

Brookfield Asset Management

SUPPLEMENTAL INFORMATION *FOR THE QUARTER ENDED JUNE 30, 2008*

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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 sustainability of cash flows within our operations, our ability to re-contract power at higher prices, our ability to manage our office property portfolios and tenant relationships to increase yields and gains, our views on the intrinsic value of our power assets, commencement of construction at our development properties, availability of and our ability to capitalize on investment opportunities, making acquisitions, our views on the North American economy and the economies of major developing countries, performance and rate of recovery of financial markets, the continued emergence of sugar-based ethanol as a fuel alternative, our views on electricity prices, our ability to capture higher market prices for our renewable power generation business, potential cash flow from our renewable power business, our growth expectations of the businesses we acquired in 2007, long-term returns on development opportunities, performance returns on, and cash flows from, our funds, expansion of our power generation business, increases in demand for “clean” sources of electricity, costs of and demand for competing forms of power generation and our ability to benefit from such demand, power generation operating levels for 2008, power generation revenues from existing contracts through 2012, the ability of Brookfield Infrastructure to provide us with an additional source of capital to fund additional growth in the infrastructure sector, returns from our real estate opportunity investment funds, residential housing conditions in the United States, projected launchings and sales of a recently acquired residential operation in Brazil, growth opportunities for our residential operations in Brazil, future costs and margins, loan refinancing plans, our ability to restructure ownership of Longview Fibre, expected growth in infrastructure transmission returns, outlook for our asset management activities, office property sector, power operations, infrastructure operations, and specialty fund operations, expected decreased demand and pricing for timber operations due to weakness in the U.S. homebuilding sector, impact of interest rates and the value of various currencies against the U.S. dollar on our operations, our ability to meet ongoing performance objectives with respect to cash flow growth and value creation and other statements with respect to our beliefs, outlooks, plans, expectations, and intentions.

The words “believe”, “growing”, “lead”, “able”, “typically”, “expect”, “potentially”, “principally”, “tend”, “primarily”, “represent”, “anticipate”, “position”, “intend”, “estimate”, “expanding”, “endeavour”, “promising”, “seeking”, “often”, “projected”, “continue”, “expand”, “maintain”, and derivations thereof, 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”, “can”, or “could” are predictions of or indicate future events, trends or prospects and which do not relate to historical matters or identify forward-looking statements. Although Brookfield 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 behaviour 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 factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Brookfield, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as may be required by law, the company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

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 statements 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. Operating cash flow is a non-GAAP measure and differs from net income, and may differ from definitions of operating cash flow used by other companies. We define operating cash flow as net income prior to such items as depreciation and amortization, future income tax expense and certain non-cash items that in our view are not reflective of the underlying operations.

BUSINESS ENVIRONMENT AND RISKS

Factors that impact Brookfield's financial results include: the performance of each of our operations and various external factors influencing the specific sectors and geographic locations in which we operate; macro-economic factors such as economic growth, changes in currency, inflation and interest rates; regulatory requirements and initiatives; and litigation and claims that arise in the normal course of business. These and other factors are described in our annual report and our annual information form, both of which are available on our web site and at www.sedar.com.

PART 1 – INTRODUCTION

The information in this Supplemental should be read in conjunction with the most recently issued Annual Report of the company. Additional information, including the company's Annual Information Form, is available on the Corporation's web site at www.brookfield.com and on SEDAR's web site at www.sedar.com.

BUSINESS OVERVIEW

Brookfield is a global asset management company, with a primary focus on property, power and infrastructure assets. We have established leading operating platforms in these sectors and, through them, own and manage a broad portfolio of high quality assets that generate long-term cash flows and opportunities for value creation for us and our partners. We create value for our shareholders by increasing, over time, the cash flows generated by managing these assets for our partners as well as from the capital that we have invested alongside them. Part 3 of the Management Discussion and Analysis of Financial Results ("MD&A") in our 2007 Annual Report describes our Business Strategy in further detail.

BASIS OF PRESENTATION

We have organized the Supplemental on a basis that is consistent with how we operate the business. We organize our activities into a Corporate Group and individual Operating Platforms which focus on specific business segments. These platforms include commercial properties, renewable power generation, infrastructure, development and other properties, specialty funds and advisory services.

We make a distinction within our operating platforms between Asset Management and Operations. We characterize Asset Management as including, among other things: strategic oversight, investment analysis, capital allocation and advisory and other specialized services such as investment banking, facilities management and property leasing. Operations represent the balance of activities directly associated with the underlying businesses. Accordingly, we segregate our financial results between Asset Management (i.e. what we earn as the manager of the assets or operations) and Operations (i.e. what we earn as an investor in the assets or operations). We also segregate our financial results and our assets, liabilities and capital by Operating Platform.

The segmented results of our asset management activities include revenues from third party clients as well as revenues earned by us in respect of the capital we have invested in established funds or business units, which are otherwise eliminated in our consolidated financial statements. For the balance of our capital that is invested directly in similar assets, we notionally attribute an asset management charge to the operations by applying a percentage fee to their estimated value. While this attribution is currently an internal allocation between the asset management segment and the operations, we intend to establish most of these operations as externally managed entities over time, which will replace this notional attribution with contractual cash flows from both third parties and ourselves and provide us with additional capital to expand our operating platforms in the process. We do this in order to present our results and margins on a consistent and more meaningful basis.

We present invested capital and operating cash flows on a "total" basis, which is similar to our consolidated financial statements and a "net" basis which represents our pro rata interest in the underlying net assets and cash flows. The net basis, with the exception of the operations of Brookfield Properties Corporation ("Brookfield Properties"), is presented on a deconsolidated basis meaning that assets are presented net of associated liabilities and non-controlling interests. Similarly, cash flows are presented net of carrying charges associated with related liabilities and cash flow attributable to related non-controlling interests such as minority shareholders and investment partners. Net invested capital and net operating cash flows, in our view, represent a more consistently comparable basis of presentation than our consolidated financial statements which include our operations under various methods, including equity accounting, proportional consolidation and full consolidation. Please refer to Part 3 of the MD&A in our 2007 Annual Report which includes a description of our financial measures and a glossary of terms.

We provide reconciliations between the basis of presentation in the Supplemental and our consolidated financial statements. In particular, we reconcile operating cash flow and net income on page 24. The tables on pages 33 to 35 provide a reconciliation between our consolidated financial statements and basis of presentation used herein.

Unless the context indicates otherwise, references in this Supplemental 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 and consolidated entities. All financial data included in the Supplemental has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and specified non-GAAP measures unless otherwise noted. All figures are presented in U.S. dollars, unless otherwise noted.

PART 2 – PERFORMANCE REVIEW

SUMMARY

In this section we review our performance during the second quarter of 2008, our financial position at quarter end and our outlook for the balance of the year. Further details on our operations and financial position are contained within our most recent Annual Report.

Operating cash flow totalled \$378 million during the second quarter of 2008. In 2007 we recorded \$340 million on a comparable basis, or \$440 million including a security disposition gain of \$100 million (\$0.17 per share). Excluding this item, operating cash flows increased by 13% on a per share basis.

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Cash flow from operations				
Comparable basis (excluding security disposition gain)	\$ 378	\$ 340	\$ 821	\$ 746
– per share ¹	0.62	0.55	1.34	1.22
Total basis (including security disposition gain)	\$ 378	\$ 440	\$ 821	\$ 1,011
– per share ¹	0.62	0.72	1.34	1.65

¹ Adjusted to reflect three-for-two stock split on June 1, 2007

We recorded improved results across most of our operating platforms, particularly in our power generation group which benefited from strong water levels and higher realized prices, as well as our commercial office property business, which experienced continued growth in cash flows due to increases in rents and the contribution from acquired properties. This more than offset the impact of weakness in the U.S. markets on our residential business and timberland operations. Our asset management activities also demonstrated continued growth in fee income due to a higher level of invested capital and funds under management.

We continue to have a substantial amount of capital invested in promising development opportunities that we expect will generate attractive long-term returns but, as we have observed in previous shareholder letters, result in lower current returns. This has impacted the current quarter, restraining cash flow growth over prior quarters.

The following table presents net income for the past two periods determined in accordance with Canadian GAAP. We utilize operating cash flow, as opposed to net income, as our preferred metric in assessing the performance of our business. Nevertheless we recognize the importance of net income as a key measure for many users and provide a full discussion of our net income and a reconciliation to operating cash flow.

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three months ended June 30		Six months ended June 30	
	2008	2007	2008	2007
Net income				
– total	\$ 110	\$ 153	\$ 307	\$ 348
– per share ¹	0.17	0.24	0.48	0.55

¹ Adjusted to reflect three-for-two stock split on June 1, 2007

Net income was \$110 million compared with \$153 million in the comparable quarter last year. The decrease reflects the variances in operating cash flow noted above, offset by non-cash charges such as depreciation on recently acquired assets and mark-to-market adjustments on hedging or forward sale arrangements in which the offsetting assets or revenue streams cannot be revalued for accounting purposes. We reconcile net income to operating cash flow on page 24, and describe these non-cash charges on pages 25 and 26.

Segmented Operating Results

The following table presents our operating cash flows for the second quarter of 2008 and 2007 on a segmented basis. The results are classified by operating platform and net operating cash flows are separated between those attributable to our asset management activities and those generated from the capital invested by us in our operating platforms.

As discussed under Basis of Presentation, total operating cash flows are presented on a consolidated basis similar to our consolidated financial statements, where net operating cash flows represent the cash flow attributable to our net investment in each segment and is net of interest expense and co-investor interests.

	Total Operating Cash Flow		Net Operating Cash Flow					
	2008	2007	2008			2007		
FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)			Asset Management Operations Total			Asset Management Operations Total		
Asset management income	\$ 113	\$ 95						
Operating platforms								
Commercial properties	433	397	\$ 126	\$ 112	\$ 238	\$ 85	\$ 126	\$ 211
Power generation	264	170	18	125	143	17	66	83
Infrastructure	95	119	11	33	44	9	30	39
Development and other properties	113	115	6	96	102	6	77	83
Specialty funds	121	60	16	64	80	39	32	71
Advisory services	—	—	18	—	18	14	—	14
Private equity investments	59	71	—	51	51	—	53	53
Total operating platforms	1,085	932	195	481	676	170	384	554
Cash and financial assets	36	172	—	30	30	—	168	168
	1,234	1,199	195	511	706	170	552	722
Unallocated expenses								
Financing	(475)	(424)	—	(84)	(84)	—	(69)	(69)
Operating costs	(148)	(105)	(85)	(56)	(141)	(61)	(33)	(94)
Current income taxes	(21)	(26)	—	(1)	(1)	—	(10)	(10)
Non-controlling interests in consolidated operations	(212)	(204)	(15)	(87)	(102)	(17)	(92)	(109)
Net operating cash flow	\$ 378	\$ 440	\$ 95	\$ 283	\$ 378	\$ 92	\$ 348	\$ 440

Two transactions occurred during 2007 that gave rise to meaningful variances between the 2008 and 2007 quarters. The most significant was our acquisition of Multiplex, which closed in the fourth quarter of 2007. This transaction increased the amount of capital deployed in commercial properties and the associated operating cash flows, as well as the amount of capital invested in development activities compared to the second quarter of 2007.

The second major transaction was the partial disposition of a large exchangeable debenture position in the second quarter of 2007, which gave rise to a \$100 million disposition gain that is included in the contribution from cash and financial assets for that period.

Total operating cash flows from asset management activities, which include only third party revenues totalled \$113 million during the period compared to \$95 million in 2007. Net operating cash flow from these activities, which also include base management fees and performance returns in respect of our capital, was \$95 million during 2008 compared with \$92 million in 2007. The net segment results are comprised of \$195 million in total revenues (consisting of the \$113 million of third party revenues and \$82 million in respect of our capital) less \$85 million of operating expenses and \$15 million of the net cash flows that are attributable to co-investors.

Operating platforms contributed total operating cash flows of \$1,085 million, representing an increase of 16% over 2007, due to increases in commercial office and power generation cash flows and gains within our specialty fund activities. On a net capital basis, operating platforms contributed \$481 million excluding the cash flows attributed to asset management activities prior to unallocated costs, representing an increase of 25% over 2007. We discuss these results in greater detail in the Operating Platforms Section beginning on page 8.

Our cash and financial assets and other activities contributed total operating cash flow of \$36 million (net – \$30 million) compared to \$172 million in 2007 (net – \$168 million). The 2007 period included a large security disposition gain of \$100 million.

Financing costs increased due to the expansion of our business activities and the commensurate increase in our capitalization. The total cash flows include financing costs incurred by partially owned entities whereas the net cash flows relate solely to our corporate obligations.

The increase in unallocated operating costs reflects the expansion in our operating platforms including the increased level of activity devoted to the development of new operating platforms and the expansion of our asset management capabilities.

Non-controlling interests in cash flows declined on a net basis due to lower cash flows generated by partially owned residential property operations and a lower level of disposition gains within consolidated funds.

Overview of Asset Management Results

The following table summarizes asset management income and fees generated for the past two years. "Total" represents fee income generated by the assets and capital under management on a 100% basis, including amounts attributed to the capital we have invested in established funds with co-investors as well as assets that are held directly by Brookfield, whereas "Third Party" amounts represent fees and performance returns earned by us in respect of the assets and capital managed on behalf of our investment partners.

