.S. office portfolio. We finance our high quality assets with long-term fixed-rate obligations that have no recourse to the Corporation. Corporate borrowings and capital securities were relatively unchanged during the year and consist principally of long-term fixed rate debt and equity securities. Common equity was $5.4 billion at book value at year end, and increased from $4.5 billion and $3.3 billion at the end of 2005 and 2004, respectively, due to net income offset in part by dividends and share buybacks. The market value of our common equity was $19.9 billion at year end, up from $13.9 billion at the end of 2005. The increase was due to a higher share price as the number of common shares outstanding was largely unchanged.

## OPERATIONS REVIEW

### Asset Management

Our asset management activities include the management of assets within specific investment entities on behalf of institutional and retail investors as well as a wide array of operational services provided to clients.

**Assets Under Management**

As at December 31, 2006, we managed approximately $71 billion of assets consisting of:

1) Physical assets, primarily property, power generation, timber and transmission assets that are owned and managed within our core operating platforms together with associated working capital for the benefit of us and our co-investors; and

2) Securities, which frequently represent investments in physical assets such as those described in the foregoing paragraph. The securities are held on behalf of ourselves and our clients and managed by dedicated teams of investment professionals within our operations.

Funds are established in several ways. Often we establish a fund with co-investors to complete a specific acquisition. This fund may then, in certain circumstances, serve as a platform to expand the assets and operations within the fund. Alternatively, we may establish a fund with a specific mandate to seek out investment opportunities. The strength of our balance sheet enables us to establish a dedicated team, build a portfolio and then market the portfolio and track record to potential investors. Finally, the breadth of our operating platform provides us the opportunity to seed funds with assets that we have owned and operated for many years, and which represent attractive investment opportunities for our co-investors.

We typically invest more than 20% of the capital committed to our funds, with clients committing the balance. We earn fees for managing the activities on behalf of our co-investors, which include base administration fees, performance returns to the extent results exceed predetermined thresholds, and we often earn transaction fees for specific activities. We also earn base management and performance returns in many of our public securities operations. We typically do not own significant interests in the funds being managed by our public securities operations, as they are either widely held publicly listed funds or securities portfolios managed on behalf of their beneficial owners pursuant to specific mandates.

The assets are managed pursuant to various strategies that reflect the nature of the assets and which are differentiated by the risk return characteristics and the intensity of management activity, both of which impact the level of asset management income and associated margins that we hope to earn.

The following tables present total assets under our management, which includes assets managed for others as well as assets owned by ourselves. The tables also present our share of the assets and net invested capital, which includes the capital that we have invested in alongside our clients as well as assets owned by us that do not form part of a fund. Within total assets under management, we present total assets, the amount of investment capital (i.e. net of debt) and the amount of capital that we and others have committed to invest in funds. Our share of the assets under management presents all of the assets presented in our consolidated balance sheet as well as our net invested capital which is presented on a basis that is consistent with the table on page 7. The table differentiates the assets between fee bearing assets under management, which are grouped in turn into broad strategies, and assets that are directly held and not currently subject to asset management arrangements.

We have organized the information in this section based on the investment strategy and fund entity, as opposed to the underlying business segment analysis used in the balance of our discussion and analysis, in order to provide readers with a better understanding of the income generating potential of our various asset management activities and to enable readers to better understand the assets and capital that we have invested in various funds that generate asset management income.

| | *Total Assets Under Management* | | | *Brookfield's Share* | |
|---|---|---|---|---|---|
| *AS AT DECEMBER 31, 2006 (MILLIONS)* | *Assets* | *Net Invested Capital* | *Committed Capital* [1] | *Assets* | *Net Invested Capital* |
| Fee bearing assets: | | | | | |
| Core and core plus | $ 20,390 | $ 7,028 | $ 7,329 | $ 12,954 | $ 2,419 |
| Opportunity and restructuring | 2,863 | 714 | 2,152 | 2,278 | 537 |
| Listed securities and fixed income | 20,460 | 20,403 | 20,403 | 78 | 70 |
| Total fee bearing assets / capital | 43,713 | 28,145 | 29,884 | 15,310 | 3,026 |
| Directly held and non-fee bearing assets / capital | 27,408 | 10,822 | 10,822 | 25,398 | 10,418 |
| Total assets / capital - at book values | $ 71,121 | $ 38,967 | $ 40,706 | $ 40,708 | $ 13,444 |

1 *Includes incremental co-investment capital*

Further details on the activities within these funds together with the financial position and operating results are presented throughout the Operations Review.

### Fee Bearing Assets

*Core and core plus strategies* encompass the ownership and management of high quality long-life assets with lower volatility returns and less development and repositioning activity. As a result of our overall business strategy, a significant part of our efforts are directed towards expanding this segment of our operations. This complements our existing operating platforms and the fees, while not as high as those earned through traditional private equity activities, generate attractive margins as the opportunities are highly scalable. Current funds of this nature include:

| | | *Total Assets Under Management* | | | *Brookfield's Share* | | |
|---|---|---|---|---|---|---|---|
| *AS AT DECEMBER 31, 2006 (MILLIONS)* | *Year Formed* | *Assets* | *Net Invested Capital* | *Committed Capital* [1] | *Assets* | *Net Invested Capital* | *Ownership Level* |
| US Core Office [2] | 2006 | $ 7,712 | $ 1,870 | $ 1,870 | $ 7,712 | $ 801 | 62% |
| Canadian Core Office [2] | 2005 | 1,760 | 864 | 864 | 490 | 216 | 25% |
| West Coast Timberlands | 2005 | 925 | 476 | 476 | 925 | 236 | 50% |
| East Coast Timber Fund | 2006 | 199 | 132 | 132 | 199 | 32 | 30% |
| Transmission | 2006 | 2,810 | 1,162 | 1,162 | 2,810 | 331 | 28% |
| Bridge Loan I | 2003 | 1,452 | 1,444 | 1,587 | 637 | 622 | 39% |
| Real Estate Finance | 2003 | 1,650 | 442 | 600 | 139 | 139 | 33% |
| Mortgage REIT | 2005 | 3,767 | 560 | 560 | 23 | 23 | 4% |
| Royal LePage Franchise Fund | 2003 | 115 | 78 | 78 | 19 | 19 | 25% |
| | | $ 20,390 | $ 7,028 | $ 7,329 | $ 12,954 | $ 2,419 | |

1 *Includes incremental co-investment capital*

2 *Held by 50%-owned Brookfield Properties*

*Opportunity and restructuring strategies* typically involve more active management and higher fees. These assets also tend to have higher risks and higher return expectations. In many cases, much of the value is created over a two to three year time period through refinancing and repositioning the assets or the business being managed. As a result, we expect to achieve higher investment returns over a shorter period than our core and core plus strategies, and our base management fees and incentive returns are intended to be similar to traditional private equity arrangements. Current funds of this nature include:

| AS AT DECEMBER 31, 2006 (MILLIONS) | Total Assets Under Management | | | | Brookfield's Share | | |
|---|---|---|---|---|---|---|---|
| | Year Formed | Assets | Net Invested Capital | Committed Capital [1] | Assets | Net Invested Capital | Ownership Level |
| Real Estate Opportunity | 2006 | $ 1,086 | $ 235 | $ 245 | $ 1,086 | $ 132 | 52% |
| Brazil Retail Property | 2006 | 800 | 102 | 800 | 215 | 28 | 29% |
| Tricap Restructuring I | 2002 | 835 | 235 | 448 | 835 | 235 | 48% |
| Tricap Restructuring II | 2006 | 142 | 142 | 659 | 142 | 142 | 39% |
| | | $ 2,863 | $ 714 | $ 2,152 | $ 2,278 | $ 537 | |

1 Includes incremental co-investment capital

*Listed securities and fixed income strategies* require varying degrees of risk, return and management intensity ranging from traditional fixed income management to more active strategies involving portfolios of equities, high yield and leveraged securities. The gross fees earned for managing assets of this nature tend to be much lower than our other two strategies, however, the contribution is attractive due to the ability to manage large portfolios.

| AS AT DECEMBER 31, 2006 (MILLIONS) | Total Assets Under Management | | | Brookfield's Share | | |
|---|---|---|---|---|---|---|
| | Assets | Net Invested Capital | Committed Capital | Assets | Net Invested Capital | Ownership Level |
| Equity Funds | $ 749 | $ 692 | $ 692 | $ 21 | $ 21 | na |
| Fixed Income Funds | 19,711 | 19,711 | 19,711 | 57 | 49 | na |
| | $ 20,460 | $ 20,403 | $ 20,403 | $ 78 | $ 70 | |

**Directly Held and Non-Fee Bearing Assets**

We also own and manage a number of assets which are not currently subject to fee bearing asset management arrangements. Most of the assets pre-date the creation of our current institutional funds, while some were more recently acquired to supplement existing platforms, or in anticipation of new funds being created. These include the following:

| AS AT DECEMBER 31, 2006 (MILLIONS) | Total Assets Under Management | | | Brookfield's Share | | |
|---|---|---|---|---|---|---|
| | Assets | Net Invested Capital | Committed Capital | Assets | Net Invested Capital | Ownership Level |
| Core Office – North America [1] | $ 10,077 | $ 2,440 | $ 2,440 | $ 8,049 | $ 2,440 | 100% |
| Core Office – Europe | 765 | 288 | 288 | 765 | 288 | various |
| Residential Properties – US | 1,355 | 397 | 397 | 1,355 | 223 | 53% |
| Residential Properties – Canada [1] / Brazil | 1,048 | 491 | 491 | 1,048 | 261 | 100% / 60% |
| Power Generation – North America | 5,126 | 1,129 | 1,129 | 5,126 | 1,129 | 100% |
| Power Generation – Brazil | 264 | 239 | 239 | 264 | 239 | 100% |
| Timber – Brazil | 66 | 47 | 47 | 66 | 47 | 100% |
| Transmission – Canada / Brazil | 333 | 218 | 218 | 333 | 218 | 100% |
| Other | 8,374 | 5,573 | 5,573 | 8,392 | 5,573 | various |
| | $ 27,408 | $ 10,822 | $ 10,822 | $ 25,398 | $ 10,418 | |

1 Held by 50%-owned Brookfield Properties

We have on occasion used existing assets to seed new funds, like we did with our Brazil Retail Property Fund and the Acadian Timber Fund. Nonetheless, we are also prepared to continue to hold these assets directly as long as they meet our return thresholds, relative to our ability to redeploy the capital elsewhere on a comparable risk-adjusted basis, and taking into consideration the impact of incremental asset management income arising from a new fund formed with the assets. We have owned a number of these assets for many years and therefore the market values tend to exceed the book values by a significant amount.

### Operating Results

Revenues from asset management activities, including property services and investment fees, totalled $257 million during 2006, compared with a contribution of $246 million for 2005 and $168 million in 2004. The increase over the past two years is due primarily to increased assets under management, which gave rise to increased base management fees. Continued expansion of our asset management activities should result in an increasing level of income, which, over time, should provide a very meaningful and stable component of our overall operating cash flows.

| *YEARS ENDED DECEMBER 31 (MILLIONS)* | **2006** | 2005 | 2004 |
|---|---|---|---|
| Asset management income and fees | **$ 84** | $ 63 | $ 17 |
| Property services fees | **155** | 164 | 128 |
| Investment fees | **18** | 19 | 23 |
| | **$ 257** | $ 246 | $ 168 |

### *Asset Management Income and Fees*

Asset management fees represent an important area of growth for our company and will increase as we expand our assets under management. These fees typically include a stable base fee for providing regular ongoing services as well as performance returns that are earned when the performance of a fund exceeds certain predetermined benchmarks. We also earn transaction fees for investment and financing activities conducted on behalf of our funds and other clients. These fees are relatively modest in the current period as a number of our funds were launched during the year and accordingly our results reflect a partial year of contribution. Furthermore, performance returns, which can add considerably to our results, are typically not earned until later in a fund's life cycle, and are therefore not fully reflected in these results.

The following table summarizes asset management income and fees generated for the past three years. The total amount represents the fees and income generated by the assets and capital under management on a 100% basis whereas the net amount represents only the amount earned by Brookfield on the assets and capital managed on behalf of third parties (i.e. it excludes fees and income generated on our own capital, which are eliminated in preparing our financial statements in accordance with GAAP).

| | *Total Income and Fees* | | | *Net to Brookfield* [1] | | |
|---|---|---|---|---|---|---|
| *YEARS ENDED DECEMBER 31 (MILLIONS)* | **2006** | 2005 | 2004 | **2006** | 2005 | 2004 |
| Base management fees | **$ 81** | $ 53 | $ 23 | **$ 68** | $ 46 | $ 13 |
| Transaction fees | **20** | 16 | — | **13** | 12 | — |
| Performance returns | **3** | 5 | 4 | **3** | 5 | 4 |
| | **$ 104** | $ 74 | $ 27 | **$ 84** | $ 63 | $ 17 |

*1 Excludes income related to Brookfield's invested capital*

Base management fees increased significantly over the past three years as we established new funds. As at December 31, 2006, the base management fees on established funds represent approximately $75 million on an annualized basis, compared with $60 million at the end of the third quarter and $55 million on an annualized basis at the beginning of the year. The increase in transaction fees reflects increased activity and the formation of new funds.

Asset management income by strategy is as follows:

| | *Total Income and Fees* | | | *Net to Brookfield* [1] | | |
|---|---|---|---|---|---|---|
| *YEARS ENDED DECEMBER 31 (MILLIONS)* | ***2006*** | *2005* | *2004* | ***2006*** | *2005* | *2004* |
| Core and core plus | **$ 49** | $ 32 | $ 13 | **$ 40** | $ 27 | $ 10 |
| Opportunity and restructuring | **18** | 10 | 14 | **8** | 5 | 7 |
| Fixed income and common equity | **37** | 32 | — | **36** | 31 | — |
| | **$ 104** | $ 74 | $ 27 | **$ 84** | $ 63 | $ 17 |

*1 Excludes income related to Brookfield's invested capital*

The income generated within each strategy reflects the distribution of our assets under management and the relative level of fees for each strategy as a percentage of assets or capital. As a result of our focus on high quality long-life assets, a significant amount of our activity and assets under management are within the "core and core plus" strategies. The fees and margins associated with these strategies tend to be higher than fixed income and common equity, but lower than the opportunity and restructuring strategies, which generate returns similar to more traditional private equity activities. Fixed income and common equity activities represent a significant component of asset management income despite lower fees as a percentage of assets because of the large amount of capital that can be managed relative to other strategies.

***Property Services Fees***

Property services include property and facilities management, leasing and project management, as well as investment banking, advisory, and a range of real estate services.

| *YEARS ENDED DECEMBER 31 (MILLIONS)* | ***2006*** | *2005* | *2004* |
|---|---|---|---|
| Facilities, leasing and project management [1] | **$ 22** | $ 47 | $ 42 |
| Real estate services | **117** | 100 | 76 |
| Property advisory | **16** | 17 | 10 |
| Total property services fees | **$ 155** | $ 164 | $ 128 |

*1 Includes our 40% interest in the net income of a partnership with Johnson Controls*

Leasing and project management fees in 2005 include a $30 million fee relating to development at the World Financial Center, and in 2004 included $27 million in fees earned for completing subleases on behalf of the lead tenant at 300 Madison. Real estate services include a variety of services relating largely to residential properties, including property sales, home appraisal services, mortgage processing and executive home relocations. Property services, with the exception of leasing fees and advisory services, generate lower margins than our other asset management businesses. Operating costs directly attributable to these operations totalled $123 million in 2006 (2005 – $105 million, 2004 – $84 million).

Property advisory fees include fees earned from investment banking, property management and other related activities. We sold our Royal LePage Commercial advisory business to Cushman & Wakefield in the third quarter of 2005 for a gain of $28 million and present the fees generated by this business net of expenses to enhance comparability. We established a real estate investment banking and advisory group in 2004 that has demonstrated strong growth, contributing $16 million of fees during 2006. The group advised on transactions totalling $6 billion in value during the year, and secured a number of prominent mandates.

### *Investment Fees*

Investment fees are earned in respect of financing activities and include commitment fees, work fees and exit fees. These fees are amortized as income over the lifespan of the related investment where appropriate and represent an important return from our investment activities.

## Property Operations

We conduct a wide range of property operations in North America as well as in Europe and South America. Core office properties represent the largest component of our property business, with approximately 67% of net invested capital, and 65% of net operating cash flows, excluding realization gains:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Assets Under Management | Invested Capital | | | | Operating Cash Flow | | | | Return on Capital | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | | Net | |
| | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Core office properties | **$ 20,314** | **$ 17,016** | $ 8,360 | **$ 3,745** | $ 2,875 | **$ 941** | $ 848 | **$ 492** | $ 548 | **16%** | 20% |
| Residential properties | **2,403** | **2,403** | 2,033 | **484** | 245 | **416** | 496 | **231** | 225 | **62%** | 100% |
| Opportunity investments | **1,086** | **1,086** | 468 | **132** | 147 | **49** | 19 | **14** | 13 | **9%** | 12% |
| Retail properties | **800** | **215** | 270 | **28** | 186 | **38** | 25 | **19** | 20 | **14%** | 12% |
| Infrastructure development | **1,424** | **1,424** | 728 | **1,167** | 728 | **1** | 5 | **1** | 5 | **—%** | 1% |
| Realization gains | | | | | | **502** | — | **502** | — | **—%** | —% |
| Net investment / operating cash flow | **$ 26,027** | **$ 22,144** | $ 11,859 | **$ 5,556** | $ 4,181 | **$ 1,947** | $1,393 | **$ 1,259** | $ 811 | **27%** | 20% |

Operating cash flow from our property operations in 2006 increased by $554 million over the prior year. The increase is comprised of $148 million additional contribution from operations and $502 million of realization gains, offset by a $96 million reduction in dividends received from Canary Wharf, relative to 2005. A portion of this growth accrues to minority shareholders in the partially-owned operations that are consolidated in the financial information. The amount of net capital deployed in this sector increased by $1.4 billion year over year due to acquisitions in our core office property operations.