The following table sets out the key components of revenues from asset management activities:

<i>FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)</i>	<i>Total</i>		<i>Third Party</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Base management fees	\$ 112	\$ 93	\$ 33	\$ 23
Performance returns	4	3	1	2
Transaction fees	—	17	—	16
Property services	76	49	76	46
Investment banking	3	8	3	8
	195	170	113	95
Direct operating costs	(85)	(61)	—	—
Non-controlling interests in consolidated operations	(15)	(17)	—	—
	\$ 95	\$ 92	\$ 113	\$ 95

Base management fees recorded during the quarter totalled \$112 million (2007 – \$93 million), and included fees of \$33 million (2007 – \$23 million) earned from third-party investors, \$12 million (2007 – \$7 million) from the capital that we have invested in existing funds and \$67 million (2007 – \$63 million) attributed to assets that are not held in existing funds. The increase is due to new funds added since the beginning of 2007.

The level of annualized base management fees is a key measure in assessing the growth of our business. As at June 30, 2008, annualized base management fees on all existing funds and assets under management from third parties was \$130 million (December 31, 2007 – \$120 million).

Transaction fees include investment fees earned in respect of financing activities and include commitment fees, work fees and exit fees.

Property services fees include property and facilities management, leasing and project management and a range of real estate services. The increase reflects a higher level of activity within our facilities management operations and the newly acquired Australian operations. We provide specialized investment banking services in North America and Brazil.

Direct operating costs increased by \$24 million, of which \$22 million is attributable to the Australian fund management business. Non-controlling interests represent the 49% interest of Brookfield Properties' shareholders in the asset management activities conducted by that company.

The level of performance returns recorded in our results continues to be modest because they tend to materialize later in the life cycle of a fund and because we have elected to follow accounting guidelines that defer recognition in our financial statements. Performance returns on established funds that we believe had accumulated as at December 31, 2007, but were not included in our reported results totalled \$355 million, of which \$138 million relate to fund party investors and the balance is in respect of our investment in the funds.

We estimate that approximately \$29 million of direct expenses will arise on the realization of these returns. The average period of time over which these accumulated returns may be realized is six years, based on the terms of the relevant contracts. We expect that the ultimate receipt of these amounts will not result in any meaningful cash taxes based on our current tax profile.

We will provide an updated estimate of these returns with our annual results, as we do not believe that fluctuations in these amounts are meaningful on a quarter-by-quarter basis. Nonetheless, we estimate that accumulated returns have declined in the first half of 2008 due to lower asset valuations in certain of our funds but not to a material extent.

Assets Under Management and Invested Capital

The following table presents the book values of total assets under management at the end of June 30, 2008 and December 31, 2007, including our interests and those of our co-investors, capital commitments by our co-investors, and Brookfield's invested capital measured in terms of consolidated assets and net invested capital.

(MILLIONS)	<i>Total Assets Under Management</i>		<i>Co-investor Commitments ¹</i>		<i>Brookfield Invested Capital</i>			
					<i>Consolidated Assets</i>		<i>Net Invested</i>	
	June 30	<i>Dec. 31</i>	June 30	<i>Dec. 31</i>	June 30	<i>Dec. 31</i>	June 30	<i>Dec. 31</i>
	2008	<i>2007</i>	2008	<i>2007</i>	2008	<i>2007</i>	2008	<i>2007</i>
Operating platforms								
Commercial properties	\$ 28,486	\$ 30,750	\$ 3,052	\$ 2,898	\$ 22,993	\$ 25,315	\$ 4,785	\$ 4,803
Power generation	7,395	6,802	—	—	7,395	6,802	1,560	1,425
Infrastructure	6,826	6,755	2,136	1,192	4,536	4,435	1,451	1,645
Development and other properties	11,692	9,081	395	359	11,692	9,081	4,145	3,541
Specialty funds	5,976	7,487	3,651	3,547	4,465	2,736	1,163	1,137
Advisory services	26,126	26,237	26,126	26,237	—	—	—	—
	86,501	87,112	35,360	34,233	51,081	48,369	13,104	12,551
Private equity investments	3,619	3,851	—	—	3,619	3,851	1,210	1,336
Cash and financial assets	1,679	1,367	—	—	1,679	1,367	1,148	867
Other assets	3,207	2,010	—	—	3,207	2,010	3,207	2,010
	\$ 95,006	\$ 94,340	\$ 35,360	\$ 34,233	\$ 59,586	\$ 55,597	\$ 18,669	\$ 16,764

¹ Includes incremental co-investment capital

Assets under management and net invested capital were largely unchanged during the quarter. Co-investor commitments increased by \$1,127 million during the year due to the formation of Brookfield Infrastructure Partners L.P., a Brazil timber fund and additional commitments to our second real estate finance fund.

OPERATING PLATFORMS

Commercial Properties

The following table summarizes the total net operating cash flows contributed by our commercial property operations:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2008			2007		
	2008	2007	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Office properties	\$ 408	\$ 387	\$ —	\$ 159	\$ 159	\$ —	\$ 160	\$ 160
Retail properties	25	10	—	(3)	(3)	—	4	4
Asset management and property services ¹	433	397	—	156	156	—	164	164
	—	—	126	(44)	82	85	(38)	47
	\$ 433	\$ 397	\$ 126	\$ 112	\$ 238	\$ 85	\$ 126	\$ 211

¹ Prior to operating costs

Property operations contributed total operating cash flow of \$433 million in 2008 (2007 – \$397 million). The increase is due to higher rents at existing properties and the acquisition of additional properties in late 2007, offset by lower disposition gains. Net operating cash flow, which reflects financing costs and co-investor interests, was \$238 million (2007 – \$211 million) and includes net cash flow of \$156 million in 2008 attributed to operations (2007 – \$164 million) and \$82 million attributed to asset management activities (2007 – \$47 million). Cash flow from operating assets in the 2008 quarter reflects the variances in total cash flow as well as a higher level of interest expense on acquired assets and a higher level of debt on existing assets. Asset management results increased due to the higher level of invested capital as well as the addition of property services and fund management activities in Australia.

The following table summarizes assets under management and invested capital in our commercial property operations:

(MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
					Consolidated		Net Invested Capital	
	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007
Office properties	\$ 26,571	\$ 29,052	\$ 2,442	\$ 2,298	\$ 21,078	\$ 23,617	\$ 4,677	\$ 4,700
Retail properties	1,915	1,698	610	600	1,915	1,698	108	103
	\$ 28,486	\$ 30,750	\$ 3,052	\$ 2,898	\$ 22,993	\$ 25,315	\$ 4,785	\$ 4,803

Net invested capital in commercial properties decreased slightly during the first half of 2008. Assets under management and consolidated assets within our office property business both decreased by approximately \$2.5 billion due largely to the reallocation of working capital and non-operating balances assumed within our purchase of an Australian business in late 2007 to other business units. This represents further refinement of the capital deployed within each business unit as we integrate this business. This re-allocation had no impact on co-investor commitments and minimal impact on net invested capital due to the reallocation of associated working capital liabilities.

Office Properties

The following table shows the sources of operating cash flow by geographic region:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Operating Cash Flow							
	2008				2007			
	Total	Interest Expense	Co-investor Interests	Net	Total	Interest Expense	Co-investor Interests	Net
North America	\$ 340	\$ 182	\$ 14	\$ 144	\$ 380	\$ 179	\$ 45	\$ 156
Australasia	58	44	—	14	—	—	—	—
Europe	10	9	—	1	7	3	—	4
	\$ 408	\$ 235	\$ 14	\$ 159	\$ 387	\$ 182	\$ 45	\$ 160

Total operating cash flow increased by \$21 million or 5% over 2007 due primarily to the acquisition of a large commercial office portfolio in late 2007 and increased contribution from existing property interests. The acquisition was partially funded with property-

specific debt and co-investor capital, which contributed towards an increase in interest expense. After taking these items into consideration, net operating cash flows decreased by \$1 million.

The following table sets out the variances in operating cash flows:

<i>FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)</i>	2008	2007	Variance
Existing properties	\$ 336	\$ 321	\$ 15
Acquired properties	72	4	68
Disposition gains	—	62	(62)
Total operating cash flow	408	387	21
Interest expense	(235)	(182)	(53)
Co-investors' interests	(14)	(45)	31
Net operating cash flow	\$ 159	\$ 160	\$ (1)

We achieved growth in operating cash flow from existing properties of \$15 million or 5%, due to new leasing in the favourable market conditions which existed in the first half of 2008. Average in-place net rents across the North American portfolio have increased to \$23 from \$22 at the end of comparable quarter and we also have benefited from favourable currency appreciation. In Australia, average in place rents are \$47 per square feet, approximately 12% below market rents. Leasing fundamentals remain strong in most of our markets, notwithstanding economic weakness in the United States, notably financial centres. We continue to manage our portfolios and tenant relationships on a proactive basis, which can lead to opportunities to re-lease space for increased yields and gains.

We leased 3.0 million square feet in our North American portfolio during the first six months of 2008 (2.0 million square feet in the second quarter) at an average net rent of \$29 per square foot. This included 1.6 million square feet of new leases and 1.4 million square feet of expiring leases which had an average net rent of \$21 per square foot. Excluding a fixed-rate contractual renewal in Houston, the average renewal rate was \$31 per square foot. Our North American portfolio occupancy rate at the end of the quarter was 96.2%. In Australia, our portfolio occupancy remains at 99% with an average lease term of over seven years.

We acquired a major portfolio in Australia in late 2007 which contributed total operating cash flow of \$58 million and net operating cash flows of \$14 million after deducting interest expenses and co-investor interests.

The 2007 results include \$62 million of disposition gains on the sale of properties in Toronto and Washington, \$30 million net of fund specific minority interest.

In July 2008, we completed the sale of our 50% interest in the TD Canada Trust Tower in Toronto to our partner for gross proceeds of C\$425 million. The sale proceeds reflect a significant premium over our carrying value and is representative of the value that office properties such as this continue to attract. The gain on this disposition will be recorded in our third quarter results.

Borrowing costs increased by \$53 million over 2007. The Australian portfolio gave rise to \$44 million of expenses in the second quarter of 2008. Co-investor interests in 2007 included \$32 million related to the disposition gains recorded in that quarter. Borrowing costs associated with existing properties increased as a result of refinancing underlevered properties at attractive yields which reduced net operating cash flow but improved return on capital.

Retail

The acquisition of properties within our retail fund resulted in increases in assets under management, consolidated assets and net invested capital since the second quarter of 2007, although balances are unchanged since year-end. Co-investor commitments remained unchanged during the quarter, and the fund is now virtually fully invested.

Total operating cash flows increased to \$25 million for the second quarter of 2008 compared to \$10 million in 2007. The increase reflects the acquisition of a 1.7 million square foot portfolio of high quality properties in late 2007, all which were in São Paulo and Rio de Janeiro.

The properties acquired by the Brazil retail fund contain a number of development opportunities which are expected to generate substantial value over the long-term but will restrain current returns in the near term. Net operating cash outflow is \$3 million for the current quarter, as the increase in total operating cash flows was offset by interest costs on acquisition debt, and integration costs.

Asset Management – Commercial Properties

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	2008			2007		
	Total	Operations	Third Party	Total	Operations	Third Party
Asset management	\$ 50	\$ (44)	\$ 6	\$ 39	\$ (38)	\$ 1
Property services	76	—	76	46	—	46
	\$ 126	\$ (44)	\$ 82	\$ 85	\$ (38)	\$ 47

Fees from third-party clients increased to \$82 million in 2008 compared to \$47 million in 2007 due to the addition of externally managed funds and property services businesses in Australia and Europe in late 2007. Total fees attributed to our investment in our commercial property operations increased by \$6 million to \$44 million, reflecting the higher level of capital that we have invested in new funds and directly held assets.

Renewable Power Generation

We own one of the largest privately held hydroelectric power generating portfolios in the world. Our operations are diversified throughout 63 river systems in the U.S., Canada and Brazil. We have increased our generation capacity by 150% over the past five years and intend to continue to expand our business through acquisitions and development initiatives. Hydroelectric power generation benefits from low operating costs, requires no fossil fuels and has negligible carbon emissions. Accordingly, we believe that our business is well positioned to benefit in both the near term and long term and that demand for “clean” sources of electricity and the costs of competing forms of generation will continue to increase.

The following table summarizes the net operating cash flow generated by our power generating operations during the second quarter of 2008 and 2007:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2008			2007		
	2008	2007	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Renewable power generation	\$ 264	\$ 170	\$ —	\$ 143	\$ 143	\$ —	\$ 83	\$ 83
Asset management	—	—	18	(18)	—	17	(17)	—
	\$ 264	\$ 170	\$ 18	\$ 125	\$ 143	\$ 17	\$ 66	\$ 83

The net operating cash flow from our power operations increased to \$143 million during the second quarter of 2008. Total operating cash flows increased to \$264 million from \$170 million due to a combination of higher realized prices and increased generation levels, which are discussed in more detail later in this section. This increase was partially offset by higher financing costs and co-investor interests, reflecting the increasing scale of our operations and the higher level of profitability which is in turn shared with our co-investors.

The following table sets out installed capacity and development projects as at June 30, 2008:

(MEGAWATTS)	June 30 2008	March 31 2008	Dec. 31 2007
Installed capacity			
Hydroelectric generation	3,087	2,930	2,887
Wind energy	189	189	189
Pumped storage	600	600	600
Co-generation	215	215	215
	4,091	3,934	3,891
Development projects			
Hydroelectric – under construction	137	137	137
– advanced stage	368	368	368
Wind energy – advanced stage	210	210	210
	715	715	715

In the quarter, we completed the acquisition of a 156 megawatt hydro facility in Brazil at a total cost of \$400 million, bringing total installed capacity to 4,091 megawatts at June 30, 2008. In addition, we have six hydroelectric facilities under construction that will

expand our capacity by a further 137 megawatts at a total projected cost of \$350 million and advanced stage developments totalling 578 megawatts of additional installed capacity.

As shown in the following table, the carrying values of our hydroelectric assets increased to \$4.8 billion at the end of the second quarter from \$4.3 billion at year end reflecting acquisition and development activity, offset by accounting depreciation. Net invested capital did not change significantly as acquisitions were funded with a combination of assumed debt, new project debt and cash on hand.

	<i>Total Assets Under Management</i>		<i>Co-investor Commitments</i>		<i>Brookfield Invested Capital</i>			
	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>	<i>Consolidated Assets</i>		<i>Net Invested</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>
<i>(MILLIONS)</i>								
Hydroelectric generation	\$ 4,802	\$ 4,299	\$ —	\$ —	\$ 4,802	\$ 4,299	\$ 4,802	\$ 4,299
Wind, pumped storage and cogeneration	558	602	—	—	558	602	558	602
Development	315	236	—	—	315	236	315	236
	5,675	5,137	—	—	5,675	5,137	5,675	5,137
Cash and financial assets	562	784			562	784	562	784
Working capital	1,158	881			1,158	881	48	2
Property-specific and subsidiary debt							(4,476)	(4,285)
Co-investors' interests							(249)	(213)
	\$ 7,395	\$ 6,802	\$ —	\$ —	\$ 7,395	\$ 6,802	\$ 1,560	\$ 1,425

We believe the intrinsic value of our power assets is much higher than the book value because the assets have either been acquired at attractive prices or held for many years and therefore depreciated for accounting purposes which, in our view, is inconsistent with the nature of hydroelectric generating assets. We have also been successful in acquiring, developing and upgrading many of our facilities in an environment of rising fossil fuel prices, which have resulted in significantly expanded operating margins for hydroelectric facilities. This is demonstrated by the level of property-specific and subsidiary debt which, while appearing high compared to the book values, is almost entirely investment grade and relatively conservative compared to the economic value of the facilities and the strength and growth potential of the cash flows.

The following table summarizes the total and net operating cash flows contributed by our power generating operations:

<i>FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)</i>	<i>Total Operating Cash Flow</i>		<i>Net Operating Cash Flow</i>		
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>Variance</i>
Hydroelectric generation					
North America					
United States	\$ 119	\$ 93	\$ 119	\$ 93	\$ 26
Canada	85	44	85	44	41
Brazil	36	17	36	17	19
Total hydroelectric generation	240	154	240	154	86
Wind energy	9	6	9	6	3
Co-generation and pumped storage	15	10	15	10	5
Total other generation	24	16	24	16	8
Total operating cash flows	264	170	264	170	94
Other expenses			(11)	(3)	(8)
Interest expenses			(82)	(69)	(13)
Non-controlling interests			(28)	(15)	(13)
Operating cash flow	\$ 264	\$ 170	\$ 143	\$ 83	\$ 60

Hydroelectric generation contributed \$86 million to the increase in total operating cash flows, due to higher realized prices and increased generation. Net operating cash flows, which reflect interest expense and co-investor interests, were \$143 million in the quarter, compared to \$83 million in 2007. The increased interest expense reflects financings completed since the first quarter of 2007 and the impact of currency fluctuations on non-U.S. financings relative to the second quarter of 2007. In addition, the increased profitability led to a higher level of cash flow being attributed to non-controlling interests.

Realized Prices and Operating Margins

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

THREE MONTHS ENDED JUNE 30 (GWH AND \$ MILLIONS)	2008				2007			
	Actual Production	Realized Revenues	Operating Costs	Operating Cash Flows	Actual Production	Realized Revenues	Operating Costs	Operating Cash Flows
Ontario	894	\$ 62	\$ 13	\$ 49	405	\$ 32	\$ 10	\$ 22
Quebec	530	39	7	32	400	22	5	17
New England	404	24	8	16	403	20	8	12
New York	1,046	76	20	56	990	60	20	40
Other	1,099	112	25	87	786	79	16	63
Total	3,973	\$ 313	\$ 73	\$ 240	2,984	\$ 213	\$ 59	\$ 154
Per MWh		\$ 79	\$ 19	\$ 60		\$ 71	\$ 20	\$ 51

Realized prices from our hydro portfolio increased by 11% over 2007 levels to \$79 per megawatt hour (“MWh”). Spot prices were higher in the second quarter throughout most of our operations, although the impact on our cash flows is moderated by our policy of forward selling most of our generation to stabilize our revenue streams. The table on page 13 sets out the maturity profile of our contracts and provides an indication of our participation in changes in energy prices over time. We also generated a higher proportion of our power in higher priced regions and benefited from higher currency levels in Canada and Brazil relative to the second quarter of 2007. Our ability to capture peak pricing and sell other energy products, such as capacity, also contributes to higher realized prices. Operating costs declined on a per megawatt basis reflecting increased utilization, offset in part by the impact of a higher Canadian dollar on our Canadian operations.

The contribution from our non-hydro facilities is set forth in the following table. Cash flows increased as higher realized prices at our co-generation and pumped storage facilities offset lower generation levels and increased variable costs.

THREE MONTHS ENDED JUNE 30 (GWH AND \$ MILLIONS)	2008				2007			
	Actual Production	Realized Revenues	Operating Costs	Operating Cash Flows	Actual Production	Realized Revenues	Operating Costs	Operating Cash Flows
Co-generation and pumped storage	352	\$ 45	\$ 30	\$ 15	396	\$ 35	\$ 25	\$ 10
Wind energy	117	11	2	9	91	8	2	6
Total	469	\$ 56	\$ 32	\$ 24	487	\$ 43	\$ 27	\$ 16
Per MWh		\$ 119	\$ 68	\$ 51		\$ 88	\$ 55	\$ 33

Generation

Our facilities produced 4,442 gigawatt hours (“GWh”) of electricity during the second quarter of 2008, compared with 3,471 GWh during 2007. Conventional hydroelectric facilities generated 3,973 GWh, an increase of 989 GWh or 33%. We produced 674 more gigawatt hours from existing hydroelectric capacity owned throughout 2008 and 2007 (i.e. “same store” basis) due to higher water flows; this was supplemented by the contribution of 315 additional gigawatt hours from hydroelectric facilities acquired or developed during 2007 and 2008. Hydroelectric generation was 5% above expected long-term averages, whereas the 2007 results were 14% below long-term averages. Our reservoirs have been maintained at normal levels for this time of year and, as a result, we should be able to operate our facilities at long-term average levels during the remainder of 2008, assuming normal water conditions prevail.

The following table summarizes generation during the second quarter of 2008 and 2007:

THREE MONTHS ENDED JUNE 30 (GIGAWATT HOURS)	Long-Term Average	Actual Production		Variance to	
		2008	2007	Long-Term Average	2007
Existing capacity	3,425	3,628	2,954	203	674
Acquisitions – during 2007	161	161	30	—	131
Acquisitions – during 2008	184	184	—	—	184
Total hydroelectric operations	3,770	3,973	2,984	203	989
Wind energy	129	117	91	(12)	26
Co-generation and pump storage	319	352	396	33	(44)
Total generation	4,218	4,442	3,471	224	971

Contract Profile

Approximately 80% of our projected generation for the balance of 2008 and 2009 was subject to long-term bilateral power sales agreements or shorter-term financial contracts at quarter end. The remaining generation is typically sold into wholesale electricity markets. Our long-term sales contracts, which cover approximately 55% of total generation during this period, have an average term of 11 years and the counterparties are almost exclusively customers with long-standing favourable credit histories or investment grade ratings. The financial contracts typically have a term of less than three years.

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

	Balance of	Years ended December 31			
	2008	2009	2010	2011	2012
Generation (GWh)					
Contracted					
Power sales agreements	4,220	7,557	7,534	7,036	6,267
Financial contracts	1,464	3,958	492	—	—
Uncontracted	1,264	2,886	6,370	7,366	8,127
	6,948	14,401	14,396	14,402	14,394
Contracted generation					
% of total	82	80	56	49	44
Revenue (\$millions)	418	878	637	581	552
Price (\$/MWh)	74	76	79	83	88

The increase in the average selling price for contracted power from \$74 per MWh to \$88 per MWh 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.

Asset Management – Power Generation

Asset management cash flow is determined by applying a fixed percentage fee to our estimated value of the equity capital invested in these operations. This is an internal allocation that is intended to be consistent with comparable asset management fees incurred elsewhere in our operations. The amount allocated in the current quarter was similar to the comparable quarter as the level of invested capital was relatively unchanged.

We continue to consider various alternatives to establish an externally managed entity through which we can share the ownership of these assets with others on a fee-bearing basis.

Infrastructure

Our infrastructure operations consist of timber and electrical transmission operations in the United States, Canada, Chile and Brazil that are owned through a number of managed funds and through direct interests. The net operating cash flows contributed by these operations are summarized in the following table:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2008			2007		
	2008	2007	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Timberlands	\$ 39	\$ 58	\$ —	\$ 13	\$ 13	\$ —	\$ 21	\$ 21
Transmission	56	61	—	27	27	—	15	15
	95	119	—	40	40	—	36	36
Asset management	—	—	11	(7)	4	9	(6)	3
	\$ 95	\$ 119	\$ 11	\$ 33	\$ 44	\$ 9	\$ 30	\$ 39

In January 2008 we transferred a number of our ownership interests to Brookfield Infrastructure Partners (“Brookfield Infrastructure”), a specialty issuer listed on the New York Stock Exchange. We own 40% of and provide management services to Brookfield Infrastructure. The remaining 60% of Brookfield Infrastructure was distributed to Brookfield shareholders. The establishment of Brookfield Infrastructure is intended to provide investors with what is, in our opinion, a relatively unique and attractive opportunity

to invest directly in the infrastructure asset class through a publicly listed security. This also expands the amount of committed capital that we manage and should provide an additional source of capital to fund continued growth in this sector. The net invested capital and net operating cash flows presented in this section reflect the operations held within Brookfield Infrastructure on a pro rata basis as well as our directly held operations while assets under management and consolidated assets include Brookfield Infrastructure on a fully consolidated basis.

(MILLIONS)	<i>Total Assets Under Management</i>		<i>Co-investor Commitments</i>		<i>Brookfield Invested Capital</i>			
	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>	<i>Consolidated Assets</i>		<i>Net Invested</i>	
	2008	2007	2008	2007	June 30	<i>Dec. 31</i>	June 30	<i>Dec. 31</i>
Timberlands	\$ 3,663	\$ 3,675	\$ 760	\$ 315	\$ 3,663	\$ 3,675	\$ 1,067	\$ 1,025
Transmission	3,163	3,080	1,376	877	873	760	384	620
	\$ 6,826	\$ 6,755	\$ 2,136	\$ 1,192	\$ 4,536	\$ 4,435	\$ 1,451	\$ 1,645

Co-investor commitments represent capital committed by clients to our western Canadian and eastern North American timber funds and the Chilean transmission operations as well as the 60% interests of unitholders in Brookfield Infrastructure that were distributed in the first quarter of 2008. The resultant decrease in net invested capital was offset by the investment of additional capital into our Chilean transmission operations to fund growth capital investment and our U.S. Pacific Northwest timberlands in connection with the completion of a \$1 billion long-term debt financing.

Timber

Timber operations contributed \$39 million of total operating cash flow during the second quarter of 2008 compared with \$58 million in 2007.

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	<i>Total Operating Cash Flow</i>		<i>Net Operating Cash Flow</i>		
	2008	2007	2008	2007	<i>Variance</i>
Timber					
Western North America					
Timberlands	\$ 34	\$ 50	\$ 34	\$ 50	\$ (16)
Higher and better use lands	2	2	2	2	—
Eastern North America	1	4	1	4	(3)
Brazil	2	2	2	2	—
	39	58	39	58	(19)
Other expenses			—	(1)	1
Interest expense			(23)	(24)	1
Co-investor's interests			(3)	(12)	9
	\$ 39	\$ 58	\$ 13	\$ 21	\$ (8)

The slowdown in the U.S. homebuilding industry has resulted in lower demand and prices for premium species such as high quality Douglas fir. Total operating cash flows declined as a result. We responded by exploiting the flexibility inherent in timber management which allows us to defer harvesting until prices recover and instead increased harvest levels of other species such as cedar and appearance grade logs where margins have held up better. In addition, we continue to increase the level of exports into Asian markets to capture better margins, net of transportation costs. Interest costs remained consistent with the prior year. The 2007 results reflect a higher level of harvesting activities in anticipation of a possible strike, which provided us with surplus inventory to work with. Pricing was also better than expected.

During the quarter, we refinanced a \$1.2 billion bridge loan in our U.S. timberlands operations with \$1.0 billion of non-recourse debt which has a seven year term and a 5.17% average interest rate. Co-investor interests declined, reflecting a lower harvest level within our Canadian west coast operations, offset by the cash flow attributable to unitholders of Brookfield Infrastructure.