### Core Office Properties

We own and manage one of the highest quality core office portfolios in the world and focus on major financial, energy and government centre cities in North America and Europe. Our strategy is to concentrate our operations in high growth, supply-constrained markets that have high barriers to entry and attractive tenant bases. Our goal is to maintain a meaningful presence in each of our primary markets so as to build on the strength of our tenant relationships. We own interests in 133 commercial properties totalling approximately 85 million square feet of rentable area, as well as 18 development sites with 22.6 million square feet of potential developable area.

Our North American operations are conducted through a 50%-owned subsidiary, Brookfield Properties, and our primary markets are New York, Boston, Houston, Los Angeles, Washington D.C., Toronto, Calgary and Ottawa. These operations include directly owned properties as well as those contained within our U.S. and Canadian core office funds.

Our European operations are principally located in London, U.K. where we own an interest in 17 high quality commercial properties comprising 8.5 million square feet of rentable area and a further 5.4 million square feet of development density. The properties are located in the Canary Wharf Estate, one of the leading core office developments in Europe. We hold a direct 80% ownership interest in the 550,000 square foot 20 Canada Square property and an indirect interest in the balance of the portfolio through our 15% ownership interest in privately-owned Canary Wharf Group.

The following table summarizes our core office portfolio and related cash flows:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Assets Under Management [1] | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| North America | | | | | | | | | |
| New York, New York | **$ 7,321** | **$ 6,542** | $ 3,885 | **$ 6,542** | $ 3,885 | **$ 374** | $ 348 | | |
| Boston, Massachusetts | **686** | **350** | 325 | **350** | 325 | **28** | 32 | | |
| Toronto, Ontario | **2,670** | **1,491** | 1,400 | **1,491** | 1,400 | **133** | 96 | | |
| Calgary, Alberta | **1,177** | **513** | 570 | **513** | 570 | **73** | 56 | | |
| Washington, D.C. | **1,980** | **1,980** | 395 | **1,980** | 395 | **78** | 36 | | |
| Houston, Texas | **941** | **941** | — | **941** | — | **22** | — | | |
| Los Angeles, California | **2,689** | **2,689** | — | **2,689** | — | **42** | — | | |
| Ottawa, Ontario | **382** | **96** | 100 | **96** | 100 | **9** | — | | |
| Denver, Colorado | **264** | **264** | 344 | **264** | 344 | **24** | 34 | | |
| Minneapolis, Minnesota | **423** | **423** | 429 | **423** | 429 | **20** | 22 | | |
| Other North America | **163** | **109** | 114 | **109** | 114 | **10** | 15 | | |
| Total North America | **18,696** | **15,398** | 7,562 | **15,398** | 7,562 | **813** | 639 | **$ 813** | $ 639 |
| United Kingdom | | | | | | | | | |
| Canary Wharf Group, plc | **182** | **182** | 267 | **182** | 267 | **87** | 183 | **87** | 183 |
| 20 Canada Square | **583** | **583** | 531 | **565** | 492 | **41** | 26 | **41** | 26 |
| | **19,461** | **16,163** | 8,360 | **16,145** | 8,321 | **941** | 848 | **941** | 848 |
| Other assets | **853** | **853** | — | **853** | — | **—** | — | **—** | — |
| Other liabilities | | | | **(919)** | — | | | **—** | — |
| Property specific mortgages / interest | | | | **(11,811)** | (5,446) | | | **(442)** | (300) |
| | **20,314** | **17,016** | 8,360 | **4,268** | 2,875 | **941** | 848 | **499** | 548 |
| Debt component of co-investors' capital [2] | | | | **(257)** | — | | | **(7)** | — |
| Equity component of co-investors' capital [2] | | | | **(266)** | — | | | **—** | — |
| | **20,314** | **17,016** | 8,360 | **3,745** | — | **941** | 848 | **492** | 548 |
| Realization gains | | | | **—** | — | **154** | — | **154** | — |
| Net investment / operating cash flow | **$ 20,314** | **$ 17,016** | $ 8,360 | **$ 3,745** | $ 2,875 | **$ 1,095** | $ 848 | **$ 646** | $ 548 |

1 Includes the book value attributed to partial interests in properties managed by us that are owned by co-investors

2 Represents interests of co-investors in the U.S. Core Office Fund

*Portfolio Activity*

We expanded our portfolio by 29.2 million square feet and our net effective interest by 26.7 million square feet with the acquisition of a major U.S. portfolio. We also acquired direct interest in several individual properties in Washington D.C. and sold a property in Denver. As a result, the book value of the net capital deployed in core office properties increased to $3.7 billion during the year from $2.9 billion at the end of 2005.

The U.S. portfolio we acquired in October 2006, consists of 58 properties located primarily in New York, Washington D.C., Houston and Los Angeles. This increased our total and net capital invested in each of these markets, and will have an increased impact on cash flows during 2007 when we receive a full year's contribution. We acquired the portfolio in partnership with a private equity investor for a total purchase price of $7.7 billion. Our share of the acquisition, totalling $5.6 billion, was completed through our U.S. Core Office Fund which is managed by us on behalf of ourselves and several institutional clients, although for accounting purposes we are required to consolidate the entire portfolio. Accounting guidelines required us to allocate $722 million of the purchase price to the value of items such as above market leases and tenant relationships associated with acquired properties, presented as "other assets", as well as deferred credits of $783 million for similar items such as below-market tenant and land leases. The net capital invested in the portfolio by the U.S. Core Office Fund, after deducting property and fund specific debt is $1.4 billion, of which we have provided 62%.

We also acquired four properties comprising 2.0 million square feet in Washington D.C. and Toronto for $400 million, further expanding our presence in this core market and sold non-core properties in Calgary, Alberta that had been acquired in 2005 as part of a major portfolio purchase, resulting in a $14 million gain. Lastly, we completed the sale of a property in Denver, Colorado for a gain of $30 million.

We formed a joint venture with a European property group to invest further in continental Europe and announced our first joint acquisition in January 2007, with the purchase of an office property in Germany. Although the capital commitment is currently modest, this is the start of the next phase of expanding our European operations.

During 2005, we acquired a portfolio in Canada to form our Canadian Core Office Fund and syndicated a 75% interest to co-investors. We also acquired several properties in Washington D.C. and an 80% interest in 20 Canada Square, located in the Canary Wharf Estate in London UK.

Property-specific debt, which is comprised principally of long-term mortgages secured by the underlying properties with no recourse to the Corporation, increased to $11.8 billion from $5.4 billion in 2005. The increase represented financing associated with the U.S. portfolio acquired during the year as well as financing put in place on the Washington properties acquired in 2005. This debt includes $481 million attributable to our investment partner in the portfolio acquisition.

Our core office property debt is primarily fixed-rate and non-recourse. These investment-grade financings typically reflect up to 70% loan-to-appraised value at the time that the mortgages are arranged. In addition, in certain circumstances when a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing can be put in place at rates commensurate with the cost of funds for the tenant. This reduces our equity requirements to finance core office properties, and as a result, enhances equity returns. Core office property debt at December 31, 2006 had an average interest rate of 7% and an average term to maturity of eight years.

*Operating Results*

Total operating cash flow increased to $1,095 million during 2006, compared with the $848 million generated by the portfolio during 2005 and $641 million generated in 2004. After deducting interest expense associated with property-specific financings, the net operating cash flow was $646 million in 2006, representing a 21% return on net invested capital and an 18% increase over the $548 million generated in 2005.

The variations in reported results are due largely to dividends received from our 15% investment in Canary Wharf, which totalled $87 million in 2006 and $183 million in 2005 as well as the U.S. portfolio acquisition, which increased total operating cash flow by $135 million. On a net basis, however, after deducting carrying costs, the contribution from the new U.S. portfolio was $13 million. We expect this contribution to increase over the next few years as the portfolio is rationalized, the leasing profiles are upgraded in the currently favourable environment and lower cost long-term funding is arranged.

The balance of our North American portfolio produced operating cash flow of $678 million, which was higher than the $639 million recorded in 2005 due principally to the contribution from newly acquired properties and the improved leasing environments. The stable occupancy levels in our portfolio and our emphasis on long-term leases tends to moderate fluctuations in net operating income from existing properties. We sold properties in Calgary and Denver during the year, resulting in $44 million of disposition gains, although the reduction in the size of our Calgary portfolio was more than offset by increased contributions from remaining properties due to extremely favourable leasing markets.

We received a dividend of Canary Wharf totalling $87 million in addition to the $183 million received last year. The significant increase in cash flow from our property at 20 Canada Square reflects a full year contribution as it was acquired part-way through 2005, as well as improved leasing.

Interest expense incurred on property specific financings increased from $300 million during 2005 to $442 million during 2006. Carrying charges on the U.S. portfolio acquired during the year accounted for $101 million of the increase and the balance was due principally to financing associated with other properties acquired during 2005 and 2006.

Brookfield Properties, through which we own and manage our North American core office properties, completed a $1.3 billion equity issue during the year, with $0.8 billion purchased by shareholders other than us. The small dilution in our share of the net assets at a price in excess of our book values gave rise to a gain of $110 million. Total gains, including property sales mentioned above, amounted to $154 million.

*Leasing and Occupancy Levels*

Our total portfolio occupancy rate at December 31, 2006 was 95% in our core North American markets, and 95% overall, unchanged compared to 2005 as shown in the following table:

| | **2006** | | | 2005 | | |
|---|---|---|---|---|---|---|
| YEARS ENDED DECEMBER 31 (THOUSANDS) | **Leasable Area** | **Owned Interest** | **Percentage Leased** | Leasable Area | Owned Interest | Percentage Leased |
| New York, New York | **19,516** | **16,352** | **97%** | 12,453 | 10,738 | 95% |
| Boston, Massachusetts | **2,163** | **1,103** | **93%** | 2,163 | 1,103 | 92% |
| Toronto, Ontario | **12,283** | **6,973** | **96%** | 12,278 | 6,147 | 93% |
| Calgary, Alberta | **7,845** | **3,544** | **100%** | 8,936 | 3,816 | 99% |
| Washington, D.C. | **6,771** | **6,594** | **98%** | 1,557 | 1,557 | 99% |
| Houston, Texas | **6,958** | **6,307** | **95%** | — | — | — |
| Los Angeles, California | **10,672** | **10,438** | **87%** | — | — | — |
| Ottawa, Ontario | **2,939** | **735** | **99%** | 2,935 | 734 | 99% |
| Core North American markets | **69,147** | **52,046** | **95%** | 40,322 | 24,095 | 95% |
| Denver, Colorado | **1,795** | **1,795** | **96%** | 2,605 | 2,605 | 87% |
| Minneapolis, Minnesota | **3,008** | **3,008** | **89%** | 3,008 | 3,008 | 88% |
| Other North America | **1,845** | **1,155** | **96%** | 2,095 | 1,219 | 92% |
| Total North America | **75,795** | **58,004** | **95%** | 48,030 | 30,927 | 94% |
| London, United Kingdom | **8,500** | **2,173** | **94%** | 8,500 | 2,173 | 90% |
| Total [1] | **84,295** | **60,177** | **95%** | 56,530 | 33,100 | 94% |

1 *Excludes development sites*

An important characteristic of our portfolio is the strong credit quality of our tenants. We direct special attention to credit quality in order to ensure the long-term sustainability of rental revenues through economic cycles. On average, the tenant profile exceeds an "A" credit rating. Major tenants with over 600,000 square feet of space in the portfolio include Merrill Lynch, Government of Canada, Wachovia, CIBC, Bank of Montreal, JPMorgan Chase, Goldman Sachs, RBC Financial Group, Petro-Canada, Target Corporation, Continental Airlines and Imperial Oil. Our strategy is to sign long-term leases in order to mitigate risk and reduce our overall retenanting costs. We typically commence discussions with tenants regarding their space requirements well in advance of the contractual expiration, and while each market is different, the majority of our leases, when signed, extend between 10 and 20 year terms. As a result of this strategy, approximately 6.6% of our leases mature annually. The long-term nature of our leases enable us to finance these properties on a long-term basis with no recourse to us.

As at December 31, 2006, the average term of our in-place leases in North America was seven years and expiries average 6.6% during each of the next five years. The U.S. portfolio had a shorter lease maturity than the balance of our portfolio, which we will seek to extend as we re-lease the properties. The average term of property specific financings was eight years. In our European portfolio, the average lease term is 20 years and the average term of property specific debt was eight years.

We leased 6.2 million square feet in our North American portfolio during 2006, over three times the amount of space contractually expiring. This included 3.6 million square feet of new leases and 2.6 million square feet of renewals. Leasing fundamentals have improved in most of our markets with particular strength in Calgary and New York where markets are tightening. Boston has been weak recently but appears to have stabilized.

Leasing fundamentals in London also continued to improve, and 540,000 square feet was leased during the year in properties in which we have an interest, bringing total occupancy across the portfolio to over 90%. Nearly 80% of the tenant rating profile is A+ or better.

**Residential Properties**

We conduct residential property operations in the United States, Canada and Brazil through subsidiaries in which we hold the following interests: United States – 53%; Canada – 50%; Brazil – 60%. We do not as yet earn any income for managing these operations other than the return on our invested capital, although we are exploring the formation of land joint ventures on an asset management basis.

The following table summarizes our invested capital and related cash flows:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Assets Under Management | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| | 2006 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| United States | **$ 1,355** | **$ 1,355** | $ 1,335 | **$ 1,142** | $ 1,063 | **$ 236** | $ 350 | | |
| Canada | **305** | **305** | 166 | **305** | 166 | **144** | 106 | | |
| Brazil | **743** | **743** | 532 | **567** | 396 | **36** | 40 | | |
| | **2,403** | **2,403** | 2,033 | **2,014** | 1,625 | **416** | 496 | **$ 416** | $ 496 |
| Cash taxes | | | | | | | | **(93)** | (141) |
| Borrowings / interest [1] | | | | **(1,126)** | (1,238) | | | **(23)** | (21) |
| Non-controlling interest in net assets | | | | **(404)** | (142) | | | **(69)** | (109) |
| | | | | **484** | 245 | **416** | 496 | **231** | 225 |
| Realization gain | | | | **—** | — | **269** | — | **269** | — |
| Net investment / operating cash flow | **$ 2,403** | **$ 2,403** | $ 2,033 | **$ 484** | $ 245 | **$ 685** | $ 496 | **$ 500** | $ 225 |

*1 Portion of interest expressed through cost of sales*

Net operating cash flow prior to realization gains was relatively unchanged between 2005 and 2006 as a slowdown in our U.S. operations was offset by strong growth in Canada, where our Alberta operations are benefitting from strong energy markets. We recorded a realization gain when we took our Brazil operations public during the fourth quarter of 2006. Total assets and net capital invested in the business have increased with the level of activity in Canada and Brazil.

*United States*

Our U.S. residential operations are conducted through a 53%-owned subsidiary named Brookfield Homes Corporation that had a $1 billion market capitalization at year end, compared with equity book value of $370 million. These operations are concentrated in four major supply constrained markets: San Francisco, Los Angeles and San Diego in California, and the Washington, D.C. area. In these operations, we own or control 28,000 lots through direct ownership, options and joint ventures. We focus on the mid-to upper-end of the home building market and are one of the twenty largest home builders in the United States. A significant portion of the value creation and operating margins in this business are achieved through the land acquisition process as opposed to the home building activity. We endeavour to option lots and acquire land that is well advanced through the entitlement process to minimize capital at risk. Most of our revenues are derived from the sales of finished homes and the associated lots, although we sell lots to other builders on a bulk basis to capture appreciation in values and recover capital.

We have experienced substantial growth in margins and volumes in each of our U.S. markets over the past five years although we experienced some retracement during 2006 as demand for new homes slowed. We are optimistic that these operations should continue to provide similar returns in 2007 and that we will achieve margin improvement and increased volumes once the current supply and demand imbalance is worked through in 2007 or 2008.

*Canada*

These operations are conducted as a business unit within Brookfield Properties Corporation, a 50%-owned subsidiary. Our Canadian operations are concentrated in Calgary, Edmonton and Toronto. Operations in the U.S. markets of Denver, Colorado and Texas are managed and reported within this unit. We own approximately 61,400 lots in these operations of which approximately 5,800 were under development at December 31, 2006 and 55,600 are included under development assets because of the length of time that will likely pass before they are developed. Our principal activity in this business is to acquire and develop lots for sale to other homebuilders, although we build and sell homes with some of our lots.

Operating cash flow in the Canadian operations increased significantly since the beginning of 2005 as our Alberta operations benefitted from the continued expansion of activity in the oil and gas industry. Most of the land holdings were purchased in the mid-1990's or earlier, and as a result have an embedded cost advantage today. This has led to particularly strong margins, although the high level of activity is creating some upward pressure on building costs and production delays. Nonetheless, unless the market environment changes, we expect another very strong year in 2007.

*Brazil*

Our Brazilian operations are owned through a 60% subsidiary named Brascan Residential Properties S.A. that had a market capitalization of $1.6 billion at year end compared to a book value of $575 million. This operation is focussed on building residential condominiums and also deploys capital in order to secure attractive sites. Operating cash flow for 2006 was similar to that reported in 2005. Unit sales during the fourth quarter of 2006 were particularly strong, however, the associated revenues will not be recognized until the units are completed, which is expected to occur during 2007 and 2008. As discussed under infrastructure development on pages 22 and 23, we own substantial density rights that will provide the basis for continued growth.

During 2006, we established these operations as a public company listed on the São Paulo Stock Exchange raising nearly $550 million through the issuance of common shares and reducing our remaining interest to 60%. We recorded a gain of $269 million on the transaction.

*Home and Lot Sales*

We sold 2,578 homes and condominium units during 2006. We also sold an additional 3,585 lots during the year for total lot sales of 6,163. Quantities of both homes/units and lots were both approximately 20% lower than last year, however the impact of this decline on net operating income was offset by increased margin in our Canadian operations.

The following table summarizes home and lot sales over the past three years.

| | *Home Sales* | | | *Lot Sales* [1] | | |
|---|---|---|---|---|---|---|
| *YEARS ENDED DECEMBER 31 (UNITS)* | ***2006*** | *2005* | *2004* | ***2006*** | *2005* | *2004* |
| United States | | | | | | |
| California | **784** | 1,040 | 1,357 | **1,745** | 2,103 | 1,415 |
| Washington, D.C. area | **398** | 614 | 523 | **460** | 1,065 | 864 |
| Canada | | | | | | |
| Ontario | **280** | 391 | 339 | **280** | 391 | 339 |
| Alberta | **538** | 556 | 496 | **2,885** | 3,173 | 2,433 |
| Other | **—** | — | — | **215** | 369 | 468 |
| Brazil | | | | | | |
| Rio de Janeiro and São Paulo | **578** | 528 | 606 | **578** | 528 | 606 |
| | **2,578** | 3,129 | 3,321 | **6,163** | 7,629 | 6,125 |

*1 Including lots associated with home sales*

## Opportunity Investments

We invest in commercial properties other than core office and have established dedicated operations to conduct these activities. Our objective is to acquire property which, through our management, leasing and capital investment expertise, can be enhanced to provide a superior return on capital. The scale of our overall operating platform in the property sector provides a substantial volume of potential investments for these operations and enables us to participate in a broad range of opportunities. During 2006, we established a fund to allow institutional investors to participate in these activities. The fund is capitalized with $245 million of equity commitments, of which we provided $125 million, and which is currently fully invested.

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Assets Under Management | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| (MILLIONS) | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Commercial properties | **$ 1,086** | **$ 1,086** | $ 468 | **$ 1,055** | $ 458 | **$ 42** | $ 19 | **$ 42** | $ 19 |
| Disposition gains | | | | | | **7** | — | **7** | — |
| Property specific mortgages / interest | | | | **(820)** | (311) | | | **(30)** | (6) |
| Co-investors' capital | | | | **(103)** | — | | | **(5)** | — |
| Net investment / operating cash flow | **$ 1,086** | **$ 1,086** | $ 468 | **$ 132** | $ 147 | **$ 49** | $ 19 | **$ 14** | $ 13 |

Total assets within the fund was approximately $1.1 billion at year end, and include 70 office properties in a number of cities across North America as well as smaller investments in industrial, student housing, multi-family, and other property asset classes. Our net invested capital at December 31, 2006 included a $23 million bridge loan to facilitate the recent portfolio acquisition, which is expected to be repaid over the next three to six months.

Opportunity investments tend to be more dynamic and typically have strong early stage value enhancement potential. Accordingly, operating results are expected to be derived more from realization gains than recurring net rental income. Debt financing for properties of this nature tends to be shorter in term to enhance flexibility, and leverage for the portfolio as a whole tends to vary between 70% and 80% of loan to value.

## Retail Properties

In addition to significant retail space which we operate in conjunction with our office properties, we have owned and operated retail properties in Brazil for many years. During 2006, we formed a fund with $800 million of capital to invest in Brazilian retail properties, of which our commitment is $200 million. The fund purchased three shopping centres previously owned by us for proceeds of $252 million, resulting in a gain for accounting purposes of $79 million.

The following table summarizes our retail office property operations:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Assets Under Management | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| (MILLIONS) | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Retail properties [1] | **$ 800** | **$ 215** | $ 270 | **$ 215** | $ 186 | **$ 38** | $ 25 | **$ 25** | $ 25 |
| Gain on establishment of Retail Fund | **—** | **—** | — | **—** | — | **79** | — | **79** | — |
| | **800** | **215** | — | **215** | 186 | **117** | — | **104** | 25 |
| Borrowings / interest | | | | **(113)** | — | **—** | — | **(4)** | (5) |
| Co-investors' capital | | | | **(74)** | — | **—** | — | **(2)** | — |
| Net investment / operating cash flow | **$ 800** | **$ 215** | $ 270 | **$ 28** | $ 186 | **$ 117** | $ 25 | **$ 98** | $ 20 |

*1 The Brazil Retail Fund was established in the third quarter of 2006.*

The fund's initial portfolio consists of three shopping centres and associated office space totalling 1.1 million square feet of net leasable area, located in Rio de Janeiro and São Paulo, and includes our 54% interest in the one million square foot Rio Sul Centre, which is one of Brazil's premier shopping centres. Borrowings represent debt incurred by the fund to finance the purchase of the initial portfolio assets, which is guaranteed by the obligation of ourselves and our partners to subscribe for capital in the fund up to the level of the committed amounts.

The fund's mandate is to acquire additional retail properties in the fragmented Brazilian market and to enhance their value through active management and repositioning. We also continue to hold direct interests in a smaller portfolio of retail and associated commercial office space with a net book value of $66 million which is now included in our "Investments" segment.

During January 2007, we agreed to purchase The Mills Corporation for an equity value of $1.35 billion and a total transaction value including debt and preferred share capitalization of $7.5 billion. The Mills is a U.S.-based owner of high quality retail properties. The portfolio consists of 38 shopping centres with a gross area of 47 million square feet. At the time of writing, an investor group has made a competing offer and it is therefore uncertain whether or not we will successfully complete the acquisition, which would, otherwise add substantially to this area of operations.

**Infrastructure Development**

We entitle, seek approval for, build, manage and develop many types of critical backbone infrastructure in business segments where we own assets. For example, we typically acquire land or long-term rights on land, seek entitlements to construct, and then either sell the project improved by the infrastructure entitlements or build the project ourselves.

The composition of our infrastructure development properties at December 31, 2006 and 2005, was as follows:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Potential Developments | *Invested Capital* Total 2006 | Total 2005 | Net 2006 | Net 2005 | *Operating Cash Flow* Total 2006 | Total 2005 | Net 2006 | Net 2005 |
|---|---|---|---|---|---|---|---|---|---|
| Core office properties | | **$ 842** | $ 296 | **$ 602** | $ 296 | | | | |
| Bay-Adelaide Centre | 2.6 million sq. ft. | | | | | | | | |
| Four Allen Centre | 1.3 million sq. ft. | | | | | | | | |
| Penn Station | 4.7 million sq. ft. | | | | | | | | |
| Other | 21.3 million sq. ft. | | | | | | | | |
| Residential lots | | | | | | | | | |
| United States [1] | 15,900 lots | **—** | — | **—** | — | | | | |
| Canada | 55,600 lots | **400** | 225 | **400** | 225 | | | | |
| Brazil | 9.8 million sq. ft. | **116** | 157 | **116** | 157 | | | | |
| Rural development | | | | | | | | | |
| Brazil | 260,000 acres | **66** | 50 | **49** | 50 | | | | |
| Canada [2] | 30,000 acres | **—** | — | | — | | | | |
| | 290,000 acres | | | | | | | | |
| | | **$ 1,424** | $ 728 | **$ 1,167** | $ 728 | **$ 1** | $ 5 | **$ 1** | $ 5 |

1 Book values included in United States residential, see page 19

2 Book values included as higher and better use land in western North American timber operations, see pages 27 and 28

In addition to the properties listed above, we have been actively developing a number of hydroelectric power facilities in Brazil and North America as well as wind generation facilities in Canada which are described further under Power Generating Operations.

The total book value of development properties within our property operations at year end increased to $1.4 billion from $0.7 billion at the end of 2005, with the increase occurring largely in our core office property operation.

We do not typically record ongoing cash flow in respect of development properties as the associated development costs are capitalized until the property is sold, at which time any disposition gain or loss is realized, or until the property is transferred into operations.

*Core Office Properties*

We maintain an in-house development capability to undertake development projects when the risk-adjusted returns are adequate and significant pre-leasing has been achieved. At year end, we held projects with 22.6 million square feet of commercial density rights. During 2006, we acquired the 1.3 million square foot Four Allen Center in Houston with a joint-venture partner for $120 million and immediately signed a long-term lease with Chevron for the entire property that will commence in 2007. We raised $240 million of project-specific financing to fund the acquisition and future refurbishment costs. Development projects also include our Penn Station development in midtown New York, which recently received increased permitting for 2.5 million square feet of office density. The Bay-Adelaide Centre development property, now 100%-owned, is located in Toronto's downtown financial district and zoned for up to 2.6 million square feet of office and residential use. Currently, we are under construction on a 1.1 million square foot premier office property. We also own expansion rights for a third office tower at BCE Place, our flagship Toronto office complex, which would add approximately 800,000 square feet of density, and similarly we have rights to develop approximately 500,000 square feet of office space at Bankers Court in Calgary, where we also have a 265,000 square foot office property under construction. At Canary Wharf in London, we own our proportionate share of development density which totals approximately 5.4 million square feet of commercial space.

*Residential Development Properties*

Residential development properties include land, both owned and optioned, which is in the process of being converted to residential lots, but not expected to enter the home building process for more than three years.

We utilize options to control lots for future years in our higher cost land markets in order to reduce risk. To that end, we hold options on approximately 14,900 lots in predominantly California and Virginia in return for providing planning and development expertise to obtain the required entitlements. We invested additional capital into development land in Alberta as a result of the significant increase in activity. In Brazil, we own rights to build residential and office condominium space of a further 8.0 million square feet, to be developed over the next 15 years in São Paulo, and a further 9.1 million square feet of condominium density in Rio de Janeiro which will be built over the next 10 years.

*Rural Development Properties*

We acquired 74,000 acres of additional rural land in Mato Grosso State and now own approximately 260,000 acres of prime rural development land in the States of São Paulo, Minas Gerais and Mato Grosso in Brazil. These properties are being used for agricultural purposes, including the harvest of sugar cane for its use in the production of ethanol as a gasoline substitute. A substantial increase in the world-wide consumption of ethanol for use as a substitute for gasoline has resulted in a significant increase in the value of lands which are suitable for sugar cane growing. During the past three years we completed leases with an average term of 23 years on approximately 41,600 acres to operators of large sugar cane processing facilities and expect to earn growing annual cash flows. The leases have floor payments plus participations on a combination of sugar and ethanol prices, and the land reverts to us after 23 years.

We hold 30,000 acres of potentially higher and better use land adjacent to our western North American timberlands acquired during 2005, which we intend to convert into residential and other purpose land over time, and are included within our timberland operations.

## POWER GENERATING OPERATIONS

Our power generating operations are predominantly hydroelectric facilities located on river systems in North America. As at December 31, 2006, we owned and managed approximately 140 power generating stations with a combined generating capacity of approximately 3,800 megawatts. Our facilities produced approximately 13,000 gigawatt hours of electricity in 2006. All but four of our existing stations are hydroelectric facilities located on river systems in seven geographic regions, specifically Ontario, Quebec, British Columbia, New York, New England, Louisiana and southern Brazil. This geographic distribution provides diversification of water flows to minimize the overall impact of fluctuating hydrology. Our storage reservoirs contain sufficient water to produce approximately 20% of our total annual generation and provide partial protection against short-term changes in water supply. The reservoirs also enable us to optimize selling prices by generating and selling power during higher-priced peak periods. We also own and operate two natural gas-fired plants, a pumped storage facility and, a 189-megawatt wind energy project that we operate under a 20-year fixed price power sales agreement.

The capital invested in our power generating operations and the associated cash flows are as follows:

| *AS AT AND FOR THE YEARS ENDED DECEMBER 31* | *Capacity* | | ***Assets Under Management*** | *Invested Capital* | | | | *Operating Cash Flow* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | *Total* | | *Net* | | *Total* | | *Net* | |
| *(MILLIONS)* | **2006** | *2005* | **2006** | **2006** | *2005* | **2006** | *2005* | **2006** | *2005* | **2006** | *2005* |
| Hydroelectric generation | *(MW)* | | | | | | | | | | |
| Ontario | **897** | 847 | **$ 1,094** | **$ 1,094** | $ 944 | **$ 1,094** | $ 944 | **$ 111** | $ 83 | | |
| Quebec | **277** | 277 | **371** | **371** | 374 | **371** | 374 | **95** | 54 | | |
| British Columbia | **127** | 127 | **133** | **133** | 131 | **133** | 131 | **15** | 13 | | |
| New England | **240** | 201 | **400** | **400** | 259 | **400** | 259 | **55** | 38 | | |
| New York and other northeast markets | **832** | 730 | **1,016** | **1,016** | 889 | **1,016** | 889 | **160** | 123 | | |
| Louisiana | **192** | 192 | **478** | **478** | 497 | **478** | 497 | **103** | 112 | | |
| Brazil | **205** | 205 | **264** | **264** | 195 | **264** | 195 | **41** | 30 | | |
| Total hydroelectric generation | **2,770** | 2,579 | **3,756** | **3,756** | 3,289 | **3,756** | 3,289 | **580** | 453 | | |
| Wind energy, co-generation & pumped storage | **1,004** | 815 | **493** | **493** | 170 | **493** | 170 | **40** | 16 | | |
| Development projects | **—** | — | **60** | **60** | 109 | **60** | 109 | **—** | — | | |
| Total power generation | **3,774** | 3,394 | **4,309** | **4,309** | 3,568 | **4,309** | 3,568 | **620** | 469 | **$ 620** | $ 469 |
| Other assets, net | | | **1,081** | **1,081** | 1,184 | **662** | 693 | | | **(2)** | — |
| Property specific and subsidiary debt / interest | | | | | | **(3,388)** | (2,839) | | | **(235)** | (215) |
| Non-controlling interests in net assets | | | | | | **(215)** | (225) | | | **(46)** | (24) |
| Net investment / operating cash flow | **3,774** | 3,394 | **$ 5,390** | **$ 5,390** | $ 4,752 | **$ 1,368** | $ 1,197 | **$ 620** | $ 469 | **$ 337** | $ 230 |

Total operating cash flow from our power generating assets increased to $620 million in 2006, compared with $469 million in 2005, due to expanded capacity, improved hydrology, and higher realized prices despite a lower price environment. After deducting interest expense and distributions to owners of partial interests in our business, these operations generated $337 million of cash flow on average net invested capital of $1.4 billion, representing a 25% return. The book value of invested capital increased by $171 million due to the acquisition of power facilities during the year offset by long-term property-specific debt financing and unsecured debt issued directly by our power generating operations. Property-specific debt totalled $2.7 billion at year end (2005 – $2.4 billion) and corporate unsecured debt issued by our power generating operations totalled $0.7 billion (2005 – $0.4 billion).

## Operating Results

The following table illustrates the components of the change in operating cash flows from our power generating operations, prior to interest expense and distributions, during the past two years:

| YEARS ENDED DECEMBER 31 (MILLIONS) | **2006** | 2005 [1] |
|---|---|---|
| Prior year's net operating cash flow | **$ 469** | $ 352 |
| Variances from prior year: | | |
| Hydrology variations within existing capacity | **52** | (23) |
| Variations in realized prices and operational improvements | **63** | 11 |
| Capacity additions | **36** | 129 |
| Current year's net operating cash flow | **$ 620** | $ 469 |

*1 Restated to conform to current presentation*

Hydrology conditions were approximately 4% above normal levels for the portfolio as a whole. We produced an additional 1,127 gigawatt hours from facilities owned throughout 2006 and 2005 and, as a result, cash flows were $52 million higher on a relative basis. Water conditions continue to be favourable in recent months and, as a result, our facilities are currently operating at average generation levels.

The decrease in natural gas prices has led to a decrease in market power prices from 2005 levels as most of the price-setting capacity in our operating regions is primarily natural gas. The impact of lower spot prices, however, was mitigated by our long-standing strategy to sell much of our power under long-term power sale agreements and financial contracts at higher prices. In addition, capacity revenues and our ability to capture peak pricing by using the flexibility of our assets also increased revenues. As a result, realized prices were actually higher in 2006 which, together with operational improvements and contribution from non-hydro operations, increased cash flows by $63 million over 2005 levels.

Capacity additions from acquisitions and selective development of additional capacity during 2006 and part way through 2005 generated 799 gigawatts of additional power and added $36 million of cash flow during 2006 compared to 2005. We added hydro facilities in Canada, Brazil and the Northeast United States and completed the development of a 189-megawatt wind energy project in Northern Ontario. We acquired a 2,933 gigawatt hour portfolio in New York in late 2004 which resulted in the substantial capacity additions in 2005 compared to 2004. The additional facilities furthered the diversification of our watersheds and energy sources, thereby reducing hydrology risk, and position us as an important participant in our core electricity markets.