The following table summarizes the operating results from our timber operations:

FOR THE THREE MONTHS ENDED JUNE 30 (\$ MILLIONS)	2008			2007		
	Sales (m ³)	Revenue	Harvest (m ³)	Sales (m ³)	Revenue	Harvest (m ³)
Western North America						
Douglas fir	637,400	\$ 56	639,800	888,900	\$ 84	753,700
Whitewood	309,200	19	332,700	465,500	31	453,700
Other	192,300	22	210,000	108,300	19	98,300
	1,138,900	97	1,182,500	1,462,700	134	1,305,700
Other	473,600	13	444,900	557,100	17	505,700
	1,612,500	\$ 110	1,627,400	2,019,800	\$ 151	1,811,400

Transmission

Transmission operations contributed \$27 million of operating cash flow during the second quarter of 2008, net of carrying charges and co-investor interests, compared with \$15 million for the same period in 2007 as shown in the following table:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow		
	2008	2007	2008	2007	Variance
Transmission facilities and investments					
Chile	\$ 8	\$ 50			
North America	10	8			
Brazil	39	3			
	57	61	\$ 57	\$ 61	\$ (4)
Other income / (expense) and taxes	(1)	—	(9)	—	(9)
Interest expense	—	—	(1)	(36)	35
	56	61	47	25	22
Co-investors' interests			(20)	(10)	(10)
	\$ 56	\$ 61	\$ 27	\$ 15	\$ 12

The operating cash flows from our Chilean operations are recorded on an equity accounted basis in 2008 and totalled \$8 million in the quarter, (i.e. our proportionate share of the net operating cash flows after deducting interest expense and co-investor interests). The 2007 contribution on a comparable basis was \$3 million. The increase was due to rate base increases, inflation indexation net of currency adjustments and capital investments as well as a recovery in respect of the finalization of an outstanding rate proceeding that resulted in a cash payment to us of \$5 million in respect of prior periods. These operations performed in line with expectations, as did our northern Ontario transmission and distribution operations. Our investment in transmission systems in Brazil are subject to a purchase and sale arrangement where we have the ability to sell our investment to third parties for an inflation adjusted return of 14.8%. We recorded a revaluation gain of \$38 million in the quarter (\$13 million net of co-investor interests and taxes) in respect of this arrangement.

Interest expense and co-investor interests in 2007 include amounts in respect of the Chilean transmission operations that are no longer consolidated. Co-investor interests increased overall, notwithstanding this change, the interests of co-investors in the upward revaluation reflecting of our Brazilian transmission interests.

Asset Management – Infrastructure

Asset management activities contributed \$4 million of revenues from third parties during the second quarter of 2008, compared to \$3 million recorded in 2007. The increase is due to fees associated with Brookfield Infrastructure. Total asset management revenues, which include fees earned on our interests in established funds and attributed to directly held interests, increased to \$11 million in the 2008 quarter from \$9 million in 2007 due to the expansion of our timber interests during 2007.

During the quarter we closed commitments of \$280 million for a Brazil Timber Fund of which \$230 million is from third party investors.

Development and Other Properties

Development and other properties include our real estate opportunity investment funds, residential operations, properties that are currently under development and properties that are held for development.

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2008			2007		
	2008	2007	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Opportunity investments	\$ 47	\$ 16	\$ —	\$ 21	\$ 21	\$ —	\$ 4	\$ 4
Residential	49	99	—	42	42	—	78	78
Under development / held for development	17	—	—	39	39	—	—	—
	113	115	—	102	102	—	82	82
Asset management	—	—	6	(6)	—	6	(5)	1
	\$ 113	\$ 115	\$ 6	\$ 96	\$ 102	\$ 6	\$ 77	\$ 83

The following table summarizes the assets under management and invested capital:

(MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
					Consolidated		Net Invested Capital	
	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007
Opportunity investments	\$ 1,516	\$ 1,571	\$ 195	\$ 159	\$ 1,516	\$ 1,571	\$ 228	\$ 225
Residential	3,622	2,909	200	200	3,622	2,909	401	450
Under development	5,296	3,400	—	—	5,296	3,400	2,272	1,696
Held for development	1,258	1,201	—	—	1,258	1,201	1,244	1,170
	\$ 11,692	\$ 9,081	\$ 395	\$ 359	\$ 11,692	\$ 9,081	\$ 4,145	\$ 3,541

Assets under management and capital invested in our opportunity investments and residential operations were relatively unchanged during the quarter. Our first opportunity fund was fully invested during the previous year following a number of acquisitions and we continue our efforts to invest the capital committed to our second fund. Net invested capital in residential operations excludes \$243 million in advances as discussed under subsidiary borrowings.

Assets under management and consolidated assets in properties under development both increased by approximately \$1.9 billion due mainly to the inclusion in this year of the working capital associated with Multiplex's construction business and additional elements of its development activities, which were included in commercial properties at year end.

The carrying values of properties held for development were relatively unchanged.

Opportunity Investment Funds

We operate two property funds that are focused on "opportunity investments" and have total committed capital of \$456 million, including \$195 million from co-investors.

Total operating cash flow in the second quarter was \$47 million (net – \$21 million) compared to \$16 million in 2007 (net – \$4 million). The results recorded in the second quarter of 2008 included disposition gains of \$25 million compared to \$2 million in the prior year. Excluding gains the contribution from portfolio operations increased from \$14 million to \$22 million due to a higher level of invested capital. Interest expense was \$11 million in both the 2008 and 2007 quarters. Co-investor cash flow totalled \$4 million in the 2008 quarter compared to \$nil in the 2007 quarter.

Due to the focus on value enhancement and the relative short hold period for properties, we expect that returns will come more from disposition gains as opposed to net rental income, relative to results from our core commercial office portfolios. Our first fund is fully invested and is continuing to reposition properties within the portfolio while we continue to invest the capital committed to our second fund.

Residential

The following table summarizes the operating results from our residential operations during the second quarter:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow	
	2008	2007	2008	2007
United States				
Impairment charge – U.S. operations				
Canada				
Brazil				
	\$ 49	\$ 99	\$ 42	\$ 78

Canada

Our operations were impacted by a slower Alberta market, where our Canadian operations are focused, following several years of exceptionally strong performance including 50% year-over-year growth in 2007. As a result, the contribution declined in the current quarter from the record results in the second quarter of 2007. The decline is shared as to 49% with the minority shareholders of Brookfield Properties. The Alberta economy continues to be very strong and activity increased over the quarter.

The decline in cash flows reflects lower volumes. Operating margins improved to 27% from 22% in the first quarter of 2008, but declined from the 40% level experienced in the second quarter of 2007. We own approximately 15,623 acres (14,864 acres – December 31, 2007) in these operations of which approximately 982 acres were under active development at June 30, 2008 (1,004 acres – December 31, 2007) and 14,641 acres (13,860 acres – December 31, 2007) are included in “held for development” assets (reflecting the length of time that will likely pass before they are actively developed). Most of the land holdings were purchased in the mid-1990s or earlier, resulting in an embedded cost advantage.

United States

Our U.S. operations reported an operating loss during the quarter of \$14 million on a total basis and \$1 million on a net basis to Brookfield. The results include an impairment charge of \$27 million, offset by the attribution of a portion of these results to the 42% interest of other shareholders in this business.

The gross operating margin in the business was 12% during the quarter, compared to 18% in 2007 primarily reflecting a decrease in the average selling price. We closed 216 units during the quarter (2007 – 237 units) at an average selling price of \$548,000 (2007 – \$657,000). We continue to experience a supply and demand imbalance that is exacerbated by lower consumer confidence and restricted access to mortgage financing by buyers. We do not expect conditions to improve meaningfully until after 2008.

Net new orders during the quarter were 237 units (2007 – 212 units) and the backlog at the end of the quarter was 287 units (June 30, 2007 – 372 units). We own or control 26,000 lots through direct ownership, options and joint ventures.

Brazil

We have continued to expand our Brazilian operations, which are benefiting from the favorable demographics and economic conditions in the current economy. We completed the acquisition by our Brazilian residential unit of MB Engenharia S.A. (“MB”) for approximately \$100 million plus contingent consideration. This transaction increases our presence in the important middle and mid-low segments of the Brazil market. We expect the acquisition will be immediately accretive to operating results.

We own substantial density rights in our key markets of Rio de Janeiro and São Paulo that provide the basis for continued growth, and the acquisition of MB expands our operating footprint and is expected to provide additional growth opportunities.

Under Development and Construction

Properties under development and construction activities together contributed operating cash flow of \$37 million during the quarter, compared to \$nil in the 2007 quarter.

Construction activities, which were acquired in late 2007 contributed \$40 million of net operating cash flow during the quarter. The contribution reflects \$19 million of various stage completion payments earned for projects in the Middle East and the UK. Excluding these completion payments, results are in line with expectations. The backlog in the group remains very strong at \$6 billion of property and other infrastructure projects in Australia, the Middle East and the UK.

Properties that are under development do not typically contribute meaningful operating cash flow during the development process as most costs are capitalized and revenues are applied against these costs until properties are sold. In the case of the development portfolio acquired in late 2007, accounting guidelines required us to capitalize short-term profits upon acquisition. Unallocated overhead and interest costs that are not capitalized to specific projects are expensed as incurred. Development activities resulted in a charge of \$3 million during the quarter.

The following table summarizes the capital deployed in properties under development, which are primarily commercial properties with a smaller component of retail and residential:

<i>(MILLIONS)</i>	<i>Brookfield Invested Capital</i>					
	<i>Total Assets Under Management</i>		<i>Consolidated Assets</i>		<i>Net Invested Capital</i>	
	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Properties under development and construction						
North America	\$ 929	\$ 965	\$ 929	\$ 965	\$ 929	\$ 965
Australia and United Kingdom	4,059	2,273	4,059	2,273	4,059	2,273
Brazil	308	162	308	162	308	162
Property-specific financing	—	—	—	—	(3,024)	(1,704)
	\$ 5,296	\$ 3,400	\$ 5,296	\$ 3,400	\$ 2,272	\$ 1,696

Capital invested in North American development properties declined slightly. We achieved substantial completion and occupancy of Four Allen Center in Houston and transferred the property to our commercial office portfolio. This was offset by the capitalization of costs related to continued development of the Bay Adelaide Centre in Toronto, Bankers Court in Calgary and other development initiatives.

The capital invested in Australia and United Kingdom and property specific financing balances increased due to the reallocation of working capital and associated debt from commercial office properties.

We deployed further capital in Brazil through the acquisition of MB discussed previously in the Residential section.

Held for Development

<i>(MILLIONS)</i>	<i>Brookfield Invested Capital</i>					
	<i>Total Assets Under Management</i>		<i>Consolidated Assets</i>		<i>Net Invested Capital</i>	
	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Commercial office properties						
North America	\$ 232	\$ 207	\$ 232	\$ 207	\$ 232	\$ 207
Residential lots						
Canada and Brazil	827	804	827	804	827	804
Rural development						
Brazil	199	190	199	190	185	159
	\$ 1,258	\$ 1,201	\$ 1,258	\$ 1,201	\$ 1,244	\$ 1,170

There have been no meaningful changes during the quarter in the capital invested in properties held for development. We earned \$2 million in the quarter from our rural development lands in Brazil.

Specialty Funds

Specialty investment funds operations, which include our bridge lending, restructuring and real estate finance groups, generated net operating cash flow of \$80 million during the second quarter of 2008, compared with \$71 million during the second quarter of 2007. The 2008 results reflect gains of \$39 million on convertible debentures owned by our bridge funds offset in part by operating losses recorded by an investee within one of our restructuring funds. Asset management fees in 2007 included \$14 million of transaction fees which did not recur in 2008.

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow					
			2008			2007		
	2008	2007	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Operations								
Bridge lending	\$ 59	\$ 20	\$ —	\$ 56	\$ 56	\$ —	\$ 20	\$ 20
Restructuring	30	35	—	7	7	—	16	16
Real estate finance	32	5	—	8	8	—	5	5
	121	60	—	71	71	—	41	41
Asset management	—	—	16	(7)	9	39	(9)	30
	\$ 121	\$ 60	\$ 16	\$ 64	\$ 80	\$ 39	\$ 32	\$ 71

The following table summarizes the assets and capital in our specialty funds:

(MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
					Consolidated Assets		Net Invested	
	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007
Bridge lending	\$ 1,191	\$ 1,187	\$ 1,365	\$ 1,510	\$ 541	\$ 488	\$ 423	\$ 488
Restructuring	1,752	1,538	783	753	1,752	1,538	450	361
Real estate finance	2,893	4,637	1,444	1,225	2,147	685	265	263
Real estate services	140	125	59	59	25	25	25	25
	\$ 5,976	\$ 7,487	\$ 3,651	\$ 3,547	\$ 4,465	\$ 2,736	\$ 1,163	\$ 1,137

The net capital invested by us in these activities was relatively unchanged at \$1.2 billion throughout the first two quarters of 2008. Consolidated assets increased since year end, reflecting the consolidation of the Brookfield Real Estate Finance Fund I beginning the first quarter of 2008 as well as the consolidation of an investee within our bridge lending funds due to an increase in our economic interest in the company, although there has been no significant change in the second quarter.

Bridge Lending

The net cash flow from our bridge lending operations increased from \$20 million in the second quarter of 2007 to \$56 million in the current quarter. The 2008 results included \$39 million in gains related to convertible debentures held within one of our funds of which \$22 million were realized at quarter end. Invested capital averaged \$472 million over the quarter compared to \$726 million in the second quarter of 2007 which led to lower interest income. Associated yields were relatively consistent quarter over quarter at 12%. Co-investor commitments declined as loans within our first bridge lending fund were repaid and the capital returned to our co-investors. The corresponding impact on total assets under management was offset by the aforementioned consolidation of an investee and new loans within our second bridge fund.

We have adopted a more cautious approach to bridge lending in the current environment and scaled back the number of commitments offered to prospective borrowers. Our capital exposure to the portfolio at quarter-end was \$407 million, consisting of interests in 16 loans with the single largest exposure being \$135 million. The average remaining term of our loan interests is 27 months, excluding extension privileges, and generated an average yield of 12% at quarter-end.

Restructuring

We have significantly expanded our underwriting activities within this group in reaction to an increased number of attractive opportunities. We have increased assets under management and total invested capital to \$1.8 billion compared to \$1.6 billion at the end of the first quarter, although at \$450 million, the net capital invested in our restructuring activities was relatively unchanged during the quarter.