The following table summarizes generation over the past two years:

| YEARS ENDED DECEMBER 31 (GIGAWATT HOURS) | ***Long-Term Average (LTA)*** | *Actual Production* | | *Variance to* | |
|---|---|---|---|---|---|
| | | ***2006*** | *2005* | ***LTA*** | *2005* |
| Existing capacity | | | | | |
| Ontario | **2,412** | **1,898** | 1,766 | **(514)** | 132 |
| Quebec | **1,702** | **2,032** | 1,475 | **330** | 557 |
| New England | **1,024** | **1,144** | 1,172 | **120** | (28) |
| New York | **2,903** | **3,602** | 3,025 | **699** | 577 |
| Louisiana | **903** | **712** | 813 | **(191)** | (101) |
| Other | **1,081** | **1,069** | 1,079 | **(12)** | (10) |
| Total existing capacity | **10,025** | **10,457** | 9,330 | **432** | 1,127 |
| Acquisitions – during 2006 | **456** | **517** | — | **61** | 517 |
| Acquisitions – during 2005 | **702** | **774** | 492 | **72** | 282 |
| Total hydroelectric operations | **11,183** | **11,748** | 9,822 | **565** | 1,926 |
| Wind energy, co-generation and pump storage | **1,198** | **1,268** | 1,108 | **70** | 160 |
| Total generation | **12,381** | **13,016** | 10,930 | **635** | 2,086 |

The following table illustrates revenues and operating costs for our hydroelectric facilities:

| YEARS ENDED DECEMBER 31 (GWH AND $ MILLIONS) | 2006 Actual Production | 2006 Realized Revenues | 2006 Operating Costs | 2006 Operating Cash Flows | 2005 Actual Production | 2005 Realized Revenues | 2005 Operating Costs | 2005 Operating Cash Flows |
|---|---|---|---|---|---|---|---|---|
| Ontario | **2,059** | **$ 150** | **$ 39** | **$ 111** | 1,766 | $ 118 | $ 35 | $ 83 |
| Quebec | **2,032** | **118** | **24** | **94** | 1,475 | 75 | 21 | 54 |
| New England | **1,438** | **82** | **27** | **55** | 1,275 | 63 | 25 | 38 |
| New York | **3,857** | **229** | **69** | **160** | 3,089 | 195 | 72 | 123 |
| Other | **2,362** | **211** | **51** | **160** | 2,217 | 195 | 40 | 155 |
| Total | **11,748** | **$ 790** | **$ 210** | **$ 580** | 9,822 | $ 646 | $ 193 | $ 453 |
| Per MWh | | **$ 67** | **$ 18** | **$ 49** | | $ 66 | $ 20 | $ 46 |

Realized prices, which include ancillary and capacity revenues and the impact of maximizing our generation during peak hour pricing, increased to $67 per megawatt hour despite a lower pricing environment for reasons described above. Operating costs on a per megawatt hour basis were lower due to the higher generation levels.

### Portfolio Activity

We added seven hydroelectric stations and one wind farm during 2006 with combined capacity of 380 megawatts and an annual production capability of 1,533 gigawatt hours. The new facilities are located in northeastern United States, Canada and Brazil and have been integrated into our current operations in these regions. The total acquisition cost was approximately $678 million and, resulted in a $741 million increase in the book value of our power generating assets to $4.3 billion from $3.6 billion at the end of 2005. We raised approximately $550 million of additional financing to fund acquisitions and maintain appropriate leverage on existing assets and, as a result, the net capital invested in our portfolio was relatively unchanged year over year.

We finance our power generation facilities in the same manner as our core office properties with long-term debt that is recourse only to the assets being financed. We typically achieve approximately 50% loan to value at the time of financing before taking into account any power contract arrangements, which may enable significantly higher loan-to-value ratios to be achieved. At December 31, 2006, the average term of this debt was 18 years and the average interest rate was 8%.

We have expanded our power operations significantly since 2001, at which time the book value was less than $1 billion and capacity was less than 1,000 megawatts. We will continue our efforts to expand the portfolio and are pursuing a number of opportunities in this regard.

We believe the intrinsic value of our power assets is much higher than the book value because the assets have either been held for many years and therefore depreciated for accounting purposes which, in our view, is inconsistent with the nature of hydroelectric generating assets. In addition, we have been successful in acquiring, developing and upgrading many of our facilities on an attractive basis. In addition, higher fossil fuel prices have resulted in significantly expanded operating margins for hydroelectric facilities, which are not impacted by fuel cost and have very low operating cost.

### Contract Profile

We endeavour to maximize the stability and predictability of our power generating revenues by contracting future power sales to minimize the impact of price fluctuations, by diversifying watersheds, and by utilizing water storage reservoirs to minimize fluctuations in annual generation levels.

Approximately 80% of our projected 2007 and 2008 revenues are currently subject to long-term bilateral power sales agreements or shorter-term financial contracts. The remaining revenue is generated through the sale of power in wholesale electricity markets. Our long-term sales contracts, which cover approximately 55% of projected revenues during this period, have an average term of 13 years and the counterparties are almost exclusively customers with long-standing favourable credit histories or have investment grade ratings. The financial contracts typically have a term of between one and three years.

All power that is produced and not otherwise sold under a contract is sold in wholesale electricity markets, and due to the low variable cost of hydroelectric power and the ability to concentrate generation during peak pricing periods, we are often able to generate highly attractive margins on power which is otherwise uncontracted. This approach provides an appropriate level of revenue stability, without exposing the company to undue risk of contractual shortfalls, and also provides the flexibility to enhance profitability through the production of power during peak price periods.

The following table sets out the profile of our contracts over the next five years from our existing facilities, assuming long-term average hydrology:

| YEARS ENDED DECEMBER 31 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|
| Generation (GWh) | | | | | |
| Contracted | | | | | |
| Power sales agreements | 7,233 | 7,165 | 5,906 | 5,887 | 5,426 |
| Financial contracts | 3,635 | 2,903 | 292 | 287 | — |
| Uncontracted | 2,401 | 3,031 | 6,472 | 6,496 | 7,250 |
| | 13,269 | 13,099 | 12,670 | 12,670 | 12,676 |
| Contracted generation | | | | | |
| % of total | 82 | 77 | 49 | 49 | 43 |
| Revenue ($millions) | 710 | 666 | 448 | 447 | 417 |
| Price ($/MWh) | 65 | 66 | 72 | 72 | 77 |

The increase in the average selling price for contracted power over the next five years reflects contractual step-ups in long duration contracts with attractive locked-in prices and the expiry of lower priced contracts during the period.

## TIMBERLANDS

We own and manage timber assets which have investment characteristics that are similar to our property and power operations. Our current operations consist of the following:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Acres | Assets Under Management 2006 | Invested Capital Total 2006 | Invested Capital Total 2005 | Invested Capital Net 2006 | Invested Capital Net 2005 | Operating Cash Flow Total 2006 | Operating Cash Flow Total 2005 | Operating Cash Flow Net 2006 | Operating Cash Flow Net 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Timber | $ 1,849,000 | **$ 1,122** | **$ 1,122** | $ 1,001 | **$ 1,122** | $ 1,001 | **$ 113** | $ 40 | | |
| Other assets, net | | **68** | **68** | 56 | **18** | 5 | | | | |
| | | **1,190** | **1,190** | 1,057 | **1,140** | 1,006 | **113** | 40 | **$ 113** | $ 40 |
| Property specific and other borrowings / interest | | | | | **(485)** | (447) | | | **(29)** | (15) |
| Non-controlling interests in net assets | | | | | **(340)** | (255) | | | **(26)** | (7) |
| Net investment / operating cash flow | | **$ 1,190** | **$ 1,190** | $ 1,057 | **$ 315** | $ 304 | **$ 113** | $ 40 | **$ 58** | $ 18 |

We have significantly expanded the operations over the past two years with the formation of the Island Timberlands Fund in western North America during 2005 and the Acadian Timber Fund in eastern North America early in 2006. Our goals are to continue to prudently invest additional capital in our timber operations when opportunities are available.

### Western North America

We established the Island Timberlands Fund in mid-2005 with the purchase of 633,000 acres of high quality private timberlands on the west coast of Canada. These assets are financed with $410 million of property specific debt. We own 50% of the fund and the balance is owned by institutional investors.

Timber operations performed in line with expectations and the prospects for 2007 are promising. Demand for high quality timber exported to the U.S. and Japan remains strong, although this was offset somewhat by adverse weather conditions in western Canada and the impact of the higher Canadian dollar on operating costs. The increase in operating cash flows over 2005 reflects a full twelve months of ownership compared to seven months in 2005 and gains realized on the sale of higher and better use lands.

**Eastern North America**

In early 2006, we established the Acadian Timber Fund, a publicly listed income fund that acquired the 311,000 acres of private timberlands previously owned by us as well as a further 765,000 acres held by Fraser Papers. Acadian, in which we hold a 30% interest, is managed by our timber management group and completed a C$85 million initial public offering during the first quarter of 2006. To date, performance has been in line with our initial expectations, however, the current weakness in the eastern North American forest product sector is likely to persist for the next several quarters. Operating cash flows during 2006 reflect the increased holdings within the fund and include a gain of $26 million realized on the formation of the fund.

**Brazil**

We hold 140,000 acres of timberlands located in the State of Paraná in Brazil and are actively pursuing acquisition opportunities to expand our timberland operations in this country, which benefit from rapid rates of growth for trees.

## Transmission Infrastructure

We have owned and managed transmission systems in northern Ontario for many years and acquired the largest electricity transmission company in Chile at the end of June 2006. We also made a non-controlling investment in a Brazilian transmission company during the fourth quarter of 2006, which we hope will lead to further opportunities. These operations generate stable rate-based cash flows that provide attractive long-term returns for us and our investment partners. We intend to further expand our transmission operations to serve the needs of the underserviced electrical infrastructure sector in our geographic markets.

| AS AT, AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | *Assets Under Management* | *Invested Capital* | | | | *Operating Cash Flow* | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | *Total* | | *Net* | | *Total* | | *Net* | |
| | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| North America | **$ 146** | **$ 146** | $ 130 | **$ 146** | $ 130 | **$ 28** | $ 24 | | |
| Chile | **2,525** | **2,525** | — | **2,525** | — | **91** | — | | |
| Brazil | **157** | **157** | — | **157** | — | **—** | — | | |
| | **2,828** | **2,828** | 130 | **2,828** | 130 | **119** | 24 | **$ 119** | $ 24 |
| Other assets, net | **315** | **315** | 26 | **48** | 12 | **—** | — | **(8)** | — |
| | **3,143** | **3,143** | 156 | **2,876** | 142 | **119** | 24 | **111** | 24 |
| Project-specific financing and other borrowings | | | | **(1,496)** | (100) | | | **(55)** | (4) |
| | | | | **1,380** | 42 | **119** | 24 | **56** | 20 |
| Debt component of co-investors' capital | | | | **(589)** | — | | | **(25)** | — |
| Equity component of co-investors' capital | | | | **(242)** | — | | | **6** | — |
| Net investment / operating cash flow | **$ 3,143** | **$ 3,143** | $ 156 | **$ 549** | $ 42 | **$ 119** | $ 24 | **$ 37** | $ 20 |

### *North America*

We own and operate an electrical transmission system in northern Ontario. As a regulated rate base business, the operations produce stable and predictable cash flows and provide attractive returns for future investment. During 2005 and 2006, we invested $64 million of capital to upgrade our system, thereby increasing its rate base. The increase in cash flow is due to the expanded rate base and impact of the higher Canadian dollar.

### *Chile*

During the year we acquired the Transelec electricity transmission system in Chile for approximately $2.5 billion. We own 28% of the business and the balance is held by our institutional investment partners. The operating results were in line with expectations during our six months of ownership taking into consideration up-front integration costs.

Transelec's assets serve as the backbone of the Chilean electrical distribution sector, with more than 8,000 kilometres of transmission lines and 51 substations that deliver electricity to approximately 99 percent of the Chilean population through various local distribution companies. The revenues of Transelec are predominantly governed by an attractive regulatory rate base agreement that provides for inflation adjusted returns and a substantial portion of the revenues are based in U.S. currency. We expect that the operations will generate approximately $200 million of annual net operating income in the near term prior to financing costs and taxes. Furthermore, any additional qualifying capital expenditures will be added to the rate base and earn a 10% return, which is also inflation adjusted.

## Specialty Investment Funds

We conduct bridge financing, real estate finance and restructuring activities through specialty investment funds. Although our primary industry focus is on property, power and long-life infrastructure assets, our mandates within our bridge finance and restructuring funds include other industries which have tangible assets and cash flows, and particularly where we have expertise as a result of previous investment experience. Our public securities operations manage funds with specific mandates to invest in public and private securities on behalf of institutional and retail investors.

The following table shows the assets currently under management and the invested capital at December 31, 2006 and 2005, together with the associated operating cash flow:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Assets Under Management [1] | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| (MILLIONS) | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Bridge Lending | **$ 1,452** | **$ 637** | $ 268 | **$ 622** | $ 268 | **$ 65** | $ 31 | **$ 65** | $ 31 |
| Real Estate Finance | **5,438** | **183** | 149 | **183** | 149 | **17** | 14 | **17** | 14 |
| Restructuring | **977** | **977** | 82 | **377** | 82 | **147** | 9 | **82** | 9 |
| Fixed income and real estate securities [2] | **20,460** | **—** | — | **—** | — | **—** | — | **—** | — |
| Net investment / operating cash flow | **$ 28,327** | **$ 1,797** | $ 499 | **$ 1,182** | $ 499 | **$ 229** | $ 54 | **$ 164** | $ 54 |

*1 Represents capital committed or pledged by Brookfield and co-investors, including the book value of our invested capital*

*2 Capital invested in fixed income and real estate securities and associated cash flow included in Cash and Financial Assets and Other Assets*

Net operating cash flows, which represent the returns from our net invested capital deployed in these activities, totalled $164 million in 2006, a three-fold increase over 2005, which was in turn 13% higher than 2004. In addition, these operations generated fees of $77 million in 2006, which is included in Asset Management revenues, and represents a meaningful increase from the $49 million recorded in 2005. Higher investment income reflects higher average levels of interest bearing securities and loans held during the year as well as realization gains.

### Bridge Lending

We provide bridge loans to entities operating in industries where we have operating expertise, leveraging our 20-year history of offering tailored lending solutions to companies in need of short-term financing.

Our net capital deployed increased from $268 million to $622 million year over year. We continued to be active in 2006, reviewing many financing opportunities and issuing funding commitments totalling $3.4 billion to 24 clients. Our portfolio at year end was comprised of 21 loans, and the largest single exposure at that date was $102 million. The portfolio has an average term of 26 months excluding extension privileges. We do not employ any direct financial leverage, although loans may be structured with senior and junior tranches, and are often subordinate to other debt in the borrower's capital structure.

Operating cash flows, which represent the return on our capital and exclude management fees, increased during the year due to the higher level of invested capital during the year compared to 2005. Our average capital deployed during the year was $519 million compared with $264 million during 2005.

## Real Estate Finance

Our real estate finance operations provide financing for the ownership of real estate properties on a primary or secondary basis in a form which is senior to traditional equity, but subordinate to traditional first mortgages or investment grade debt. Our investments typically represent financing at levels between 65% and 85% of the value of the property.

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Assets Under Management [1] | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| | 2006 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Real estate finance investments, net of debt | $ 1,650 | $ 417 | $ 366 | $ 417 | $ 366 | $ 42 | $ 36 | $ 42 | $ 36 |
| Less: co-investor interests | | (278) | (244) | (278) | (244) | (28) | (24) | (28) | (24) |
| | 1,650 | 139 | 122 | 139 | 122 | 14 | 12 | 14 | 12 |
| Directly held | 21 | 21 | 27 | 21 | 27 | 2 | 2 | 2 | 2 |
| Mortgage REIT | 3,767 | 23 | — | 23 | — | 1 | — | 1 | — |
| Net investment / operating cash flow | $ 5,438 | $ 183 | $ 149 | $ 183 | $ 149 | $ 17 | $ 14 | $ 17 | $ 14 |

1 Represents capital committed or pledged by Brookfield and co-investors, including the book value of our invested capital

During 2006, we acquired loan positions with an aggregate principal balance of approximately $942 million. The portfolio continues to perform in line with expectations. We also sold our interests in CRIIMI MAE, a U.S. public mortgage REIT, during the first quarter of 2006, giving rise to a gain of $13 million, of which our share was $4 million. We maintain credit facilities that provide financing for these investments on a non-recourse basis, and we have also established two collateralized debt obligation vehicles. This debt funding represents $1.2 billion of low cost borrowings to finance the acquisition of mortgage loan participations, mezzanine loans, and CMBS. The credit facilities are short-term in nature. The collateralized debt obligation vehicles provide term financing for their respective portfolios of assets. This financing provides a stable, lower-risk source of funding that is intended to enhance investment returns. The quality and diversification of the portfolio enabled us to apply non-recourse leverage of 81% at year end.

During 2006, we completed the initial public offering of a mortgage REIT in the United States, managed by us, which generated a total of $560 million of equity capital from the IPO and initial private placement.

## Restructuring

Our restructuring group, which operates under the name “Tricap”, invests long-term capital in companies facing financial or operational difficulties which have tangible assets and cash flows, and in particular in industries where we have expertise resulting from prior operating experience. Tricap benefits from our 30-year record of restructuring companies experiencing financial and operational difficulties.

We completed the investment phase of our first fund and recently formed our second restructuring fund, Tricap II, with initial committed capital of $659 million, including $260 million from ourselves. Our net invested capital in restructuring opportunities at year end was $377 million, significantly higher than the $82 million deployed at the end of 2005. The increase represents our initial investment in Stelco, additional capital invested in Western Forest Products to fund the acquisition of Cascadia, which was previously reported within our Investments segments, and new investments for Tricap II.

Total invested capital and operating cash flows are substantially higher than net amounts and the total amounts in 2005 because we began consolidating the accounts of our investments in Concert Industries and Western Forest Products (“Western”) for accounting purposes during 2006 as they are majority owned. Total operating cash flow, which tends to fluctuate due to the nature of the investments, was substantially higher during the year at $147 million due to the receipt by Western of $109 million in respect of the pending softwood lumber settlement. Net capital and cash flows reflect our pro rata share of the investee results after deducting financing and other shareholder interests.

Tricap completed the financial restructuring of Stelco, a major Canadian integrated steel company during 2006, which resulted in Tricap owning a 37% equity interest. We installed a new management team that has extensive experience in the steel industry and intend to benefit from the improved fundamentals and consolidation within this sector. We include our share of Stelco’s results together with equity accounted results from other Investments in our reconciliation between operating cash flow and net income.

Tricap also increased its equity interest of Western Forest Products, a western Canadian forest products company, to 70% through a rights offering during the second quarter of 2006. Western continued to rationalize its operations, and during 2006, merged with Cascadia Forest Products, another Vancouver Island lumber company that we previously acquired in connection with the purchase of private timberlands by our timber Fund and was held in our Private Equity Investments. We have invested $51 million of capital in two new initiatives at year end through Tricap II.

### Fixed Income and Real Estate Securities

We manage fixed income and real estate securities on behalf of our clients. We specialize in equities and fixed income securities including government, municipal and corporate bonds, and structured investments such as asset-backed, mortgage-backed and commercial mortgage-backed securities. Our clients include but are not limited to pension funds, insurance companies, foundations, mutual and other closed-end funds, and structured funds. For a number of our insurance clients, we also provide ancillary services including asset allocation and asset/liability management.

We earn base management fees that vary from mandate to mandate, and earn performance returns in respect of certain mandates depending on investment results. We have a modest amount of capital invested in these operations which is included with Financial Assets together with the associated investment returns. Fee revenues, which are included in Asset Management Income, increased to $36 million in 2006 due primarily to growth in the underlying assets under management.

## Private Equity Investments

We own direct interests in a number of investments which will be sold once value has been maximized, integrated into our core operations or used to seed new funds. Although not core to our broader strategy, we expect to continue to make new investments of this nature and dispose of more mature assets.

The following table sets out these investments, together with associated cash flows and gains:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Location | Interest | Assets Under Management 2006 | Invested Capital Total 2006 | Invested Capital Total 2005 | Invested Capital Net 2006 | Invested Capital Net 2005 | Operating Cash Flow Total 2006 | Operating Cash Flow Total 2005 | Operating Cash Flow Net 2006 | Operating Cash Flow Net 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Forest products | | | | | | | | | | | |
| Norbord Inc. | North America / UK | 24% | **$ 178** | **$ 178** | $ 199 | **$ 26** | $ (12) | **$ 66** | $ 62 | **$ 39** | $ 37 |
| Fraser Papers Inc. | North America | 49% | **141** | **141** | 197 | **141** | 197 | **—** | — | **—** | — |
| Privately held | North America | 100% | **140** | **140** | 428 | **95** | 285 | **(64)** | (35) | **(64)** | (41) |
| Mining | | | | | | | | | | | |
| Coal lands | Alberta | 100% | **73** | **73** | 77 | **73** | 77 | **5** | 4 | **5** | 4 |
| Business services | | | | | | | | | | | |
| Insurance | Various | 80-100% | **2,357** | **2,357** | 2,028 | **593** | 495 | **37** | 27 | **25** | 20 |
| Banco Brascan, S.A. | Rio de Janeiro | 40% | **75** | **75** | 69 | **75** | 69 | **6** | 6 | **6** | 6 |
| Privately held | Various | 100% | **369** | **369** | 304 | **278** | 133 | **179** | 53 | **131** | 41 |
| Publicly listed | Canada | 60% | **51** | **51** | 84 | **23** | 49 | **—** | — | **—** | (2) |
| Property | | | | | | | | | | | |
| Privately held | Brazil | Various | **66** | **66** | — | **100** | — | **2** | — | **4** | — |
| Net investment / operating cash flows | | | **$ 3,450** | **$ 3,450** | $ 3,386 | **$ 1,404** | $ 1,293 | **$ 231** | $ 117 | **$ 146** | $ 65 |

We account for our non-controlled public investments such as Norbord and Fraser Papers using the equity method, and include dividends received from these investments in operating cash flow and our proportional share of their earnings in net income. We consolidate the results of our majority owned private companies and accordingly include our proportional share of their results in the operating cash flow shown above.

## Forest Products

*Norbord Inc.*

We control 38% and own a net beneficial interest in approximately 24% or 34 million shares of Norbord Inc. ("Norbord"). We previously issued debentures exchangeable into 20 million Norbord shares that are recorded at the market value of the Norbord shares. Our net investment had a market value of approximately $262 million at year end.

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Shares | Interest | Assets Under Management 2006 | Invested Capital Total 2006 | Invested Capital Total 2005 | Invested Capital Net 2006 | Invested Capital Net 2005 | Operating Cash Flow Total 2006 | Operating Cash Flow Total 2005 | Operating Cash Flow Net 2006 | Operating Cash Flow Net 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Common shares owned | 54.4 | 38% | **$ 178** | **$ 178** | $ 199 | **$ 178** | $ 199 | **$ 66** | $ 62 | **$ 66** | $ 62 |
| Exchangeable debentures | (20.0) | (14%) | **—** | **—** | — | **(152)** | (211) | **—** | — | **(27)** | (25) |
| Net investment / operating cash flows | 34.4 | 24% | **$ 178** | **$ 178** | $ 199 | **$ 26** | $ (12) | **$ 66** | $ 62 | **$ 39** | $ 37 |

Norbord is an international producer of wood panels with operations in the United States, Canada and Europe. The company's principal product is oriented strandboard. Norbord contributed $66 million of dividends to our cash flow during the current year resulting in a net contribution of $39 million after deducting exchangeable debenture interest. Norbord is traded on the Toronto Stock Exchange. Further information on Norbord is available through its web site at **www.norbord.com**.

*Fraser Papers Inc.*

We own approximately 14.4 million common shares of Fraser Papers, which represent a 49% equity interest in the company. Fraser Papers produces a wide range of specialty paper products from its operations which are located principally in Maine and New Brunswick. Fraser Papers is traded on the Toronto Stock Exchange. Further information on Fraser Papers is available through its web site at **www.fraserpapers.com**.

*Privately Held*

We acquired Katahdin Paper in connection with the purchase of power generation operations. Katahdin owns a 250,000 ton-per-year directory paper mill and a 180,000 ton-per-year super-calendered fine paper mill. These operations, located in Maine, were acquired out of bankruptcy in April 2003. Katahdin has faced a difficult operating environment over the past two years, which has resulted in losses and asset impairment charges. Subsequent to the end of the year, we entered into an agreement to sell these operations to 49%-owned Fraser Papers for proceeds of $50 million plus working capital, as well as an ongoing direct participation in a portion of Kathadin's operations. Invested capital at the end of 2005 included our investment in Cascadia, a coastal British Columbia lumber producer. We merged Cascadia with Western Forest Products, which is owned within our restructuring fund, during 2006.

## Mining

*Coal Lands*

Brookfield owns the coal rights under approximately 475,000 acres of freehold lands in central Alberta. These lands supply approximately 11% of Alberta's coal-fired power generation through the production of approximately 13 million tonnes of coal annually. Royalties from this production generate $5 million of operating cash flow and provide a stable source of income as they are free of crown royalties. In addition, we own a 3.5% net profit interest in 75 million tonnes of proven reserves, and 35 million tonnes of potential reserves of high quality metallurgical coal in British Columbia.

## Business Services and Other

*Insurance Operations*

Our insurance operations are conducted through 80%-owned Imagine Insurance, a specialty reinsurance business which operates internationally; Hermitage Insurance, a property and casualty insurer which operates principally in the northeast United States; and Trisura, a surety company based in Toronto. We manage the securities portfolios of these companies, which total $1.5 billion and consist primarily of highly rated government and corporate bonds, through our public securities operations. Imagine is rated A- and A- (excellent) by Fitch and AM Best, respectively and Hermitage is rated B++ (good) by AM Best. We continue to explore a variety of options to surface the value of our insurance business, which could result in a reduced ownership interest in the future.

*Banco Brascan, S.A.*

We currently own a 40% interest in Banco Brascan, which is a Brazilian investment bank based in Rio de Janeiro and São Paulo. The balance of the company is owned 40% by Mellon Financial Group and 20% by management. We have agreed to acquire an incremental 11% of Banco Brascan from management which we expect to complete in the first quarter of 2007. Banco Brascan advises, lends to and provides asset management services to domestic and foreign companies in Brazil.

*Other Privately Held*

During the year we agreed to sell to the Accor Group of France our interest in a joint venture with them that owns and manages the Accor Group hotel brands in Brazil, and a voucher services business. We will receive $200 million cash proceeds during 2007 and recorded a monetization gain of $126 million on the transaction. Other privately held investments include our investment in NBS Technologies Inc., which we privatized during the year. NBS provides secure identification solutions, financial transaction services and operates a commerce gateway that facilitates electronic payment processing. In 2005, we sold a tin mining operation in Brazil for a gain of $21 million.

*Other Publicly Listed*

Publicly listed business service investments include a controlling interest in MediSolution Ltd. MediSolution develops and manages medical human resources management software and systems for the health industry, primarily in Canada.

*Privately Held Properties*

We continue to hold several properties that do not form part of our other designated portfolios. These properties will be managed to maximize their value and will likely then be sold.

## Cash and Financial Assets

We hold a substantial amount of financial assets, cash and equivalents that represents liquid capital to fund operating activities and investment initiatives. The market value of cash and financial assets was approximately $2.1 billion at year end compared with a book value of $1.7 billion. Security positions within designated portfolios and equity derivative positions are carried at market value and all other positions are carried at book value.

Our net holdings of cash and financial assets declined by $1.1 billion during the year as surplus liquidity received from the sale of a major investment during 2005 was redeployed into new property, power and infrastructure assets.

The following table shows the composition of these assets and associated cash flow:

| AS AT, AND FOR THE YEARS ENDED DECEMBER 31 | | Assets Under Management | Invested Capital | | | | Operating Cash Flow | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Total | | Net | | Total | | Net | |
| (MILLIONS) | | 2006 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| Financial assets | | | | | | | | | | |
| Government bonds | | $ 57 | $ 57 | $ 59 | $ 57 | $ 59 | | | | |
| Corporate bonds | – Xstrata convertible | 375 | 375 | 375 | 375 | 375 | | | | |
| | – Other | 199 | 199 | 232 | 199 | 232 | | | | |
| Asset backed securities | | 16 | 16 | 69 | 16 | 69 | | | | |
| High yield bonds | | 137 | 137 | 220 | 137 | 220 | | | | |
| Preferred shares | – Falconbridge | — | — | 570 | — | 570 | | | | |
| | – Other | 26 | 26 | 107 | 26 | 107 | | | | |
| Common shares | | 548 | 548 | 494 | 548 | 494 | | | | |
| Loans and other | | 10 | 10 | 15 | 10 | 15 | | | | |
| Total financial assets | | 1,368 | 1,368 | 2,141 | 1,368 | 2,141 | $ 407 | $ 240 | $ 407 | $ 240 |
| Cash and cash equivalents | | 305 | 305 | 417 | 305 | 417 | 6 | 5 | 6 | 5 |
| Deposits and other liabilities | | — | — | — | (524) | (428) | — | — | (17) | (9) |
| Net investment / operating cash flow | | $ 1,673 | $ 1,673 | $ 2,558 | $ 1,149 | $ 2,130 | $ 413 | $ 245 | $ 396 | $ 236 |

The Falconbridge preferred shares were redeemed during the second quarter of 2006. We also monetized a number of high yield bond and common share positions for substantial gains. At year end, we held debentures exchangeable into 13.6 million Xstrata common shares at a price of £15.27 per Xstrata share, which have a value based on quoted market prices that is substantially higher than our book value.

Deposit and other liabilities include broker deposit liabilities associated with our securities portfolio and borrowed securities sold short with a value of $84 million at December 31, 2006.

Operating cash flows include gains and losses on a number of marketable security positions taken in undervalued companies that we felt were likely to be restructured or positioned for sale, particularly if we believed we might have the opportunity to participate in the process. Positions such as these may be monetized upon our determination not to pursue a transaction, upon sale to the ultimate acquirer or if it became unlikely that an event would occur to surface value. As these investments are typically not marked to market, the timing of the realization of gains or losses have resulted in cash flows varying on a quarter over quarter basis. Commencing in 2007, most of these holdings will be carried at market values with changes in value included in our current operating results, in accordance with new accounting guidelines. As a result of the transition rules, however, any unrealized gains on our financial assets at January 1, 2007 including our Xstrata securities, will be recorded as an adjustment to shareholders equity at that time. Accordingly, if we realize any of these gains in future periods they will not be reflected in net income.

## Other Assets

**Other Assets**

The following is a summary of other assets:

| | *Invested Capital* | | *Operating Cash Flow* | |
|---|---|---|---|---|
| *YEARS ENDED DECEMBER 31 (MILLIONS)* | ***2006*** | *2005* | ***2006*** | *2005* |
| Accounts receivable | **$ 386** | $ 605 | | |
| Restricted cash | **517** | 367 | | |
| Goodwill and intangible assets | **130** | 160 | | |
| Prepaid and other assets | **888** | 659 | | |
| | **$ 1,921** | $ 1,791 | **$ —** | $ — |

Other assets include working capital balances employed in our business that are not directly attributable to specific operating units. The magnitude of these balances varies somewhat based on seasonal variances and increased year-over-year with overall growth in business activity and expansion of our operating base.

Accounts receivable include balances in respect of contracted revenues owing but not yet collected, dividend, interest and fees owing to the company. Restricted cash relates primarily to commercial property financing arrangements including defeasement of debt and the required use of borrowed funds for specific capital expenditures and investments. Prepaid and other assets include amounts recorded in respect of the straight-lining of long-term contracted revenues in accordance with accounting guidelines.

## CAPITAL RESOURCES AND LIQUIDITY

The following sections describe our capitalization and liquidity profile. The strength of our capital structure and the liquidity that we maintain enables us to achieve a low cost of capital for our shareholders and at the same time provides us with the flexibility to react quickly to potential investment opportunities as they arise, as well as to withstand sudden adverse changes in economic circumstances.

Our capitalization structure is comprised largely of long-term financings and permanent equity. We believe this is the most appropriate method of financing our long-term assets, and the high quality of the assets and the associated cash flows enable us to raise long-term financing in a cost effective manner. We prudently finance our operations with debt and other forms of leverage that match the profile of the business and without any recourse to the Corporation. The leverage employed is reflective of the liquidity and duration of the assets and operations being financed and varies from fund to fund and operation to operation. Our policy is to guarantee the obligations of any fund or operating entity other than our equity commitment only in limited circumstances. Funds also have the ability to raise additional capital through asset sales or debt financings, from their stakeholders, including us, from the public capital markets or through private issuances.

To ensure we are able to react to investment opportunities quickly and on a value basis, we typically maintain a high level of liquidity at the corporate level. This takes the form of financial assets and committed bank term facilities. We also hold a number of direct investments that are non-core and represent additional sources of liquidity.

### Capitalization

#### Credit Profile

Brookfield makes judicious use of debt and preferred equity to enhance returns to common shareholders. We arrange our financial affairs so as to maintain strong investment grade ratings, which lower our cost of borrowing and broadens our access to capital. We also endeavour to minimize liquidity and refinancing risks to the company by issuing long-dated securities and spreading out maturities.

The credit ratings for the company at December 31, 2006, and at the time of the printing of this report were as follows:

| | *DBRS* | *S&P* | *Moody's* |
|---|---|---|---|
| Commercial paper | R-1 (low) | A-1 (low) | — |
| Term debt | A (low) | A- | Baa3 |
| Preferred shares | Pfd-2 (low) | P-2 | — |

We endeavour to ensure that our principal operations maintain investment grade ratings in order to provide continuous access to a wide range of financings and to enhance borrowing flexibility, a low cost of capital and access to various forms of financing that are not available to non-investment grade borrowers.

The following outlines our targeted debt to capitalization levels:

| | *Objective* | ***2006*** | *2005* | *2004* |
|---|---|---|---|---|
| Debt to capitalization | | | | |
| Corporate borrowings and subsidiary obligations | 20% to 30% | **16%** | 20% | 22% |

Our deconsolidated capitalization, which totalled $13 billion at year end, includes corporate debt, subsidiary obligations, capital securities and preferred equity, as well as our common equity. These obligations are typically unsecured and have minimal covenants and operating requirements. The following table details our deconsolidated liabilities and shareholders' interests at the end of 2006 and 2005 and the related components of cash flows:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Cost of Capital [1] | | Book Value | | Operating Cash Flow [2] | |
|---|---|---|---|---|---|---|
| (MILLIONS) | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Corporate borrowings [3] | **7%** | 7% | **$ 2,175** | $ 2,225 | **$ 190** | $ 188 |
| Other liabilities | **9%** | 7% | **1,771** | 1,386 | **320** | 251 |
| Capital securities | **6%** | 6% | **1,585** | 1,598 | **96** | 90 |
| Non-controlling interest in net assets | **19%** | 22% | **1,829** | 1,199 | **247** | 243 |
| Preferred equity | **6%** | 6% | **689** | 515 | **35** | 35 |
| Common equity | **20%** | 21% | **5,395** | 4,514 | **1,766** | 873 |
| | **33%** | 16% | **6,084** | 5,029 | **1,801** | 908 |
| | **9.5%** | 9.5% | **$ 13,444** | $ 11,437 | **$ 2,654** | $ 1,680 |

1 *Based on operating cash flows as a percentage of average book value*

2 *Interest expense in the case of borrowings. Attributable operating cash flows in the case of minority and equity interests, including cash distributions. Current taxes and operating expenses in the case of accounts payable and other liabilities*

3 *Includes subsidiary obligations guaranteed by the Corporation or issued by fully integrated subsidiaries*

Our total capitalization increased by $1.9 billion at the end of 2006 as compared with 2005. Our financial obligations, which consist of corporate borrowings, subsidiary obligations and capital securities, were relatively unchanged during the year. Other liabilities and non-controlling interests increased with the acquisition of additional operations during the year and associated co-investor capital. The book value of our common and preferred equity increased to $6.1 billion in aggregate from $5.0 billion due to the issuance of perpetual preferred shares and net income recorded during the year, offset in part by dividends. The market value of our common equity capitalization at year end was $19.9 billion. Our financial obligations are almost entirely comprised of long-term fixed rate debt and equity securities.

Our consolidated capitalization, which includes obligations and equity interests held by others in entities that are consolidated in our statutory financial statements, totalled $40.7 billion as detailed on page 44. This includes, in addition to our deconsolidated capitalization, long-term property-specific debt which is secured by operating assets, typically core office properties and power generating stations, with no recourse to Brookfield as well as debt of subsidiaries which also has no recourse to Brookfield.