Total operating cash flows generated by investments within our restructuring funds were \$30 million during the quarter compared to \$35 million in the 2007 quarter. On a net basis, which reflects our pro rata share of the cash flows after deducting financing costs as well as the interests of our fund co-investors and any other shareholders in the investee companies, operating cash flows declined to \$7 million from \$16 million. The reduction is due primarily to our share of the operating results of Western Forest Products Inc., which continues to face a challenging environment.

We hold positions in nine companies and our average exposure to each investee is approximately \$50 million.

Real Estate Finance

Our real estate finance group originated several high quality investment opportunities during the period as they continued to invest our second fund in this strategy. The first fund continues to perform in line with expectations. Assets under management declined due to the de-leveraging of a public mortgage REIT managed by us through the sale of securities to reduce risk and improve the REIT's ability to capitalize on future opportunities. Our net capital invested in real estate finance activities declined to \$265 million from \$297 million at the beginning of the quarter due to monetizations and capital distributions to investors in our first private real estate finance fund.

We recorded increased cash flows, assets under management and investment returns from our second real estate finance fund that was formed during 2007. The combined activities contributed \$8 million of net operating cash flow during the second quarter of 2008 compared to \$5 million in the 2007 quarter.

The 2007 results are presented on an equity accounted basis (i.e. net of interest expenses and co-investor interests) whereas the 2008 results present the funds on a fully consolidated basis. Total operating cash flows on a comparable basis were \$33 million in 2008 compared to \$16 million in 2007.

Asset Management – Specialty Funds

Asset management activities within our specialty funds operations contributed \$9 million of third-party income during 2008, compared to \$30 million in the second quarter of 2007. The 2007 results included transaction fees arising from our efforts to establish a major U.S. retail fund by way of an acquisition and associated financing fees. The 2008 results include base management fees from third-party co-investors of \$7 million due to increased capital under management in our specialty funds group compared to \$4 million of such fees in the 2007 quarter.

Advisory Services

We manage equity and fixed income securities and provide investment banking services all with a particular focus on the property and infrastructure sectors. The results of these activities, which are included as “asset management income” within our total operating cash flows, are presented in the following table:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	2008			2007		
	Asset Management	Operations	Total Platform	Asset Management	Operations	Total Platform
Real estate and fixed income securities	\$ 15	\$ —	\$ 15	\$ 6	\$ —	\$ 6
Investment banking	3	—	3	8	—	8
	\$ 18	\$ —	\$ 18	\$ 14	\$ —	\$ 14

The management of real estate and fixed income securities produced revenues of \$15 million during the quarter, which consisted largely of base management fees. Management fees increased by \$9 million over the \$6 million recorded in the second quarter of 2007 due to growth in assets under management from an average level of \$20 billion during the 2007 quarter to \$25 billion during the current quarter. The increase was due largely to the acquisition of a real estate and infrastructure equities manager with \$6 billion of securities under management during the fourth quarter of 2007. Our investment banking and advisory groups contributed \$3 million of fees during the quarter.

The following table summarizes assets under management within our advisory activities. We do not have any meaningful amount of our own capital invested in these strategies as the assets under management tend to be securities as opposed to physical assets.

(MILLIONS)	Total Assets Under Management		Co-investor Commitments		Brookfield Invested Capital			
	June 30	Dec. 31	June 30	Dec. 31	Consolidated Assets		Net Invested	
	2008	2007	2008	2007	June 30	Dec. 31	June 30	Dec. 31
Real estate and fixed income securities								
Fixed income	\$ 20,637	\$ 20,210	\$ 20,637	\$ 20,210	\$ —	\$ —	\$ —	\$ —
Equity	5,489	6,027	5,489	6,027	—	—	—	—
	\$ 26,126	\$ 26,237	\$ 26,126	\$ 26,237	\$ —	\$ —	\$ —	\$ —

The level of assets under management and co-investor commitments increased during the second quarter. Inflows from new mandates exceeded outflows and decreases in market value by nearly \$700 million which reflects favourably on the group's relative performance.

Private Equity Investments

The net operating cash flow generated by our private equity investments decreased to \$51 million from \$53 million in the second quarter of 2007. A large gain on the exchange of debentures into shares of a forest products investee was offset by charges within our insurance operations. In addition, the 2007 results included disposition gains from private equity investments in our other businesses category. Net invested capital, at \$1.2 billion, was largely unchanged during the quarter.

AS AT AND FOR THE THREE MONTHS ENDED (MILLIONS)	Brookfield Invested Capital				Operating Cash Flow			
	Consolidated Assets		Net Invested		Total		Net	
	June 30 2008	Dec. 31 2007	June 30 2008	Dec. 31 2007	June 30 2008	2007	June 30 2008	2007
Forest products	\$ 691	\$ 819	\$ 330	\$ 241	\$ 57	\$ 8	\$ 55	\$ 5
Infrastructure	83	85	83	85	1	2	1	2
Insurance operations	2,448	2,513	674	661	(3)	14	3	13
Other operations	228	281	90	249	4	47	(2)	33
Property	169	153	33	100	—	—	(6)	—
	\$ 3,619	\$ 3,851	\$ 1,210	\$ 1,336	\$ 59	\$ 71	\$ 51	\$ 53

We began consolidating the results of Fraser Papers Inc. ("Fraser Papers") during the third quarter of 2007 following an increase in our ownership interest to 56%. In connection with Fraser Papers' January 2008 equity rights offering, we increased our equity interest to 71% of the outstanding common shares. Accordingly, cash flow in the table above now reflects our proportionate interest in Fraser Papers' cash flows.

During the quarter we exchanged a portion of the exchangeable debentures issued by us into 10 million of the common shares of Norbord Inc. ("Norbord") held by us, thereby crystallizing the gain based on the original issuance price of C\$12.75 per share. The remaining debentures are exchangeable into a further 10 million common shares which represents an additional deferred disposition gain of \$65 million. We also provided Norbord with a \$100 million unsecured term debt facility of which \$75 million was drawn at quarter-end and is included in loans receivable within our financial assets.

Our reinsurance operations recorded a net operating cash flow of \$3 million during the quarter, compared to \$13 million in 2007, due to costs associated with the reorganization of the business operations. We announced the sale of the Lloyds reinsurance operations, which will release approximately \$200 million of capital, and we continue to explore alternatives to surface value and release capital elsewhere in these operations.

Cash and Financial Assets

Net operating cash flows from our cash and financial assets totalled \$30 million during the second quarter of 2008 compared to \$168 million during the 2007 quarter as shown in the following table:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow	
	2008	2007	2008	2007
Dividend, interest gains and other	\$ 36	\$ 72	\$ 30	\$ 68
Exchangeable debenture gains	—	100	—	100
	\$ 36	\$ 172	\$ 30	\$ 168

The 2007 results include gains of \$100 million on the partial monetization of an exchangeable debenture. We recorded favourable mark-to-market and disposition gains in each quarter. These returns continue to exceed our expectations and shareholders should not expect us to repeat this performance with any degree of certainty.

(MILLIONS)	Total Assets Under Management			Brookfield Invested Capital					
			Total			Net			
	June 30 2008	Dec. 31 2007	June 30 2008	March 31 2008	Dec. 31 2007	June 30 2008	March 31 2008	Dec. 31 2007	
Financial assets									
Government bonds	\$ 352	\$ 420	\$ 352	\$ 329	\$ 420	\$ 352	\$ 329	\$ 420	
Corporate bonds	176	286	176	250	286	176	250	286	
Fixed income	20	22	20	21	22	20	21	22	
High yield bonds	86	112	86	99	112	86	99	112	
Preferred shares	41	40	41	54	40	41	54	40	
Common shares	310	51	310	294	51	310	294	51	
Loans receivable	126	76	126	109	76	126	109	76	
Total financial assets	1,111	1,007	1,111	1,156	1,007	1,111	1,156	1,007	
Cash and cash equivalents	568	360	568	512	360	568	512	360	
Deposits and other liabilities	—	—	—	—	—	(531)	(559)	(500)	
Net investment	\$ 1,679	\$ 1,367	\$ 1,679	\$ 1,668	\$ 1,367	\$ 1,148	\$ 1,109	\$ 867	

Consolidated cash and financial assets increased during the second quarter to \$1.7 billion. Net invested capital, was unchanged at \$1.1 billion, which reflects broker deposit liabilities and a small number of borrowed securities that have been sold short.

As part of our ongoing risk management and value creation activities, we establish market positions using total return swaps and credit derivatives. As at June 30, 2008, we own common equity positions with a notional value of \$49 million through total return swaps. We also hold protection against widening credit spreads through credit default swaps with a total notional value of \$3.8 billion (2007 – \$2.4 billion), which have a limited downside, and benefit from increases in credit spreads and defaults of the underlying debt. The credit default swap portfolio did not contribute any meaningful gains or losses during the quarter.

Financing Costs

Financing costs include interest expense on corporate borrowings, certain subsidiary borrowings and capital securities as set out in the following table:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total			Net		
	2008	2007	Variance	2008	2007	Variance
Corporate borrowings	\$ 41	\$ 30	\$ 11	\$ 41	\$ 30	\$ 11
Property-specific mortgages	289	298	(9)	—	—	—
Subsidiary borrowings	122	73	49	20	16	4
Capital securities	23	23	—	23	23	—
	\$ 475	\$ 424	\$ 51	\$ 84	\$ 69	\$ 15

Interest on corporate borrowings increased during the quarter due to a higher level of average borrowings that were incurred in the course of expanding our operating base and was offset by a small decrease in the costs associated with our property specific mortgages. The increase in subsidiary borrowing costs is due to debt incurred in connection with the acquisition of retail properties in Brazil and commercial properties in Australia. Total balances reflect 100% of the financing costs with the portion related to our co-investor recorded in non-controlling interests.

Operating Costs

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.

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow		Net Operating Cash Flow		
	2008	2007	2008	2007	Variance
Asset management					
Asset management activities	\$ 23	\$ 19	\$ 23	\$ 19	\$ 4
Property services	62	42	62	42	20
	85	61	85	61	24
Corporate and other costs	63	44	56	33	23
	\$ 148	\$ 105	\$ 141	\$ 94	\$ 47

Corporate and asset management costs increased from \$94 million in the second quarter of 2007 to \$141 million in the current quarter on a net basis. The Australian-based operations acquired in late 2007 contributed asset management and property services of \$22 million as well as corporate costs of \$11 million. The balance of the increase in these activities arises from the higher level of activity and invested capital since the beginning of 2007, including a number of major corporate initiatives and the additional resources requirements of our expanded platform.

Co-investor Interests in Net Operating Cash Flow

The following table details co-investor interests in our total and net operating cash flows. Additional information on co-investor interests is located on page 30.

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total Operating Cash Flow ¹		Net Operating Cash Flow ¹		
	2008	2007	2008	2007	Variance
Participating interests					
Brookfield Properties					
Asset management	\$ 8	\$ 4	\$ 8	\$ 4	\$ 4
Operating returns and disposition gains	80	102	80	102	(22)
	88	106	88	106	(18)
Other property operations	32	53	—	—	—
Power generation	27	13	—	—	—
Infrastructure	23	15	—	—	—
Other	28	14	—	—	—
	198	201	88	106	(18)
Non-participating interests					
Brookfield Multiplex Group	13	—	13	—	13
Brookfield Properties Corporation	1	3	1	3	(2)
	14	3	14	3	11
	\$ 212	\$ 204	\$ 102	\$ 109	\$ (7)

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

The decrease in minority interests in Brookfield Properties' net operating cash flow reflects a lower level of disposition gain and lower volumes within our Canadian residential property business, which is owned through Brookfield Properties, offset by increased returns from our North American office property portfolios.

The co-investor interests in Brookfield Multiplex, purchased by us in late 2007, relate to \$580 million of previously issued participating securities issued prior to our involvement with the company.

The following table differentiates between the cash flow attributable to co-investors that is distributed and that which is retained in the business:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)	Total		Net	
	2008	2007	2008	2007
Interests of co-investors in net operating cash flow	\$ 212	\$ 204	\$ 102	\$ 109
Less: distributed during the period	(55)	(48)	(42)	(31)
Retained	\$ 157	\$ 156	\$ 60	\$ 78

The undistributed cash flows attributable to co-investors are retained in the respective operating businesses and are available to expand their operations, reduce indebtedness or repurchase equity. The majority of net operating cash flow retained is within Brookfield Properties.

NET INCOME

In this section we describe components of our statements of net income that are not discussed on this basis elsewhere in this report and reconcile net income to operating cash flow.

The following table reconciles net income and operating cash flow:

FOR THE PERIODS ENDED JUNE 30 (MILLIONS)	Three Months Ended		Six Months Ended	
	2008	2007	2008	2007
Operating cash flow and gains	\$ 378	\$ 440	\$ 821	\$ 1,011
Less: dividends from equity accounted investments	(6)	(5)	(12)	(10)
security disposition gain	—	(100)	—	(265)
	372	335	809	736
Other items, net of non-controlling interests	(262)	(182)	(502)	(388)
Net income	\$ 110	\$ 153	\$ 307	\$ 348

The 2007 reconciling items include a \$100 million security disposition gain recorded on the sale of debentures during that quarter (six months – \$265 million), which was included in opening retained earnings as at January 1, 2007 as a result of a prescribed accounting change.