**Corporate Borrowings**

Corporate borrowings represent long-term and short-term obligations of the Corporation. Long-term corporate borrowings are in the form of bonds and debentures issued in the Canadian and U.S. capital markets both on a public and private basis. Short-term financing needs are typically met by issuing commercial paper that is backed by long-term fully committed lines of credit from a group of international banks.

The following table summarizes Brookfield's corporate credit facilities:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Cost of Capital [1] | | Book Value | | Operating Cash Flow [2] | |
|---|---|---|---|---|---|---|
| (MILLIONS) | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Commercial paper and bank borrowings | **5%** | 4% | **$ —** | $ — | **$ 11** | $ 8 |
| Publicly traded term debt | **7%** | 7% | **1,463** | 1,574 | **113** | 110 |
| Privately held term debt [3] | **6%** | 6% | **44** | 46 | **2** | 1 |
| Subsidiary obligations [4] | **10%** | 10% | **668** | 605 | **64** | 69 |
| | **7%** | 7% | **$ 2,175** | $ 2,225 | **$ 190** | $ 188 |

1 *As a percentage of average book value of debt*

2 *Interest expense*

3 *$43 million is secured by coal assets included in Investments*

4 *Guaranteed by the Corporation or issued by fully integrated corporate subsidiaries*

During 2006 we redeemed C$125 million ($107 million) of publicly traded term debt on maturity. During 2005, we issued C$300 million ($259 million) of 30-year debt at an interest rate of 5.95% referenced to the Canadian government bond to capitalize on historically low interest rates and strong market liquidity. The average interest rate on our term debt was 7% during 2006, similar to 2005, and the average term was 11 years (2005 – 12 years).

The Corporation has $960 million of committed corporate credit facilities which are utilized principally as back-up credit lines to support commercial paper issuance. At December 31, 2006, none of these facilities were drawn, although approximately $43 million of the facilities were utilized (2005 – $95 million) for letters of credit issued to support various business initiatives.

Subsidiary obligations include retractable preferred shares issued by corporate subsidiaries that are fully integrated into our ownership structure as well as financial obligations that are guaranteed by the Corporation. The retractable preferred shares were redeemed in January 2007 and a number were replaced with newly issued retractable preferred shares. The company does not typically guarantee the debts of subsidiaries, with the principal exception being a guarantee of subsidiary debt originally issued in 1990, during a higher interest rate environment, that was assumed by the Corporation upon amalgamating with the original guarantor. The increase in the carrying amount during 2006 reflects accrued interest and advances that will be repaid on maturity of the underlying debt in 2015.

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

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2007 | 2008 | 2009 | 2010 | 2011 | Beyond | Total |
|---|---|---|---|---|---|---|---|
| Commercial paper and bank borrowings | $ — | $ — | $ — | $ — | $ — | $ — | $ — |
| Publicly traded term debt | 107 | 300 | — | 200 | — | 856 | 1,463 |
| Privately held term debt | 1 | — | — | — | — | 43 | 44 |
| Subsidiaries | — | — | — | — | 171 [1] | 497 | 668 |
| Total | $ 108 | $ 300 | $ — | $ 200 | $ 171 | $ 1,396 | $ 2,175 |
| Percentage of total | 5% | 14% | —% | 9% | 8% | 64% | 100% |

1 *Represents $171 million of currently retractable preferred shares with a mandatory redemption in 2011*

### Capital Securities

Capital securities represent long-term preferred shares and preferred securities that can be settled by issuing, solely at our option, a variable number of our common shares and, as a result of accounting guidelines, are no longer classified as equity in our financial statements. The following table summarizes capital securities issued by the company:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Cost of Capital [1] | | Book Value | | Operating Cash Flow [2] | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Corporate preferred shares and preferred securities | **6%** | 6% | **$ 663** | $ 669 | **$ 44** | $ 41 |
| Subsidiary preferred shares | **6%** | 6% | **922** | 929 | **52** | 49 |
| | **6%** | 6% | **$ 1,585** | $ 1,598 | **$ 96** | $ 90 |

*1 As a percentage of average book value*

*2 Interest expense*

Distributions paid on these securities, which are largely denominated in Canadian dollars, are recorded as interest expense, even though the legal form for all but two of the issues are dividends. Principal repayments due on capital securities are as follows:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2007 to 2011 | 2012 to 2016 | 2017 to 2021 | 2022 to 2026 | Beyond | Total |
|---|---|---|---|---|---|---|
| Corporate preferred shares and preferred securities | $ — | $ 300 | $ 149 | $ — | $ 214 | $ 663 |
| Subsidiary preferred shares | 171 | 751 | — | — | — | 922 |
| Total | $ 171 | $ 1,051 | $ 149 | $ — | $ 214 | $ 1,585 |
| Percentage of total | 11% | 66% | 9% | —% | 14% | 100% |

The average distribution yield on the capital securities at December 31, 2006 was 6% (2005 – 6%) and the average term was 12 years (2005 – 13 years). We redeemed C$125 million ($107 million) of 8.35% capital securities due 2050 in January 2007.

### Non-Controlling Interests in Net Assets

Non-controlling interests in net assets are comprised of two components: participating interests of other shareholders in our operating assets and subsidiary companies, and non-participating preferred equity issued by subsidiaries.

Interests of others in our operations were as follows:

| AS AT, AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Number of Shares/ % Interest | Invested Capital | | | | Operating Cash Flow [1] | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | | Net | | Total | | Net | |
| | **2006** | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Participating interests | | | | | | | | | |
| Property | | | | | | | | | |
| Brookfield Properties Corporation | **135.1 / 50%** | **$ 1,633** | $ 999 | **$ 1,633** | $ 999 | **$ 243** | $ 221 | **$ 243** | $ 221 |
| Brookfield Homes Corporation | **12.4 / 47%** | **174** | 128 | **—** | — | **69** | 108 | **—** | — |
| Property funds and other | **various** | **601** | 69 | **—** | — | **8** | 1 | **—** | — |
| Power generation | **various** | **203** | 225 | **—** | — | **42** | 19 | **—** | — |
| Timberlands | **50% / 70%** | **338** | 255 | **—** | — | **26** | 7 | **—** | — |
| Transmission infrastructure | **72%** | **242** | — | **—** | — | **(6)** | — | **—** | — |
| Other | **various** | **347** | 101 | **—** | — | **82** | 17 | **—** | — |
| | | **3,538** | 1,777 | **1,633** | 999 | **464** | 373 | **243** | 221 |
| Non-participating interests | | **196** | 207 | **196** | 200 | **4** | 13 | **4** | 22 |
| | | **$ 3,734** | $ 1,984 | **$ 1,829** | $ 1,199 | **$ 468** | $ 386 | **$ 247** | $ 243 |

*1 Represents share of operating cash flows attributable to the interests of the respective shareholders and includes cash distributions*

We include Brookfield Properties on a fully consolidated basis in our segmented basis of presentation and accordingly the interest of others in these operations are reflected in both the total and net results. The other entities shown above are presented on a deconsolidated basis in our segmented analysis, and, as a result, the interests of other shareholders are presented in total invested capital and total operating cash flow only. The book values of these interests may vary each year, and typically increase with the excess of net income over normal cash distributions and decrease with share repurchases and special dividends. The total operating cash flow attributable to these interests is shown as a deduction in arriving at the net operating cash flow for each respective business unit.

Brookfield Properties issued $1.3 billion of common equity in the fourth quarter of 2006, of which $0.8 billion was issued to shareholders other than the Corporation resulting in the increase in net assets attributable to others. The operating cash flow attributable to these interests increased due to increased cash flow within the company arising from both North American core office property and our Canadian residential property operations.

The interests of others in Brookfield Homes increased to $174 million from $128 million during the year due to retained earnings offset by dividends paid and share repurchases. Operating cash flow attributable to these interests declined commensurate with the reduction in cash flow generated by the company. The increase in other investors participating interests in the company represents their share of undistributed net income recorded during the year. Other interests in property funds increased due to the launch of our opportunity and retail funds and the acquisition of a major portfolio within our U.S. core office fund.

Power generating interests include the 50% interest of unit holders in the Great Lakes Hydro Income Fund, through which we own a portion of our power generating operations, and a 25% residual equity interest held by others in our Louisiana operations. The book value of these interests declined, which largely represents their share of depreciation recorded on the underlying assets for accounting purposes. The increase in cash flow reflects significantly higher water levels at generation facilities in Ontario and Quebec owned through the Income Fund.

Timberlands represents the 50% interest of institutional partners in our Island Timberlands Fund, established in 2005. The increase reflects shareholder interests in our Acadian Timber Fund which was established during 2006. Transmission infrastructure reflects the equity capital contributed by our investment partners towards the acquisition of Transelec mid-way through 2006. Other non-controlling interests increased since year end with the consolidation of Western Forest Products and Concert Industries, which are investee companies held within our restructuring operations. The 2006 cash flow includes $50 million in respect of the payment received by Western related to the pending softwood lumber settlement.

Operating cash flow distributed to other non-controlling shareholders in the form of cash dividends totalled $147 million in 2006 compared with $109 million in 2005. The undistributed cash flows attributable to non-controlling shareholders, which totalled $321 million in 2006 (2005 – $277 million), are retained in the respective operating businesses and are available to expand their operations, reduce indebtedness or repurchase equity.

### Other Liabilities and Operating Costs

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | *Invested Capital* | | | | *Operating Cash Flow* | | | |
|---|---|---|---|---|---|---|---|---|
| | *Total* | | *Net* | | *Total* | | *Net* | |
| (MILLIONS) | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Accounts payable | **$ 1,778** | $ 2,037 | **$ 952** | $ 1,001 | | | | |
| Insurance liabilities | **1,619** | 1,433 | **—** | — | | | | |
| Deferred tax liability / (asset) | **436** | 14 | **349** | (51) | | | | |
| Other liabilities | **2,664** | 1,077 | **470** | 436 | | | | |
| Other operating costs | | | | | **$ 210** | $ 146 | **$ 193** | $ 135 |
| Property services expenses | | | | | **123** | 105 | **123** | 105 |
| Other | | | | | **333** | 251 | **316** | 240 |
| Cash taxes | | | | | **142** | 162 | **4** | 11 |
| | **$ 6,497** | $ 4,561 | **$ 1,771** | $ 1,386 | **$ 475** | $ 413 | **$ 320** | $ 251 |

Accounts payable and other liabilities, which include those associated with Brookfield Properties, increased during the year on both a total and net basis due to the assumption of working capital balances on the acquisition of additional operating assets, as well as overall growth in the level of business activity.

Insurance liabilities include claims and deposit liabilities within our insurance operations. These liabilities increased during the year on both a total and net basis due to the expansion of these operations which resulted in a corresponding increase in the securities held within these operations. Deferred taxes represent future tax obligations that arise largely due to holding assets whose book value exceeds their value for tax purposes. Other liabilities includes $152 million representing the debentures exchangeable into 20 million Norbord common shares.

Operating costs include those of Brookfield Properties, and reflect the costs of our asset management activities as well as costs which are not directly attributable to specific business units. Costs increased from $240 million in 2005 to $316 million in 2006 on a net basis, due to the continued expansion of our business and increased level of activity.

Cash taxes relate principally to the taxable income generated within our U.S. home building operations as well as cash tax liability incurred on realization gains within our Brazilian operations. This income cannot be sheltered with tax losses elsewhere in the business due to the separate public ownership of this operation.

### Preferred Equity

Preferred equity represents perpetual floating rate preferred shares that provide an attractive form of permanent equity leverage to our common shares.

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Cost of Capital [1] | | Book Value | | Operating Cash Flow [2] | |
|---|---|---|---|---|---|---|
| (MILLIONS) | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| Preferred equity | **6%** | 6% | **$ 689** | $ 515 | **$ 35** | $ 35 |

1 As a percentage of average book value

2 Dividends

On November 20, 2006, we issued C$200 million ($174 million) of perpetual preferred shares yielding 4.75%.

### Common Equity

On a diluted basis, Brookfield had 407.2 million common shares outstanding at year end with an aggregate book value of $5.4 billion or $14.06 per share. The market capitalization of our common shares on December 31, 2006 was $19.9 billion or $48.18 per share. The difference of $14.5 billion (2005 – $9.4 billion) reflects in part the appreciation in the value of our assets that is not reflected in our book values due to accounting depreciation and economic appreciation and, in some cases, acquisitions at a discount to long-term value.

The number of shares outstanding increased by 1.9 million shares from December 31, 2005. During 2006, we repurchased 0.2 million common shares under issuer bids at an average price of $47.84 per share and issued 2.2 million options at an average price of $C41.04 per share. We also completed a three-for-two stock split which has been reflected in all of the results presented in this report. During 2005, 6.0 million common shares were repurchased at a price of $27.09 per share.

Brookfield has two classes of common shares outstanding: Class A and Class B. Each class of shares elects one-half of the Corporation's Board of Directors. The Class B shares are held by Partners Ltd., a private company owned by 45 individuals, including a number of the senior executive officers of Brookfield, who collectively hold direct and indirect beneficial interests in approximately 69 million Class A shares representing an approximate 17% equity interest in the company. Further details on Partners Ltd. can be found in the company's management information circular.

## Liquidity

We attempt to maintain sufficient financial liquidity at all times so that we are able to participate in attractive investment opportunities as they arise, and to also better to withstand sudden adverse changes in economic circumstances. Our principal sources of liquidity are financial assets, undrawn committed credit facilities, free cash flow and the turnover of assets on our balance sheet. We structure the ownership of our assets to enhance our ability to monetize their embedded value to provide additional liquidity if necessary.

Our financial assets and committed bank facilities are described further on pages 33, 34 and 37 of this report and represent aggregate liquidity of $2.6 billion as at December 31, 2006. We held $3.5 billion of similar liquidity at the end of 2005, which included proceeds from the sale of a major investment a portion of which was redeployed during 2006.

Our free cash flow represents the operating cash flow retained in the business after operating costs and cash taxes, interest payments, dividend payments to other shareholders of consolidated entities, preferred equity distributions and sustaining capital expenditures. This cash flow is available to pay common share dividends, invest for future growth, reduce borrowings or repurchase equity.

## CONSOLIDATED FINANCIAL ANALYSIS

The discussion and analysis of our operating results and financial condition in the foregoing sections of this report is organized principally on a segmented basis, which is consistent with how we manage our business. As previously discussed, this segmented basis differs from our Consolidated Financial Statements. The purpose of this section is to provide an analysis and discussion of our financial position and operating results as they are presented in our Consolidated Financial Statements, and to provide a reconciliation between our Consolidated Financial Statements and the segmented basis utilized in the preceding sections which provide a more detailed review.

To do this, we have provided a summary of our consolidated financial statements for the past two years and a review of the significant components and variances from a consolidated perspective. Pages 50 and 51 contain a reconciliation between the consolidated balance sheets and consolidated statements of operations to our segmented results. This is intended to assist the reader to cross reference the more detailed discussion in the Operations Review.

## Consolidated Balance Sheets

Total assets at book value increased to $40.7 billion as at December 31, 2006 from $26.1 billion at the end of the preceding year, which was accompanied by a commensurate increase in our capitalization. The increase was due to the expansion of our operating platform in several business segments as reflected in the $12.3 billion increase in property, plant and equipment, including the acquisition of a $7.7 billion core office portfolio.

## Consolidated Assets

The following is a summary of our consolidated assets for the past two years:

| AS AT DECEMBER 31 (MILLIONS) | Book Value 2006 | 2005 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents and financial assets | **$ 2,869** | $ 3,122 |
| Investments | **775** | 595 |
| Accounts receivable and other | **5,951** | 3,984 |
| Goodwill | **669** | 164 |
| Operating assets | | |
| Property, plant and equipment | **28,082** | 15,776 |
| Securities | **1,711** | 2,069 |
| Loans and notes receivable | **651** | 348 |
| | **$ 40,708** | $ 26,058 |

*Cash and Cash Equivalents and Financial Assets*

Cash and cash equivalents and financial assets, which consist of securities and other financial assets that are not actively deployed in our operations, decreased to $2.9 billion on a consolidated basis at December 31, 2006, compared to an aggregate balance of $3.1 billion at the end of 2005.

*Investments*

Investments represent equity accounted interests in partially owned companies including Norbord, Fraser Papers and Stelco which are discussed further under Investments and Specialty Funds.

*Accounts Receivable and Other*

Accounts receivable and other increased to $6.0 billion from $4.0 billion at the end of 2005. The following table is a summary of consolidated accounts receivable and other assets.

| AS AT DECEMBER 31 (MILLIONS) | Book Value 2006 | 2005 |
|---|---|---|
| Accounts receivable | **$ 1,593** | $ 1,709 |
| Prepaid expenses and other assets | **3,053** | 1,377 |
| Restricted cash | **960** | 651 |
| Inventory | **345** | 247 |
| | **$ 5,951** | $ 3,984 |

The increase in 2006 is due to the continued expansion of our operations, and includes the consolidated working capital balances of our various operating companies including several businesses acquired during the year. These include amounts receivable by the company in respect of contracted revenues owing but not yet collected, and dividends, interest and fees owing to the company. Prepaid expenses and other assets include amounts accrued to reflect the straight-lining of long-term contracted revenues and capitalized lease values in accordance with accounting guidelines. The increase during the year is due largely to the capitalization of lease values and other tenant relationships on the purchase of the U.S. core office portfolio. Restricted cash represents cash balances placed on deposit in connection with financing arrangements and insurance contracts, including the defeasement of long-term property specific mortgages.

*Goodwill*

Goodwill represents the balance of purchase consideration that is not specifically allocated to the tangible and intangible assets being acquired. The increase during the year is due primarily to $500 million of goodwill incurred on the purchase of a transmission system in Chile.