The following table summarizes our consolidated statements of net income:

FOR THE PERIODS ENDED JUNE 30 (MILLIONS)	Three Months Ended		Six Months Ended	
	2008	2007	2008	2007
Revenues	\$ 3,436	\$ 2,125	\$ 6,646	\$ 3,966
Net operating income	1,228	1,094	2,542	2,228
Expenses				
Interest	(475)	(424)	(1,002)	(822)
Asset management and other operating costs	(148)	(105)	(313)	(215)
Current income taxes	(21)	(26)	(38)	(46)
Non-controlling interests in the foregoing	(212)	(204)	(380)	(409)
	372	335	809	736
Other items, net of non-controlling interests	(262)	(182)	(502)	(388)
Net income	\$ 110	\$ 153	\$ 307	\$ 348

Revenues

FOR THE PERIODS ENDED JUNE 30 (MILLIONS)	Three Months Ended		Six Months Ended	
	2008	2007	2008	2007
Commercial properties	\$ 710	\$ 556	\$ 1,398	\$ 1,104
Power generation	368	257	711	520
Infrastructure	103	184	228	308
Development and other properties	1,069	373	1,836	679
Specialty funds	584	421	1,125	656
Investment income and other	602	334	1,348	699
	\$ 3,436	\$ 2,125	\$ 6,646	\$ 3,966

Revenues from commercial properties increased due to the expansion of our operations including the acquisition of a large portfolio in Australia in the fourth quarter of 2007, in particular. The increase in power generation revenues reflects increased water flows, higher pricing and increased generating capacity. Infrastructure revenues declined as we no longer consolidate the results of our Chilean transmission business. The increase in revenues from development and other properties is due largely to the acquisition of a global construction business in the fourth quarter of 2007. Our specialty funds' revenues increased due to the consolidation of revenues from our first Real Estate Finance Fund. Similarly, investment income and other includes revenues from operations consolidated after the second quarter of 2007 that were previously accounted for using the equity method.

Net Operating Income

Net operating income includes the following items from our consolidated statements 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 Part 2 – Performance Review beginning on page 4.

The following table reconciles net operating income to the total operating cash flow in the segmented basis of presentation:

<i>FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)</i>	<i>Operating Platform</i>	2008	<i>2007</i>
Net operating income		\$ 1,228	\$ 1,094
Add: dividends from equity accounted investments	Private Equity	6	5
exchangeable debenture gains	Cash and Financial Assets	—	100
Total operating cash flow		\$ 1,234	\$ 1,199

Other Items

Other items are summarized in the following table, and include items that are non-cash in nature and 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 24.

<i>FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)</i>	2008	<i>2007</i>	<i>Variance</i>
Depreciation and amortization	\$ (328)	\$ (267)	\$ (61)
Equity accounted loss from investments	(15)	(29)	14
Other items	(46)	11	(57)
Future income taxes	3	(69)	72
Non-controlling interests in the foregoing items	124	172	(48)
	\$ (262)	\$ (182)	\$ (80)

Depreciation and amortization prior to non-controlling interests increased by \$61 million due to the acquisition of additional assets in a number of operating platforms during 2007, particularly commercial office properties. In addition, the consolidation of several entities during 2007 led to the inclusion of their depreciation charges in our results. Depreciation within our infrastructure operations declined as we no longer consolidate the results of our Chilean transmission operations. Depreciation and amortization for each principal operating segment is summarized in the following table:

<i>FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)</i>	2008	<i>2007</i>	<i>Variance</i>
Commercial properties	\$ 185	\$ 142	\$ 43
Power generation	51	40	11
Infrastructure	36	50	(14)
Development and other properties	19	12	7
Specialty funds and private equity investments	35	21	14
Other	2	2	—
	\$ 328	\$ 267	\$ 61

We recorded a net equity accounted loss of \$15 million during the quarter from our investment in Norbord compared to a \$6 million loss in 2007. Norbord continues to face an extremely weak price environment for its principal product, in addition to higher input costs. We increased our interest in Fraser Papers to 56% during the third quarter of 2007 and began to consolidate our interest at that time. In addition, we sold our interest in Stelco Inc. (“Stelco”) during the fourth quarter of 2007 for a \$229 million gain. Accordingly, we did not record any equity accounted results from Fraser Papers or Stelco during 2008 compared to \$23 million of combined losses recorded in 2007.

Other items largely represent revaluation items and contributed net accounting charges of \$46 million in the second quarter of 2008, compared with income of \$11 million in 2007. These items are summarized in the following table:

FOR THE THREE MONTHS ENDED JUNE 30 (MILLIONS)

	2008	2007	Variance
Norbord exchangeable debentures	\$ (48)	\$ (19)	\$ (29)
Interest rate contracts	42	62	(20)
Power contracts	(42)	(20)	(22)
Other	2	(12)	14
	\$ (46)	\$ 11	\$ (57)

Revaluation items are non-cash accounting adjustments that we are required to record under GAAP to reflect changes in value of contractual arrangements that we believe are not appropriate to include in operating cash flow but are included in net income. Items being revalued include debentures issued by us that are exchangeable into Norbord common shares, which are revalued based on changes in the Norbord share price during the period. We hold an equivalent number of shares into which the debentures are exchangeable, but are not permitted to mark the investment to market. We exchanged approximately one-half of the debentures into shares during the quarter and continue to maintain the balance, which are exchangeable into 10 million Norbord common shares.

Revaluation items also 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. The U.S. 10-year treasury rate moved from 3.41% to 3.97% between March 31, 2008 and June 30, 2008, which led to a \$42 million increase in the value of these contracts. We believe, however, that the corresponding impact on the value of our interest sensitive assets which is not included in net income more than offsets this amount.

In our power operations, we enter into long-term contracts to provide generation capacity and energy, and are required to record changes in the value of these contracts through net income whereas we are not permitted to record the corresponding increase in the value of the capacity and energy that we have pre-sold.

The future income tax provision in the second quarter was virtually \$nil due to a lower level of gains than previous quarters and increases in value of our tax pools and the benefit of tax deductions recorded with respect to second quarter operating results.

CAPITALIZATION AND LIQUIDITY

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 help withstand sudden adverse changes in economic circumstances.

To help 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 and within our key operating platforms. Our primary sources of liquidity consist of our cash and financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities. These totalled \$2.8 billion at the end of June 30, 2008 (\$2.0 billion at the corporate level), compared to \$2.5 billion at December 31, 2007 (\$2.0 billion at the corporate level). The increase is due to \$450 million of credit facilities established within Brookfield Infrastructure.

We generate substantial liquidity within our operations on an ongoing basis through our operating cash flow, which varies between \$1.5 billion to \$2.0 billion on an annual basis, as well as from the ongoing turnover in assets with shorter investment horizons and periodic monetization of our longer dated assets through the sale of co-investor participations, divestitures and refinancings. Accordingly, we consider ourselves to have the necessary liquidity to both manage our financial commitments and to capitalize on opportunities to invest capital at attractive returns. Nevertheless, we are cognizant of the current instability in the capital markets and continue to allocate capital in a prudent manner.

Deconsolidated Capitalization

The following table presents our deconsolidated capitalization. This basis of presentation is the same as our net invested capital used throughout our MD&A other than it excludes the capitalization of Brookfield Properties. Our deconsolidated debt to capitalization levels remain well within our target of 20% to 30% on a book value basis and, in our opinion, are very conservative on a market value basis at 12%.

AS AT AND FOR THE THREE MONTHS ENDED (MILLIONS)	Capitalization Market Value ¹		Brookfield Invested Capital		Operating Cash Flow			
	June 30	Dec. 31	June 30	Dec. 31	Underlying		Remitted	
	2008	2007	2008	2007	June 30 2008	2007	June 30 2008	2007
Corporate borrowings	\$ 2,396	\$ 2,048	\$ 2,396	\$ 2,048	\$ 41	\$ 30	\$ 41	\$ 30
Subsidiary borrowings ²	738	711	738	711	20	16	20	16
Other liabilities	1,274	1,401	1,274	1,401	113	99	113	99
Capital securities	648	517	648	517	8	9	8	9
Non-controlling interests	11	9	11	9	—	—	—	—
Shareholders' equity								
Preferred equity	870	870	870	870	12	10	12	10
Common equity	20,439	22,262	6,284	6,644	366	430	325	348
Total capitalization / cash flows	\$ 26,376	\$ 27,818	\$ 12,221	\$ 12,200	\$ 560	\$ 594	\$ 519	\$ 512
Debt to total capitalization ³	12%	10%	26%	23%				
Interest coverage ⁴					9x	13x	9x	11x
Fixed charge coverage ⁵					7x	9x	6x	8x

¹ Common equity values based on period end market prices

² Guaranteed by the Corporation or issued by corporate subsidiaries

³ Corporate and subsidiary borrowings as a percentage of total capitalization

⁴ Total cash flows divided by interest on corporate and subsidiary borrowings

⁵ Total cash flows divided by interest on corporate and subsidiary borrowings and distributions on capital securities and preferred equity

⁶ Excludes the capitalization of Brookfield Properties Corporation

We describe the various components of our deconsolidated capitalization further within the next section.

Consolidated Capitalization

The following table presents Brookfield's capitalization using book values on a fully consolidated and net invested basis together with the associated cash flows:

AS AT AND FOR THE THREE MONTHS ENDED (MILLIONS)	Book Value					
	Consolidated			Net Invested Capital		
	June 30	March 31	Dec. 31	June 30	March 31	Dec. 31
	2008	2008	2007	2008	2008	2007
Corporate borrowings	\$ 2,396	\$ 2,428	\$ 2,048	\$ 2,396	\$ 2,428	\$ 2,048
Non-recourse borrowings						
Property-specific mortgages	22,152	21,858	21,644	—	—	—
Subsidiary borrowings ¹	8,714	7,976	7,463	738	714	711
Other liabilities	11,612	11,543	11,102	4,407	4,577	3,148
Capital securities	1,681	1,531	1,570	1,681	1,531	1,570
Non-controlling interest in net assets	5,877	5,479	4,256	2,293	2,259	1,773
Shareholders' equity						
Preferred equity	870	870	870	870	870	870
Common equity	6,284	6,140	6,644	6,284	6,140	6,644
	\$ 59,586	\$ 57,825	\$ 55,597	\$ 18,669	\$ 18,519	\$ 16,764

¹ Net amounts represent subsidiary obligations guaranteed by the Corporation or issued by corporate subsidiaries

Our consolidated capitalization includes 100% of the debt within consolidated entities even though in most cases we only own a portion of the entity and therefore our pro rata interest in this debt is much lower. Accordingly, we believe that the level of debt on this basis is relevant only in relation to the associated consolidated assets, as opposed to our equity.

Consolidated capitalization increased by \$1.8 billion, or 3%, since March 31, 2008 and by \$4.0 billion since the beginning of the year reflecting increases in corporate borrowings, additional property-specific mortgage debt on acquired assets and expanded financing on existing properties, as well as additional working capital associated with acquired operations.

Our capitalization on a net invested capital basis was \$18.7 billion as at June 30, 2008, similar to the level at March 31, 2008, and \$1.9 billion higher than year end. This basis excludes property-specific borrowings and other financial obligations that have no recourse to the Corporation. The book value of our common equity increased by \$0.2 billion to \$6.3 billion since March 31 due to retained earnings and unrealized gains recorded in shareholders equity.

The market value of our common equity capitalization was \$20.4 billion as at June 30, 2008, compared to \$17.0 billion at March 31, 2008 and \$22.3 billion at the end of 2007, reflecting the impact of volatile equity capital markets on our quoted share price.

Corporate Borrowings

Our corporate borrowings have an average term of nine years (2007 – 11 years) and more than 40% of the maturities extend beyond 2012. We hold cash, financial assets and have committed undrawn bank facilities which do not mature until 2012 that are available to fund shorter term maturities if we determine that this approach results in a lower cost of capital. Corporate borrowings at \$2.4 billion were relatively unchanged from the beginning of the quarter.

<i>(MILLIONS)</i>	<i>Net Invested Capital</i>		
	<i>June 30</i> 2008	<i>March 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>
Commercial paper and bank borrowings	\$ 526	\$ 560	\$ 167
Publicly traded term debt	1,870	1,868	1,881
Total	\$ 2,396	\$ 2,428	\$ 2,048

The average interest rate on our corporate borrowings was 6% at quarter end, similar to 2007.

The Corporation has \$1,445 million of committed corporate three-year and four-year revolving term credit facilities which are utilized principally as back-up credit lines to support commercial paper issuance. At June 30, 2008, \$526 million of these facilities were drawn or allocated as back-up to outstanding commercial paper, and approximately \$77 million (2007 – \$63 million) of the facilities were utilized for letters of credit issued to support various business initiatives.

Property-specific Borrowings

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

<i>(MILLIONS)</i>	<i>Net Invested Capital</i>		
	<i>June 30</i> 2008	<i>March 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>
Commercial properties	\$ 15,985	\$ 15,646	\$ 15,426
Power generation	3,696	3,497	3,488
Infrastructure	1,597	1,797	1,796
Development and other properties	874	918	934
Total	\$ 22,152	\$ 21,858	\$ 21,644

During the second quarter, we refinanced a \$1.2 billion loan secured by the U.S. Pacific Northwest timberlands with \$1.0 billion of term debt with an average coupon of 5.17% and an average term of seven years. This contributed to a reduction in our consolidated property-specific financings in our infrastructure business of \$0.2 billion. We arranged a number of financings within our property and renewable power operations, including a \$120 million project financing secured by Brazilian power assets purchased during the quarter. We continue to be able to raise property-specific borrowing in the normal course of business notwithstanding the more challenging credit environment due to the quality of our assets and the sustainability of the cash flows.

Subsidiary Borrowings

We capitalize our subsidiary entities to maintain access to the debt capital markets, usually on an investment grade basis thereby reducing the demand for capital from the Corporation and sharing the cost of financing equally among equity holders.

Subsidiary borrowings have no recourse to the Corporation except for a limited number of exceptions. As at June 30, 2008, subsidiary borrowings included \$738 million (2007 – \$711 million) of financial obligations that are either guaranteed by the Corporation or are issued by direct corporate subsidiaries.

<i>(MILLIONS)</i>	<i>Net Invested Capital</i>		
	<i>June 30</i> <i>2008</i>	<i>March 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>
Subsidiary borrowings			
Commercial properties	\$ 2,987	\$ 2,541	\$ 2,418
Power generation	780	776	797
Infrastructure	9	8	8
Development and other properties	957	801	1,389
Investments and other	2,477	2,373	1,378
Corporate subsidiaries	738	714	711
Co-investor capital			
Properties	766	763	762
Total	\$ 8,714	\$ 7,976	\$ 7,463

Commercial property borrowings include a \$1.6 billion loan backed by our Multiplex operations, which we acquired during 2007. This loan does not mature until March 2009 and represents a consolidated loan-to-value of less than 55%. We intend to refinance the balance with further asset sales and long-term financings during the balance of 2008 and early 2009. Our North American office property operations maintain \$500 million of committed bank facilities, of which \$123 million was undrawn at quarter end. Similarly, our renewable power operations maintain \$379 million of facilities to support forward power sales arrangements and general corporate purposes of which \$197 million was undrawn at quarter end. During the quarter we arranged \$450 million committed bank financing within our infrastructure operations that was undrawn at quarter end. We have provided \$243 million in loans to our U.S. residential operations over the past twelve months, enabling them to reduce bank debt by a similar amount.

Other Liabilities

<i>(MILLIONS)</i>	<i>Brookfield Invested Capital</i>					
	<i>Total</i>			<i>Net</i>		
	<i>June 30</i> <i>2008</i>	<i>Mar. 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>	<i>June 30</i> <i>2008</i>	<i>Mar. 31</i> <i>2008</i>	<i>Dec. 31</i> <i>2007</i>
Accounts payable	\$ 4,023	\$ 3,814	\$ 3,659	\$ 1,804	\$ 1,775	\$ 1,130
Insurance liabilities	1,597	1,644	1,655	—	—	—
Deferred tax liability	1,706	1,648	1,523	760	765	1,044
Other liabilities	4,286	4,437	4,265	1,843	2,037	974
	\$ 11,612	\$ 11,543	\$ 11,102	\$ 4,407	\$ 4,577	\$ 3,148

Accounts payable and other liabilities include \$1.4 billion associated with Brookfield Properties (2007 – \$1.4 billion). Deferred taxes represent future tax obligations that arise largely due to holding assets whose book value exceeds their value for tax purposes.

Capital Securities

Distributions paid on these securities, which are largely denominated in Canadian dollars, are recorded as interest expense, even though the securities are preferred shares that are convertible into common equity at our option. The securities are classified as liabilities for Canadian GAAP purposes because the holders of the preferred shares have the right, after a fixed date, to convert the shares into common equity based on the market price of our common shares at that time.

We issued C\$150 million of 5% preferred shares during the second quarter. The preferred shares pay dividends at a 5% rate and are convertible into common shares at the end of the fifth year.

The average distribution yield on the capital securities at June 30, 2008 was 6% (2007 – 6%) and the average term was six years (2007 – seven years).

Interests of Co-investors

Interests of co-investors in net assets are comprised of two components: participating interests held by other holders in our funds and subsidiary companies, and non-participating preferred equity issued by subsidiaries.

	<i>Number of Shares / % Interest</i>	<i>Brookfield Invested Capital</i>					
		<i>Total</i>			<i>Net</i>		
		<i>June 30</i>	<i>March 31</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>March 31</i>	<i>Dec. 31</i>
<i>(MILLIONS)</i>	<i>2008</i>	<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2008</i>	<i>2007</i>
Participating interests							
Property							
Brookfield Properties Corporation	198.0 / 49%	\$ 1,562	\$ 1,582	\$ 1,622	\$ 1,562	\$ 1,582	\$ 1,622
Brookfield Homes Corporation	11.0 / 42%	227	246	245	—	—	—
Property funds and other	various	918	832	843	—	—	—
Power generation	various	200	167	170	—	—	—
Infrastructure							
Timberlands	45% / 72%	520	541	314	—	—	—
Transmission	various	323	308	—	—	—	—
Other	various	1,396	1,126	911	—	—	—
		5,146	4,802	4,105	1,562	1,582	1,622
Non-participating interests							
Brookfield Multiplex Group		580	536	—	580	536	—
Brookfield Properties Corporation		151	141	151	151	141	151
		731	677	151	731	677	151
		\$ 5,877	\$ 5,479	\$ 4,256	\$ 2,293	\$ 2,259	\$ 1,773

We include Brookfield Properties on a fully consolidated basis in our segmented basis of presentation and accordingly the interests 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. These interests are discussed as appropriate within each of the operating segments.

Shareholders' Equity

Preferred equity consists of perpetual preferred shares that represent an attractive form of leverage for common shareholders, and unchanged during the quarter.

	<i>June 30</i>	<i>March 31</i>	<i>Dec. 31</i>
<i>(MILLIONS)</i>	<i>2008</i>	<i>2008</i>	<i>2007</i>
Common equity – book value	\$ 6,284	\$ 6,140	\$ 6,644
Common equity – market value	20,439	16,997	22,262

The market value of our common equity was \$20.4 billion at the end of June 30, 2008. We repurchased 0.6 million common shares during the quarter at an average price of \$30.07 per share.

PART 3 – ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS

The information in this section enables the reader to reconcile this basis of presentation in our consolidated financial statements to that employed elsewhere in the Supplemental. We also provide additional information for certain items not covered within that section. The tables presented on pages 33 to 35 provide a detailed reconciliation between our consolidated financial statements and the basis of presentation throughout the balance of this report.

CONSOLIDATED BALANCE SHEETS

Total assets at book value increased to \$59.6 billion as at June 30, 2008 from \$55.6 billion at the end of 2007.

<i>(MILLIONS)</i>	<i>Book Value</i>	
	<i>June 30</i>	<i>Dec. 31</i>
	<i>2008</i>	<i>2007</i>
Assets		
Cash and cash equivalents	\$ 1,532	\$ 1,561
Financial assets	1,467	1,529
Investments	1,033	1,352
Accounts receivable and other	7,534	7,327
Intangible assets	1,935	1,773
Goodwill	2,017	1,528
Operating assets		
Property, plant and equipment	39,989	37,790
Securities	1,821	1,828
Loans and notes receivable	2,258	909
	\$ 59,586	\$ 55,597

Investments

Investments represent equity accounted interests in partially owned companies as set forth in the following table, which are discussed further within the relevant business segments in the Description of Operating Platforms.

<i>(MILLIONS)</i>	<i>Business Segment</i>	<i>% of Investment</i>		<i>Book Value</i>	
		<i>June 30</i>	<i>Dec. 31</i>	<i>June 30</i>	<i>Dec. 31</i>
		<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Property funds	Commercial Office	20 - 25%	20 - 25%	\$ 171	\$ 382
Chile transmission	Transmission	17%	28%	378	330
Brazil transmission	Transmission	7.5 - 25%	7.5 - 25%	238	205
Norbord Inc.	Investments	35%	41%	124	180
Real Estate Finance Fund	Specialty Funds	33%	27%	—	148
Other	Various			122	107
Total				\$ 1,033	\$ 1,352

We sold our interests in one of the commercial office funds that we had previously acquired through our purchase of Multiplex. We began accounting for our investment in our first Real Estate Finance Fund on a consolidated basis due to the increase in our ownership level and the performance income that is likely to be earned by us from this fund.

Goodwill

Goodwill represents purchase consideration that is not specifically allocated to the tangible and intangible assets being acquired. The balance increased by \$411 million during the year due to the reallocation of values attributed to the Multiplex property business acquired in late 2007.

Property, Plant and Equipment

<i>(MILLIONS)</i>	<i>Book Value</i>	
	<i>June 30</i>	<i>Dec. 31</i>
	<i>2008</i>	<i>2007</i>
Commercial properties	\$ 21,102	\$ 20,984
Power generation	5,675	5,137
Infrastructure	2,996	3,046
Development and other properties	9,175	7,573
Other plant and equipment	1,041	1,050
	\$ 39,989	\$ 37,790

The changes in these balances are discussed within each of the relevant business units within the Description of Operating Platforms section. Commercial properties includes office and retail property assets. Development and other properties include opportunity investments, residential properties, properties under development and properties held for development.

Securities

Securities include \$1.4 billion (2007 – \$1.6 billion) of largely fixed income securities held through our insurance operations, as well as our \$182 million (2007 – \$182 million) common share investment in Canary Wharf Group, which is included in our core office property operations and continues to be carried at historic cost.

Loans and Notes Receivable

Loans and notes receivable consist largely of loans advanced by our bridge lending operations, included in specialty funds. The increase is principally due to the consolidation of our first Real Estate Finance Fund beginning the first quarter of 2008.

CONSOLIDATED STATEMENTS OF NET INCOME

We discuss Net Income in detail beginning on page 24 and provide a reconciliation to operating cash flow.

RECONCILIATION OF SEGMENTED DISCLOSURE TO CONSOLIDATED FINANCIAL STATEMENTS

Balance Sheet

AS AT JUNE 30, 2008

(MILLIONS)	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Cash and Financial Assets	Other Assets	Corporate	Consolidated
Assets										
Operating assets										
Property, plant and equipment										
Commercial properties	\$ 21,102	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 21,102
Power generation	—	5,675	—	—	—	—	—	—	—	5,675
Infrastructure	—	—	2,996	—	—	—	—	—	—	2,996
Development and other properties	397	—	105	8,558	—	115	—	—	—	9,175
Other plant and equipment	—	—	—	38	666	337	—	—	—	1,041
Securities	182	—	—	—	243	1,396	—	—	—	1,821
Loans and notes receivable	—	—	—	—	2,204	54	—	—	—	2,258
Cash and cash equivalents	197	127	67	231	147	195	568	—	—	1,532
Financial assets	—	435	—	(226)	261	—	997	—	—	1,467
Investments	171	—	616	35	46	156	9	—	—	1,033
Accounts receivable and other	879	1,126	161	2,111	898	1,328	105	2,861	—	9,469
Goodwill	65	32	591	945	—	38	—	346	—	2,017
Total assets	\$ 22,993	\$ 7,395	\$ 4,536	\$ 11,692	\$ 4,465	\$ 3,619	\$ 1,679	\$ 3,207	\$ —	\$ 59,586
Liabilities and shareholders' equity										
Corporate borrowings	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,396	\$ 2,396
Property-specific financing	14,066	3,696	1,597	2,793	—	—	—	—	—	22,152
Other debt of subsidiaries	2,166	780	9	2,544	1,636	315	526	—	738	8,714
Accounts payable and other liabilities	1,545	1,110	636	1,495	563	1,856	—	—	4,407	11,612
Capital securities	—	—	—	—	—	—	—	—	1,681	1,681
Non-controlling interests in net assets	431	249	843	715	1,103	238	5	—	2,293	5,877
Preferred equity	—	—	—	—	—	—	—	—	870	870
Common equity / net invested capital	4,785	1,560	1,451	4,145	1,163	1,210	1,148	3,207	(12,385)	6,284
Total liabilities and shareholders' equity	\$ 22,993	\$ 7,395	\$ 4,536	\$ 11,692	\$ 4,465	\$ 3,619	\$ 1,679	\$ 3,207	\$ —	\$ 59,586

AS AT DECEMBER 31, 2007

(MILLIONS)	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Cash and Financial Assets	Other Assets	Corporate	Consolidated
Assets										
Operating assets										
Property, plant and equipment										
Commercial properties	\$ 20,984	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 20,984
Power generation	—	5,137	—	—	—	—	—	—	—	5,137
Infrastructure	—	—	3,046	—	—	—	—	—	—	3,046
Development and other properties	—	—	106	7,389	—	78	—	—	—	7,573
Other plant and equipment	18	—	—	—	632	398	2	—	—	1,050
Securities	182	—	—	—	—	1,646	—	—	—	1,828
Loans and notes receivable	—	—	—	—	856	53	—	—	—	909
Cash and cash equivalents	470	77	38	305	74	237	360	—	—	1,561
Financial assets	—	707	—	(41)	180	—	683	—	—	1,529
Investments	382	—	535	30	194	194	17	—	—	1,352
Accounts receivable and other	2,585	848	119	1,398	800	1,208	305	1,837	—	9,100
Goodwill	694	33	591	—	—	37	—	173	—	1,528
Total assets	\$ 25,315	\$ 6,802	\$ 4,435	\$ 9,081	\$ 2,736	\$ 3,851	\$ 1,367	\$ 2,010	\$ —	\$ 55,597
Liabilities and shareholders' equity										
Corporate borrowings	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 2,048	\$ 2,048
Property-specific financing	13,722	3,488	1,796	2,638	—	—	—	—	—	21,644
Other debt of subsidiaries	3,180	797	9	1,364	637	371	394	—	711	7,463
Accounts payable and other liabilities	3,155	879	668	876	434	1,877	65	—	3,148	11,102
Capital securities	—	—	—	—	—	—	—	—	1,570	1,570
Non-controlling interests in net assets	455	213	317	662	528	267	41	—	1,773	4,256
Preferred equity	—	—	—	—	—	—	—	—	870	870
Common equity / net invested capital	4,803	1,425	1,645	3,541	1,137	1,336	867	2,010	(10,120)	6,644
Total liabilities and shareholders' equity	\$ 25,315	\$ 6,802	\$ 4,435	\$ 9,081	\$ 2,736	\$ 3,851	\$ 1,367	\$ 2,010	\$ —	\$ 55,597