*Property, Plant and Equipment*

The following table is a summary of property, plant and equipment for the past two years:

| AS AT DECEMBER 31 (MILLIONS) | Book Value 2006 | 2005 |
|---|---|---|
| Property | | |
| Commercial properties | **$ 17,091** | $ 8,688 |
| Residential properties | **1,444** | 1,205 |
| Development properties | **1,679** | 942 |
| Property services | **—** | 39 |
| | **20,214** | 10,874 |
| Power generation | **4,309** | 3,568 |
| Timberlands | **1,011** | 888 |
| Transmission infrastructure | **1,929** | 130 |
| Other plant and equipment | **619** | 316 |
| | **$ 28,082** | $ 15,776 |

Commercial property assets include core office, opportunity and retail properties. The net book value of these assets increased during 2006 with the acquisition of a $7.7 billion U.S. office portfolio consisting of 58 high quality office properties. More details on these operations are located on pages 15 through 22 of this report. Residential property assets increased due to the continued build-out of inventory, particularly in the Canadian market. More detail on our residential operations is included on pages 19 and 20. Development properties increased with the acquisitions of a major development property in Houston as well as the advancement of projects in Toronto and New York.

Power generation facilities increased with the continued expansion of our operating platform. During 2006, we acquired and built seven hydroelectric stations with a total capacity of 191 megawatts for an aggregate investment of $479 million and completed the development of a 189 megawatt wind energy project at a cost of $199 million. During 2005 we acquired and built 12 stations with a total capacity of 736 megawatts for an aggregate investment of $300 million. More detail on our power generating operations is included on pages 24 through 27.

The increase in timberlands represents the formation of the Acadian Timber Income Fund in eastern North America and the concurrent acquisition of additional timberlands as detailed on pages 27 and 28.

We acquired a major transmission system in Chile during 2006 with property, plant and equipment of $1.8 billion, in addition to the Northern Ontario transmission assets that we have owned and operated for many years.

*Securities*

Securities include $1.5 billion (2005 – $1.6 billion) of largely fixed income securities held through our insurance operations, which are described under Investments on page 31, as well as our $182 million (2005 – $267 million) common share investment in Canary Wharf Group, which is included in our core office property operations. We expanded our insurance operations during the year which gave rise to the increase in Securities, as well as an increase in Other Liabilities. The decrease in the carrying values for our Canary Wharf investment is due to a dividend received during 2006.

*Loans and Notes Receivable*

Loans and notes receivable consist largely of loans advanced by our bridge lending operations, included in Specialty Funds. The outstanding balance increased since the end of 2005 due to new loan positions originated during the year.

**Consolidated Capitalization**

Our consolidated capitalization, which includes liabilities and shareholders' equity, increased in line with the growth in our total assets. This increase is reflected mostly in property specific mortgages, accounts payable and other liabilities, and common equity. The increase in property specific mortgages reflects the financing associated with the acquisition of additional assets, in particular, the purchase of a major U.S. core office portfolio and power assets acquired during the year, and the financing associated with the purchase of the Transelec electricity transmission system in Chile.

Accounts payable increased as a result of the assumption of working capital balances on the acquisition of additional operating assets as well as the overall growth in the level of business activity, particularly within our insurance operations. Common equity increased due to the net income generated over the past two years, offset in part by dividends paid and shares repurchased.

The following table details our consolidated capitalization at the end of 2006 and 2005 and the related cash costs:

| *AS AT AND FOR THE YEARS ENDED DECEMBER 31* | *Cost of Capital* [1] | | *Book Value* | | *Operating Cash Flow* [2] | |
|---|---|---|---|---|---|---|
| *(MILLIONS)* | ***2006*** | *2005* | ***2006*** | *2005* | ***2006*** | *2005* |
| Non-recourse borrowings | | | | | | |
| Property-specific mortgages | **7%** | 7% | **$ 17,148** | $ 8,756 | **$ 751** | $ 519 |
| Subsidiary borrowings | **7%** | 6% | **4,153** | 2,510 | **212** | 153 |
| Corporate borrowings | **7%** | 7% | **1,507** | 1,620 | **126** | 119 |
| Accounts payable and other liabilities | **9%** | 7% | **6,497** | 4,561 | **475** | 413 |
| Capital securities | **6%** | 6% | **1,585** | 1,598 | **96** | 90 |
| Non-controlling interest in net assets | **19%** | 22% | **3,734** | 1,984 | **468** | 386 |
| Shareholders' equity | | | | | | |
| Preferred equity | **6%** | 6% | **689** | 515 | **35** | 35 |
| Common equity | **20%** | 20% | **5,395** | 4,514 | **1,766** | 873 |
| | **9.5%** | 9.5% | **$ 40,708** | $ 26,058 | **$ 3,929** | $ 2,588 |

*1 Based on operating cash flows as a percentage of average book value*

*2 Interest expense in the case of borrowings. Attributable operating cash flows in the case of shareholders' interests, including cash distributions, and current taxes and operating expenses in the case of accounts payable and other liabilities*

Our overall weighted average cash cost of capital, using a 20% return objective for our common equity, is 9.5%, unchanged from 2005. This reflects the low cost of non-participating perpetual preferred equity issued over a number of years, as well as the low cost of term debt, capital securities and non-recourse investment grade financings, achievable due to the high quality of our core office properties and power generating plants.

*Property-Specific Mortgages*

Where appropriate, we finance our operating assets with long-term, non-recourse borrowings such as property specific mortgages which do not have recourse to the Corporation or our operating entities.

The composition of Brookfield's consolidated borrowings which have recourse only to the specific assets being financed is as follows:

| *AS AT AND FOR THE YEARS ENDED DECEMBER 31* | *Average* | *Cost of Capital* [1] | *Book Value* | | *Operating Cash Flow* [2] | |
|---|---|---|---|---|---|---|
| *(MILLIONS)* | *Term* | ***2006*** | ***2006*** | *2005* | ***2006*** | *2005* |
| Commercial properties | **8** | **7%** | **$ 12,471** | $ 5,881 | **$ 465** | $ 312 |
| Power generation | **18** | **8%** | **2,704** | 2,365 | **206** | 191 |
| Timberlands | **15** | **6%** | **477** | 410 | **25** | 12 |
| Transmission infrastructure | **11** | **6%** | **1,496** | 100 | **55** | 4 |
| | **10** | **7%** | **$ 17,148** | $ 8,756 | **$ 751** | $ 519 |

*1 Based on operating cash flows as a percentage of average book value*

*2 Interest expense*

These borrowings leverage common shareholders' equity with long-term lower risk financing, which is largely fixed rate, with an average consolidated maturity of 10 years and a weighted average interest rate of 7%.

Commercial property borrowings consist primarily of mortgage debt on properties held within our core property and opportunity investment operations, which are described in more detail on pages 17 and 21, and includes $5.8 billion of debt assumed on the purchase of the U.S. core office portfolio in the fourth quarter of 2006. Transmission infrastructure debt includes $1.4 billion of debt secured by a major Chilean transmission system acquired on June 30, 2006.

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

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2007 | 2008 | 2009 | 2010 | 2011 | Beyond | Total |
|---|---|---|---|---|---|---|---|
| Commercial properties | $ 1,079 | $ 974 | $ 1,077 | $ 358 | $ 4,981 | $ 4,002 | $ 12,471 |
| Power generation | 47 | 57 | 123 | 63 | 78 | 2,336 | 2,704 |
| Timberlands | — | — | 37 | — | 30 | 410 | 477 |
| Transmission infrastructure | 211 | — | — | — | 465 | 820 | 1,496 |
| Total | $ 1,337 | $ 1,031 | $ 1,237 | $ 421 | $ 5,554 | $ 7,568 | $ 17,148 |
| Percentage of total | 8% | 6% | 7% | 3% | 32% | 44% | 100% |

### *Other Debt of Subsidiaries*

These borrowings are largely corporate debt, issued by way of corporate bonds, bank credit facilities and other types of debt and financial obligations of subsidiaries. The composition of these borrowings on a consolidated basis is as follows:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 | Average | Cost of Capital [1] | Book Value | | Operating Cash Flow [2] | |
|---|---|---|---|---|---|---|
| (MILLIONS) | Term | **2006** | **2006** | 2005 | **2006** | 2005 |
| Subsidiary borrowings | | | | | | |
| Properties [3] | **4** | **7%** | **$ 1,657** | $ 1,138 | **$ 41** | $ 21 |
| Power generation | **10** | **5%** | **684** | 474 | **29** | 24 |
| Investments | **2** | **8%** | **298** | 293 | **46** | 39 |
| Corporate subsidiaries | **8** | **10%** | **668** | 605 | **64** | 69 |
| Co-investor capital | | | | | | |
| Properties | **7** | **11%** | **257** | — | **7** | — |
| Transmission infrastructure | **10** | **8%** | **589** | — | **25** | — |
| | **7** | **7%** | **$ 4,153** | $ 2,510 | **$ 212** | $ 153 |

1 Based on operating cash flows as a percentage of average book value

2 Interest expense

3 Portion of interest expense from Properties debt forms a component of cost of sales

Residential property debt consists primarily of construction financing which is repaid with the proceeds from sales of building lots, single-family houses and condominiums and is generally renewed on a rolling basis as new construction commences. Power generation debt consists of C$450 million, 4.65% public notes which mature in 2009; C$200 million, 5.25% public notes which mature in 2018; and C$150 million, 5.84% public notes which mature in 2036. The notes are rated BBB by S&P and BBB (high) by DBRS and BBB by Fitch.

Corporate subsidiary debt includes C$200 million of retractable preferred shares that will be repaid no later than 2011 and pay dividends at a rate of 6.1%. A portion of the outstanding property debt is denominated in their domestic currencies and is utilized to hedge their operating assets against local currency fluctuations, the most significant of which is the Brazilian *real*. The Corporation does not typically guarantee the debts of subsidiaries with the exception of $497 million included in corporate subsidiary debt.

Principal repayments on other debt of subsidiaries due over the next five years and thereafter are as follows:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2007 | 2008 | 2009 | 2010 | 2011 | Beyond | Total |
|---|---|---|---|---|---|---|---|
| Properties | $ 462 | $ 411 | $ 124 | $ 4 | $ 5 | $ 908 | $ 1,914 |
| Power generation | — | — | 385 | — | — | 299 | 684 |
| Investments | 138 | 46 | 12 | 99 | 3 | — | 298 |
| Corporate subsidiaries | — | — | — | — | 171 | 497 | 668 |
| Transmission infrastructure | — | — | — | — | — | 589 | 589 |
| Total | $ 600 | $ 457 | $ 521 | $ 103 | $ 179 | $ 2,293 | $ 4,153 |
| Percentage of total | 14% | 11% | 13% | 3% | 4% | 55% | 100% |

*Non-controlling Interests in Net Assets*

Non-controlling interests in net assets are comprised of two components: participating interests of other shareholders in our operating assets and subsidiary companies; and non-participating preferred equity issued by the Corporation and its subsidiaries.

Total participating interests increased from $2.0 billion to $3.7 billion, due primarily to $0.8 billion of common equity issued by Brookfield Properties to shareholders other than the Corporation and fund equity issued to co-investors including co-investor interests in the Chilean transmission business acquired during the year. Interests of others in our operations at December 31, 2006 and 2005 on a fully consolidated basis are discussed on page 38 and 39.

Operating cash flow distributed to other non-controlling shareholders in the form of cash dividends totalled $147 million in 2006 compared with $109 million in 2005. The undistributed cash flows attributable to non-controlling shareholders are retained in the respective operating businesses and are available to expand their operations, reduce indebtedness or repurchase equity.

## Consolidated Statements of Income

The following table summarizes our consolidated statement of net income:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 |
|---|---|---|
| Revenues | **$ 6,897** | $ 5,220 |
| Net operating income | **3,776** | 2,319 |
| Interest expenses | **(1,185)** | (881) |
| Operating and current taxes | **(475)** | (413) |
| Non-controlling interests in the foregoing | **(468)** | (386) |
| | **1,648** | 639 |
| Other items, net of non-controlling interests | **(478)** | 1,023 |
| Net income | **$ 1,170** | $ 1,662 |

### Revenues

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 |
|---|---|---|
| Property | **$ 3,288** | $ 3,161 |
| Power generation | **894** | 800 |
| Timberlands | **276** | 135 |
| Transmission Infrastructure | **152** | 35 |
| Specialty funds | **908** | 58 |
| Investment income and other | **1,379** | 1,031 |
| | **$ 6,897** | $ 5,220 |

Revenues in our Timberlands operations increased with the formation of Acadian Timber Income Fund in 2006. Transmission revenues increased due to the acquisition of Transelec, the electricity transmission system in Chile. Our specialty funds revenues increased due to the increased value of loans issued and on balance during the year and the consolidation of Western Forest Products and Concert Industries.

### Net Operating Income

Net operating income includes the following items from our consolidated statement of income: fees earned; other operating revenues less direct operating expenses; investment and other income; and realization gains. These items are described for each business unit in the Operations Review beginning on page 10. The following table reconciles total operating cash flow in the segmented basis of presentation presented on page 7 and net operating income:

| YEARS ENDED DECEMBER 31 (MILLIONS) | Business Unit | 2006 | 2005 |
|---|---|---|---|
| Total operating cash flow | | **$ 3,929** | $ 2,588 |
| Less dividends received: | | | |
| Canary Wharf Group | Core office | **(87)** | (183) |
| Falconbridge and Norbord | Investments | **(66)** | (86) |
| Net operating income | | **$ 3,776** | $ 2,319 |

### Interest Expenses

The following table summarizes interest expense during each of the past two years:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 |
|---|---|---|
| Corporate borrowings | **$ 126** | $ 119 |
| Property specific mortgages | **751** | 519 |
| Subsidiary borrowings | **212** | 153 |
| Capital securities | **96** | 90 |
| | **$ 1,185** | $ 881 |

Further details for the individual components are provided in the Operations Review and Consolidated Capitalization sections.

### Operations and Current Taxes

These items include expenses allocated to our asset management activities and other operating costs that are not attributed to specific business units. Current taxes relate principally to our U.S. home building operations. These items are summarized in the following table:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 |
|---|---|---|
| Asset management expenses and other operating costs | **$ 333** | $ 251 |
| Current income taxes | **142** | 162 |
| | **$ 475** | $ 413 |

These items are discussed further in the Operations Review beginning on page 10.

### Non-controlling Interests, Net of Non-Controlling Interests

The interest of non-controlling parties in the foregoing items aggregated $468 million on a consolidated basis during 2006, compared with $386 million on a similar basis during 2005. The increase was due primarily to the overall increase in operating cash flows produced by our partially owned home building operations, offset by a decrease in lease termination gains recorded by our partially owned core property operations. The composition of non-controlling interests is detailed in the table on page 38.

**Other Items**

Other items are summarized in the following table, and include items that are either non-cash in nature or not considered by us to form part of our operating cash flow. Accordingly, they are included in the reconciliation between net income and operating cash flow presented on page 9.

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 |
|---|---|---|
| Equity accounted income (loss) from investments | $ (36) | $ 219 |
| Gains on disposition of Falconbridge | — | 1,350 |
| Depreciation and amortization | (600) | (374) |
| Future income taxes and other provisions | (146) | (324) |
| Non-controlling interests in the foregoing items | 304 | 152 |
| | $ (478) | $ 1,023 |

Equity accounted income reflects our share of the net income recorded by Norbord, Fraser Papers and Stelco and in 2005 only, Falconbridge. The decline relative to 2005 is due to the monetization of our interest in Falconbridge during 2005, reduced earnings recorded by Norbord and Fraser Papers as a result of a difficult operating environment and the impact of a major restructuring on Stelco.

Depreciation and amortization prior to non-controlling interests increased to $600 million from $374 million during 2005. The increase is due to the acquisition of additional property, power and timber assets during 2005 and 2006.

Future income taxes and other provisions decreased to $146 million from $324 million, before taking into account non-controlling interests, and are summarized in the following table:

| YEARS ENDED DECEMBER 31 (MILLIONS) | 2006 | 2005 |
|---|---|---|
| Future income taxes and others | $ 190 | $ 285 |
| Revaluation items | | |
| Interest rate contracts | (7) | 16 |
| Norbord exchangeable debentures | (59) | 10 |
| Intangible assets | — | 33 |
| Tax effect of revaluation gains and losses | 22 | (20) |
| | $ 146 | $ 324 |

Our future income tax provision was lower than in 2005, due principally to the inclusion in that year of an accounting tax provision of $251 million associated with the Falconbridge disposition gain. The non-cash tax provisions, also reflect changes in the carrying value of our tax shield during the period, and tax provisions in respect of the non-cash equity earnings.

Revaluation items include the impact of revaluing fixed rate financial contracts that we maintain in order to provide an economic hedge against the impact of possible higher interest rates on the value of our long duration interest sensitive assets. Accounting rules require that we revalue certain of these contracts each period even if the corresponding assets are not revalued. Over the course of the year we recorded a revaluation gain of $7 million. It is important to note that the corresponding increase in the value of our long duration interest sensitive assets is not reflected in earnings.

Provisions also include a revaluation gain of $59 million on debentures issued by us that are exchangeable into 20 million Norbord common shares, equal to the increase in the Norbord share price during the period, as required by accounting rules. We hold the 20 million shares into which the debentures are exchangeable, but are not permitted to mark the investment to market. During 2005 we charged off intangible assets totalling $33 million that would otherwise have been expensed over time as depreciation and amortization, and in the prior year, provisions included the impact of foreign currency revaluation of capital securities that were reclassified as liabilities.

## SUPPLEMENTAL INFORMATION

This supplemental information contains information required by applicable continuous disclosure guidelines and to facilitate additional analysis.

### Quarterly Results

The 2006 and 2005 results by quarter are as follows:

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| *(MILLIONS)* | *Q4* | *Q3* | *Q2* | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* |
| Total revenues | $ 2,904 | $ 1,405 | $ 1,405 | $ 1,183 | $ 1,740 | $ 1,356 | $ 1,162 | $ 962 |
| Fees earned | $ 70 | $ 64 | $ 69 | $ 54 | $ 106 | $ 58 | $ 46 | $ 36 |
| Revenues less direct operating costs | | | | | | | | |
| Property | 865 | 380 | 337 | 282 | 461 | 270 | 257 | 222 |
| Power generation | 142 | 122 | 156 | 200 | 128 | 92 | 115 | 134 |
| Timberlands | 21 | 24 | 23 | 39 | 9 | 13 | 14 | 4 |
| Transmission infrastructure | 49 | 56 | 7 | 7 | 6 | 6 | 6 | 6 |
| Specialty funds | 131 | 29 | 29 | 39 | 11 | 17 | 13 | 13 |
| Investment and other income | 227 | 180 | 84 | 90 | 8 | 95 | 98 | 75 |
| | 1,505 | 855 | 705 | 711 | 729 | 551 | 549 | 490 |
| Expenses | | | | | | | | |
| Interest | 420 | 291 | 250 | 224 | 229 | 218 | 235 | 199 |
| Asset management and other operating costs | 108 | 70 | 84 | 71 | 87 | 60 | 51 | 53 |
| Current income taxes | 68 | 23 | 37 | 14 | 88 | 28 | 30 | 16 |
| Non-controlling interest in net income before the following | 142 | 108 | 118 | 100 | 151 | 74 | 78 | 83 |
| **Net income before the following** | 767 | 363 | 216 | 302 | 174 | 171 | 155 | 139 |
| Equity accounted income (loss) from investments | (10) | (7) | 3 | (22) | 9 | 34 | 73 | 103 |
| Gains on disposition of Falconbridge | — | — | — | — | — | 785 | 565 | — |
| Depreciation and amortization | (233) | (136) | (127) | (104) | (103) | (102) | (92) | (77) |
| Future income taxes and other provisions | (34) | (45) | (16) | (51) | 5 | (180) | (121) | (28) |
| Non-controlling interests in the foregoing items | 121 | 70 | 59 | 54 | 66 | 28 | 30 | 28 |
| **Net income** | $ 611 | $ 245 | $ 135 | $ 179 | $ 151 | $ 736 | $ 610 | $ 165 |

The 2006 and 2005 cash flow from operations by quarter are as follows:

| | 2006 | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| *(MILLIONS)* | *Q4* | *Q3* | *Q2* | *Q1* | *Q4* | *Q3* | *Q2* | *Q1* |
| **Net income before the following** | $ 767 | $ 363 | $ 216 | $ 302 | $ 174 | $ 171 | $ 155 | $ 139 |
| Dividends from Falconbridge | — | — | — | — | — | — | 12 | 12 |
| Dividends from Norbord | 5 | 5 | 51 | 5 | 5 | 5 | 48 | 4 |
| Dividends from Canary Wharf | 87 | — | — | — | 73 | 110 | — | — |
| **Cash flow from operations and gains** | 859 | 368 | 267 | 307 | 252 | 286 | 215 | 155 |
| Preferred share dividends | 8 | 7 | 10 | 10 | 10 | 8 | 9 | 8 |
| **Cash flow to common shareholders** | $ 851 | $ 361 | $ 257 | $ 297 | $ 242 | $ 278 | $ 206 | $ 147 |
| **Common equity – book value** | $ 5,395 | $ 4,905 | $ 4,721 | $ 4,663 | $ 4,514 | $ 4,586 | $ 3,872 | $ 3,411 |
| **Common shares outstanding** [1] | 387.9 | 387.3 | 386.8 | 386.6 | 386.4 | 391.7 | 390.3 | 389.3 |
| **Per common share** [1] | | | | | | | | |
| Cash flow from operations | $ 2.13 | $ 0.91 | $ 0.64 | $ 0.75 | $ 0.61 | $ 0.69 | $ 0.52 | $ 0.37 |
| Net income | 1.51 | 0.60 | 0.31 | 0.43 | 0.36 | 1.82 | 1.51 | 0.39 |
| Dividends | 0.16 | 0.16 | 0.16 | 0.10 | 0.10 | 0.10 | 0.10 | 0.09 |
| Book value | 14.06 | 12.90 | 12.46 | 12.29 | 11.81 | 11.83 | 10.05 | 8.91 |
| Market trading price (NYSE) | 48.18 | 44.34 | 40.62 | 36.71 | 33.55 | 31.07 | 25.44 | 25.17 |
| Market trading price (TSX) – C$ | 56.36 | 49.42 | 44.86 | 42.85 | 39.07 | 36.09 | 31.20 | 30.47 |

*1 Adjusted to reflect three-for-two stock split on April 27, 2006*

## Reconciliation of Segmented Disclosure to Consolidated Financial Statements

The following tables present a reconciliation of our segmented disclosure, which forms the basis of presentation for much of the discussion and analysis in this supplemental report, to our consolidated financial statements which are prepared and audited in accordance with GAAP:

### *Balance Sheet*

*AS AT DECEMBER 31, 2006*

| *(MILLIONS)* | *Property* | *Power* | *Trans-mission* | *Timber-lands* | *Specialty Funds* | *Invest-ments* | *Cash and Financial Assets* | *Other Assets* | *Corporate* | *Consolidated* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Operating assets | | | | | | | | | | |
| Property, plant and equipment | | | | | | | | | | |
| Property | $ 20,105 | $ — | $ — | $ 111 | $ — | $ (2) | $ — | $ — | $ — | $ 20,214 |
| Power generation | — | 4,309 | — | — | — | — | — | — | — | 4,309 |
| Timberlands | — | — | — | 1,011 | — | — | — | — | — | 1,011 |
| Transmission infrastructure | — | — | 1,929 | — | — | — | — | — | — | 1,929 |
| Other plant and equipment | — | — | — | — | 453 | 166 | — | — | — | 619 |
| Securities | 182 | — | — | — | 29 | 1,500 | — | — | — | 1,711 |
| Loans and notes receivable | — | — | — | — | 645 | 6 | — | — | — | 651 |
| Cash and cash equivalents | 418 | 86 | 17 | 18 | 42 | 318 | 305 | — | — | 1,204 |
| Financial assets | (15) | 532 | 81 | — | 23 | — | 1,044 | — | — | 1,665 |
| Investments | — | — | 157 | — | 160 | 439 | 19 | — | — | 775 |
| Accounts receivable and other | 1,454 | 463 | 959 | 50 | 445 | 1,023 | 305 | 1,921 | — | 6,620 |
| **Total assets** | **$ 22,144** | **$ 5,390** | **$ 3,143** | **$ 1,190** | **$ 1,797** | **$ 3,450** | **$ 1,673** | **$ 1,921** | **$ —** | **$ 40,708** |
| **Liabilities and shareholders' equity** | | | | | | | | | | |
| Corporate borrowings | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 1,507 | $ 1,507 |
| Property-specific financing | 12,470 | 2,704 | 1,496 | 478 | — | — | — | — | — | 17,148 |
| Other debt of subsidiaries | 1,889 | 684 | 589 | 7 | 175 | 67 | 74 | — | 668 | 4,153 |
| Accounts payable and other liabilities | 1,380 | 419 | 267 | 50 | 250 | 1,914 | 446 | — | 1,771 | 6,497 |
| Capital securities | — | — | — | — | — | — | — | — | 1,585 | 1,585 |
| Non-controlling interests in net assets | 849 | 215 | 242 | 340 | 190 | 65 | 4 | — | 1,829 | 3,734 |
| Preferred equity | — | — | — | — | — | — | — | — | 689 | 689 |
| Common equity / net invested capital | 5,556 | 1,368 | 549 | 315 | 1,182 | 1,404 | 1,149 | 1,921 | (8,049) | 5,395 |
| **Total liabilities and shareholders' equity** | **$ 22,144** | **$ 5,390** | **$ 3,143** | **$ 1,190** | **$ 1,797** | **$ 3,450** | **$ 1,673** | **$ 1,921** | **$ —** | **$ 40,708** |

### *Results from Operations*

*YEAR ENDED DECEMBER 31, 2006*

| *(MILLIONS)* | *Asset Management* | *Property* | *Power* | *Transmission* | *Timberlands* | *Specialty Funds* | *Investments* | *Investment Income/ Gains* | *Corporate* | *Consolidated* |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fees earned** | $ 257 | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 257 |
| Revenues Less Direct Operating Costs | | | | | | | | | | |
| Property | — | 1,860 | — | — | 6 | — | (2) | — | — | 1,864 |
| Power generation | — | — | 620 | — | — | — | — | — | — | 620 |
| Timberlands | — | — | — | — | 107 | — | — | — | — | 107 |
| Transmission infrastructure | — | — | — | 119 | — | — | — | — | — | 119 |
| Specialty funds | — | — | — | — | — | 228 | — | — | — | 228 |
| Investment and other income | — | — | — | — | — | 1 | 167 | 413 | — | 581 |
| | 257 | 1,860 | 620 | 119 | 113 | 229 | 165 | 413 | — | 3,776 |
| Expenses | | | | | | | | | | |
| Interest | — | 510 | 235 | 80 | 29 | 13 | 32 | — | 286 | 1,185 |
| Asset management and other operating costs | — | — | — | — | — | — | 17 | — | 316 | 333 |
| Current income taxes | — | 99 | 2 | 8 | — | 3 | 26 | — | 4 | 142 |
| Non-controlling interests | — | 79 | 46 | (6) | 26 | 49 | 10 | 17 | 247 | 468 |
| Net income before the following | 257 | 1,172 | 337 | 37 | 58 | 164 | 80 | 396 | (853) | 1,648 |
| Dividends from Norbord | — | — | — | — | — | — | 66 | — | — | 66 |
| Dividend from Canary Wharf | — | 87 | — | — | — | — | — | — | — | 87 |
| **Cash flow from operations** | **257** | **1,259** | **337** | **37** | **58** | **164** | **146** | **396** | **(853)** | **1,801** |
| Preferred share dividends | — | — | — | — | — | — | — | — | 35 | 35 |
| **Cash flow to common shareholders** | **$ 257** | **$ 1,259** | **$ 337** | **$ 37** | **$ 58** | **$ 164** | **$ 146** | **$ 396** | **$ (888)** | **$ 1,766** |

## Balance Sheet

AS AT DECEMBER 31, 2005

| (MILLIONS) | Property | Power | Trans-mission | Timber-lands | Specialty Funds | Invest-ments | Cash and Financial Assets | Other Assets | - Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | |
| Operating assets | | | | | | | | | | |
| Property, plant and equipment | | | | | | | | | | |
| Property | $ 10,722 | $ — | $ — | $ 113 | $ — | $ — | $ — | $ 39 | $ — | $ 10,874 |
| Power generation | — | 3,568 | — | — | — | — | — | — | — | 3,568 |
| Timberlands | — | — | — | 888 | — | — | — | — | — | 888 |
| Transmission infrastructure | — | — | 130 | — | — | — | — | — | — | 130 |
| Other plant and equipment | — | — | — | — | — | 316 | — | — | — | 316 |
| Securities | 267 | — | — | — | 134 | 1,571 | 97 | — | — | 2,069 |
| Loans and notes receivable | — | — | — | — | 241 | 47 | 60 | — | — | 348 |
| Cash and cash equivalents | 253 | 115 | 2 | 21 | — | 143 | 417 | — | — | 951 |
| Financial assets | — | 187 | — | — | — | — | 1,984 | — | — | 2,171 |
| Investments | — | — | — | — | 122 | 473 | — | — | — | 595 |
| Accounts receivable and other | 617 | 882 | 24 | 35 | 2 | 836 | — | 1,752 | — | 4,148 |
| **Total assets** | **$ 11,859** | **$ 4,752** | **$ 156** | **$ 1,057** | **$ 499** | **$ 3,386** | **$ 2,558** | **$ 1,791** | **$ —** | **$ 26,058** |
| **Liabilities and shareholders' equity** | | | | | | | | | | |
| Corporate borrowings | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ — | $ 1,620 | $ 1,620 |
| Property-specific financing | 5,881 | 2,365 | 100 | 410 | — | — | — | — | — | 8,756 |
| Other debt of subsidiaries | 1,138 | 474 | — | 37 | — | 110 | 146 | — | 605 | 2,510 |
| Accounts payable and other liabilities | 463 | 491 | 14 | 51 | — | 1,874 | 282 | — | 1,386 | 4,561 |
| Capital securities | — | — | — | — | — | — | — | — | 1,598 | 1,598 |
| Non-controlling interests in net assets | 196 | 225 | — | 255 | — | 109 | — | — | 1,199 | 1,984 |
| Preferred equity | — | — | — | — | — | — | — | — | 515 | 515 |
| Common equity / net invested capital | 4,181 | 1,197 | 42 | 304 | 499 | 1,293 | 2,130 | 1,791 | (6,923) | 4,514 |
| **Total liabilities and shareholders' equity** | **$ 11,859** | **$ 4,752** | **$ 156** | **$ 1,057** | **$ 499** | **$ 3,386** | **$ 2,558** | **$ 1,791** | **$ —** | **$ 26,058** |

## Results from Operations

YEAR ENDED DECEMBER 31, 2005

| (MILLIONS) | Asset Management | Property | Power | Transmission | Timberlands | Specialty Funds | Investments | Investment Income/ Gains | Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fees earned** | **$ 246** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ 246** |
| Revenues Less Direct Operating Costs | | | | | | | | | | |
| Property | — | 1,210 | — | — | — | — | — | — | — | 1,210 |
| Power generation | — | — | 469 | — | — | — | — | — | — | 469 |
| Timberlands | — | — | — | — | 40 | — | — | — | — | 40 |
| Transmission infrastructure | — | — | — | 24 | — | — | — | — | — | 24 |
| Specialty funds | — | — | — | — | — | 54 | — | — | — | 54 |
| Investment and other income | — | — | — | — | — | — | 34 | 242 | — | 276 |
| | 246 | 1,210 | 469 | 24 | 40 | 54 | 34 | 242 | — | 2,319 |
| Expenses | | | | | | | | | | |
| Interest | — | 332 | 215 | 4 | 15 | — | 28 | 9 | 278 | 881 |
| Asset management and other operating costs | — | — | 2 | — | — | — | 9 | — | 240 | 251 |
| Current income taxes | — | 141 | — | — | — | — | 10 | — | 11 | 162 |
| Non-controlling interests | — | 109 | 22 | — | 7 | — | 5 | — | 243 | 386 |
| Net income before the following | 246 | 628 | 230 | 20 | 18 | 54 | (18) | 233 | (772) | 639 |
| Dividends from Falconbridge | — | — | — | — | — | — | 24 | — | — | 24 |
| Dividends from Norbord | — | — | — | — | — | — | 62 | — | — | 62 |
| Dividends from Canary Wharf | — | 183 | — | — | — | — | — | — | — | 183 |
| **Cash flow from operations** | **246** | **811** | **230** | **20** | **18** | **54** | **68** | **233** | **(772)** | **908** |
| Preferred share dividends | — | — | — | — | — | — | — | — | 35 | 35 |
| **Cash flow to common shareholders** | **$ 246** | **$ 811** | **$ 230** | **$ 20** | **$ 18** | **$ 54** | **$ 68** | **$ 233** | **$ (807)** | **$ 873** |

## 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 exchange value and are recognized in the consolidated financial statements. There were no transactions, individually or in aggregate, that were material to the overall operations.

## Corporate Dividends

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

| | Distribution per Security | | |
|---|---|---|---|
| | **2006** | 2005 | 2004 |
| Class A Common Shares [1] | **$ 0.58** | $ 0.39 | $ 0.36 |
| Class A Preferred Shares | | | |
| Series 1 [2] | **—** | — | 0.30 |
| Series 2 | **0.88** | 0.63 | 0.54 |
| Series 3 [3] | **—** | 2,012.46 | 1,744.04 |
| Series 4 + Series 7 | **0.88** | 0.63 | 0.54 |
| Series 8 | **1.10** | 0.74 | 0.56 |
| Series 9 | **1.25** | 1.16 | 1.08 |
| Series 10 | **1.27** | 1.19 | 1.11 |
| Series 11 | **1.22** | 1.14 | 1.06 |
| Series 12 | **1.19** | 1.12 | 1.04 |
| Series 13 | **0.88** | 0.63 | — |
| Series 14 | **3.10** | 2.25 | — |
| Series 15 | **1.00** | 0.65 | — |
| Series 17 [4] | **0.12** | — | — |
| Preferred Securities | | | |
| Due 2050 | **1.85** | 1.73 | 1.61 |
| Due 2051 | **1.84** | 1.71 | 1.60 |

*1 Adjusted to reflect three-for-two stock split on April 27, 2006*

*2 Redeemed July 30, 2004*

*3 Redeemed November 8, 2005*

*4 Issued November 20, 2006*

## Additional Share Data

### Issued and Outstanding Common Shares

During 2006 and 2005, the number of issued and outstanding common shares changed as follows:

| *(MILLIONS)* | **2006** | 2005 [1] |
|---|---|---|
| Outstanding at beginning of year | **386.4** | 388.1 |
| Issued (repurchased) | | |
| Dividend reinvestment plan | **0.1** | 0.1 |
| Management share option plan | **1.6** | 2.3 |
| Conversion of debentures and minority interests | **—** | 1.9 |
| Issuer bid purchases | **(0.2)** | (6.0) |
| Outstanding at end of year | **387.9** | 386.4 |
| Unexercised options | **19.3** | 18.9 |
| Total diluted common shares | **407.2** | 405.3 |

*1 Adjusted to reflect three-for-two stock split on April 27, 2006*

### Basic and Diluted Earnings Per Share

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

| *(MILLIONS)* | **2006** | 2005 [1] |
|---|---|---|
| Net income | **$ 1,170** | $ 1,662 |
| Preferred share dividends | **(35)** | (35) |
| Net income available for common shareholders | **$ 1,135** | $ 1,627 |
| Weighted average | **387** | 389 |
| Dilutive effect of the conversion of notes and options using treasury stock method | **12** | 10 |
| Common shares and common share equivalents | **399** | 399 |

*1 Adjusted to reflect three-for-two stock split on April 27, 2006*