Results from Operations

FOR THE SIX MONTHS ENDED JUNE 30, 2008

(MILLIONS)	Asset Management	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Investment Income / Gains	Corporate	Consolidated
Fees earned	\$ 227	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 227
Revenues less direct operating costs										
Commercial properties	—	848	—	—	—	—	—	—	—	848
Power generation	—	—	515	—	—	—	—	—	—	515
Infrastructure	—	—	—	92	—	—	—	—	—	92
Development and other properties	—	(1)	—	2	180	—	2	—	—	183
Specialty funds	—	—	—	—	—	223	—	—	—	223
Investment and other income	—	49	—	68	(4)	3	166	172	—	454
	227	896	515	162	176	226	168	172	—	2,542
Expenses										
Interest	—	522	160	49	26	48	20	15	162	1,002
Asset management and other operating costs	—	—	—	2	(2)	—	8	—	305	313
Current income taxes	—	8	13	8	(3)	2	7	—	3	38
Non-controlling interests	—	28	51	35	24	61	—	—	181	380
Net income before the following	227	338	291	68	131	115	133	157	(651)	809
Dividends	—	—	—	—	—	—	12	—	—	12
Cash flow from operations	227	338	291	68	131	115	145	157	(651)	821
Allocation of fees on Brookfield capital	170	(94)	(36)	(15)	(11)	(14)	—	—	—	—
	397	244	255	53	120	101	145	157	(651)	821
Less: asset management expenses	(177)	—	—	—	—	—	—	—	177	—
non-controlling interests	(35)	—	—	—	—	—	—	—	35	—
Cash flow from operations	\$ 185	\$ 244	\$ 255	\$ 53	\$ 120	\$ 101	\$ 145	\$ 157	\$ (439)	\$ 821

FOR THE SIX MONTHS ENDED JUNE 30, 2007

(MILLIONS)	Asset Management	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Investment Income / Gains	Corporate	Consolidated
Fees earned	\$ 227	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 227
Revenues less direct operating costs										
Commercial properties	—	784	—	—	—	—	—	—	—	784
Power generation	—	—	358	—	—	—	—	—	—	358
Infrastructure	—	—	—	203	—	—	—	—	—	203
Development and other properties	—	1	—	4	262	—	(4)	—	—	263
Specialty funds	—	—	—	—	—	121	—	—	—	121
Investment and other income	—	—	—	6	—	2	107	157	—	272
	227	785	358	213	262	123	103	157	—	2,228
Expenses										
Interest	—	391	133	115	27	9	6	4	137	822
Asset management and other operating costs	—	—	—	—	—	—	13	—	202	215
Current income taxes	—	1	5	4	10	1	15	—	10	46
Non-controlling interests	—	56	32	31	58	25	6	—	201	409
Net income before the following	227	337	188	63	167	88	63	153	(550)	736
Dividends	—	—	—	—	—	—	10	—	—	10
Xstrata debenture gain	—	—	—	—	—	—	—	265	—	265
Cash flow from operations	227	337	188	63	167	88	73	418	(550)	1,011
Allocation of fees on Brookfield capital	133	(70)	(34)	(8)	(11)	(10)	—	—	—	—
	360	267	154	55	156	78	73	418	(550)	1,011
Less: asset management expenses	(115)	—	—	—	—	—	—	—	115	—
non-controlling interests	(32)	—	—	—	—	—	—	—	32	—
Cash flow from operations	\$ 213	\$ 267	\$ 154	\$ 55	\$ 156	\$ 78	\$ 73	\$ 418	\$ (403)	\$ 1,011

Results from Operations

FOR THE THREE MONTHS ENDED JUNE 30, 2008

(MILLIONS)	Asset Management	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Investment Income / Gains	Corporate	Consolidated
Fees earned	\$ 113	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 113
Revenues less direct operating costs										
Commercial properties	—	427	—	—	—	—	—	—	—	427
Power generation	—	—	264	—	—	—	—	—	—	264
Infrastructure	—	—	—	44	—	—	—	—	—	44
Development and other properties	—	(2)	—	2	116	—	3	—	—	119
Specialty funds	—	—	—	—	—	119	—	—	—	119
Investment and other income	—	8	—	49	(3)	2	50	36	—	142
	113	433	264	95	113	121	53	36	—	1,228
Expenses										
Interest	—	260	82	24	(8)	16	11	6	84	475
Asset management and other operating costs	—	—	—	2	(2)	—	7	—	141	148
Current income taxes	—	4	11	6	3	2	(6)	—	1	21
Non-controlling interests	—	13	28	23	18	32	(4)	—	102	212
Net income before the following	113	156	143	40	102	71	45	30	(328)	372
Dividends from Norbord	—	—	—	—	—	—	6	—	—	6
Cash flow from operations	113	156	143	40	102	71	51	30	(328)	378
Allocation of fees on Brookfield capital	82	(44)	(18)	(7)	(6)	(7)	—	—	—	—
	195	112	125	33	96	64	51	30	(328)	378
Less: asset management expenses	(85)	—	—	—	—	—	—	—	85	—
non-controlling interests	(15)	—	—	—	—	—	—	—	15	—
Cash flow from operations	\$ 95	\$ 112	\$ 125	\$ 33	\$ 96	\$ 64	\$ 51	\$ 30	\$ (228)	\$ 378

FOR THE THREE MONTHS ENDED JUNE 30, 2007

(MILLIONS)	Asset Management	Commercial Properties	Power	Infrastructure	Development and Other	Specialty Funds	Investments	Investment Income / Gains	Corporate	Consolidated
Fees earned	\$ 95	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 95
Revenues less direct operating costs										
Commercial properties	—	398	—	(2)	—	—	—	—	—	396
Power generation	—	—	170	—	—	—	—	—	—	170
Infrastructure	—	—	—	114	—	—	—	—	—	114
Development and other properties	—	1	—	4	113	—	(1)	—	—	117
Specialty funds	—	—	—	—	—	59	—	—	—	59
Investment and other income	—	(2)	—	3	2	1	67	72	—	143
	95	397	170	119	115	60	66	72	—	1,094
Expenses										
Interest	—	191	69	72	14	5	—	4	69	424
Asset management and other operating costs	—	—	—	—	—	—	6	—	99	105
Current income taxes	—	(1)	3	1	7	1	10	—	5	26
Non-controlling interests	—	43	15	10	12	13	2	—	109	204
Net income before the following	95	164	83	36	82	41	48	68	(282)	335
Dividends	—	—	—	—	—	—	5	—	—	5
Xstrata debenture gain	—	—	—	—	—	—	—	100	—	100
Cash flow from operations	95	164	83	36	82	41	53	168	(282)	440
Allocation of fees on Brookfield capital	75	(38)	(17)	(6)	(5)	(9)	—	—	—	—
	170	126	66	30	77	32	53	168	(282)	440
Less: asset management expenses	(61)	—	—	—	—	—	—	—	61	—
non-controlling interests	(17)	—	—	—	—	—	—	—	17	—
Cash flow from operations	\$ 92	\$ 126	\$ 66	\$ 30	\$ 77	\$ 32	\$ 53	\$ 168	\$ (204)	\$ 440

PART 4 – SUPPLEMENTAL INFORMATION

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

ADDITIONAL SHARE DATA

Basic and Diluted Earnings Per Share

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

<i>(MILLIONS)</i>	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Net income	\$ 110	\$ 153	\$ 307	\$ 348
Preferred share dividends	(12)	(10)	(24)	(19)
Net income available for common shareholders	\$ 98	\$ 143	\$ 283	\$ 329
Weighted average – common shares	583	582	583	582
Dilutive effect of the conversion of options using treasury stock method	12	19	12	19
Common shares and common share equivalents	595	601	595	601

Issued and Outstanding Common Shares

The number of issued and outstanding common shares changed as follows:

<i>(MILLIONS)</i>	<i>Three Months Ended June 30</i>		<i>Six Months Ended June 30</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
Outstanding at beginning of period	612.5	613.8	583.6	581.8
Issued (repurchased)				
Management share option plan	2.7	1.8	2.9	2.2
Issuer bid purchases	(0.6)	(0.3)	(2.7)	(0.4)
Outstanding at end of period	614.6	615.3	583.8	583.6
Unexercised options	(2.9)	(1.9)	27.9	29.8
Total diluted common shares at end of period	611.7	613.4	611.7	613.4

In calculating our book value per common share, the cash value of our unexercised options of \$535 million (2007 – \$469 million) is added to the book value of our common share equity of \$6,284 million (2007 – \$6,644 million) prior to dividing by the total diluted common shares presented above.

QUARTERLY RESULTS

Net income and operating cash flows for the eight recently completed quarters are as follows:

(MILLIONS)	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenues	\$ 3,436	\$ 3,210	\$ 3,158	\$ 2,219	\$ 2,125	\$ 1,841	\$ 2,904	\$ 1,405
Fees earned	113	114	92	96	95	132	70	64
Revenues less direct operating costs								
Commercial property	427	421	414	350	396	388	322	194
Power generation	264	251	148	105	170	188	142	122
Infrastructure	44	48	33	54	114	89	70	80
Development and other properties	119	64	115	40	117	146	164	107
Specialty funds	119	104	233	16	59	62	131	29
Investment and other income	142	312	133	248	116	129	78	180
Realization gains	—	—	204	—	27	—	528	79
	1,228	1,314	1,372	909	1,094	1,134	1,505	855
Expenses								
Interest	475	527	510	454	424	398	420	291
Asset management and other operating costs	148	165	141	108	105	110	108	70
Current income taxes	21	17	28	(6)	26	20	68	23
Non-controlling interest in net income before the following	212	168	124	103	204	205	142	108
Net income before the following	372	437	569	250	335	401	767	363
Equity accounted income (loss) from investments	(15)	(13)	(4)	—	(29)	(39)	(10)	(7)
Depreciation and amortization	(328)	(314)	(294)	(250)	(267)	(223)	(233)	(136)
Provisions and other	(46)	(63)	(95)	(33)	11	5	(37)	4
Future income taxes	3	18	35	11	(69)	(65)	3	(49)
Non-controlling interests in the foregoing items	124	132	135	115	172	116	121	70
Net income	\$ 110	\$ 197	\$ 346	\$ 93	\$ 153	\$ 195	\$ 611	\$ 245

Cash flow from operations for the last eight quarters are as follows:

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Net income before the following	\$ 372	\$ 437	\$ 569	\$ 250	\$ 335	\$ 401	\$ 767	\$ 363
Dividends from equity accounted investments	6	6	6	5	5	5	5	5
Dividends from Canary Wharf ¹	—	—	—	—	—	—	87	—
Exchangeable debenture gain	—	—	—	66	100	165	—	—
Cash flow from operations and gains	378	443	575	321	440	571	859	368
Preferred share dividends	12	12	12	13	10	9	8	7
Cash flow to common shareholders	\$ 366	\$ 431	\$ 563	\$ 308	\$ 430	\$ 562	\$ 851	\$ 361
Common equity – book value	\$ 6,284	\$ 6,140	\$ 6,644	\$ 6,328	\$ 6,337	\$ 6,061	\$ 5,395	\$ 4,905
Common shares outstanding ²	583.8	581.7	583.6	581.0	583.6	582.2	581.8	581.0
Per common share ²								
Cash flow from operations	\$ 0.62	\$ 0.72	\$ 0.94	\$ 0.52	\$ 0.72	\$ 0.93	\$ 1.42	\$ 0.60
Net income	0.17	0.31	0.56	0.13	0.24	0.31	1.01	0.40
Dividends	0.13	0.12	0.12	0.12	0.12	0.11	0.11	0.11
Book value	11.15	10.95	11.64	11.17	11.07	10.59	9.37	8.60
Market trading price (NYSE)	32.54	26.83	35.67	38.50	39.90	34.84	32.12	29.56

¹ Reflects amount of dividend recorded as a capital reduction for the purposes of calculating net income under GAAP

² Adjusted to reflect three-for-two stock split on June 1, 2007

The dividends recorded from Canary Wharf are included in both net income and operating cash flow during 2008, whereas the 2006 dividend was included in cash flow only.

ASSETS UNDER MANAGEMENT

The following tables set forth the assets, net invested capital and commitments managed by Brookfield, including the amounts managed on behalf of co-investors:

AS AT JUNE 30, 2008 (MILLIONS)	Year Formed	Total Assets Under Management			Co-investor Interests		Brookfield's Ownership Level
		Assets	Net Invested Capital	Committed Capital ¹	Net Invested Capital	Committed Capital	
Core and Value Add							
U.S. Core Office ²	2006	\$ 7,649	\$ 1,777	\$ 1,950	\$ 985	\$ 1,025	62%
Canadian Core Office ²	2005	1,586	867	867	650	650	25%
Multiplex Funds ³	2007	2,666	944	944	767	767	various
West Coast Timberlands ⁴	2005	891	527	527	385	385	28%
East Coast Timber Fund	2006	198	108	108	66	66	45%
Transmission – Chile ⁴	2006	2,668	1,402	1,402	1,172	1,172	17%
Timber – U.S. ⁴	2008	2,457	875	875	79	79	83%
Transmission – Canada / Brazil ⁴	2008	495	358	358	204	204	various
Bridge Loan I	2003	1,073	1,073	1,246	671	683	28%
Bridge Loan II	2007	118	118	916	97	682	26%
Real Estate Finance	various	2,893	1,347	1,865	1,082	1,444	4-51%
Brookfield Real Estate Services Fund	2003	140	84	84	59	59	25%
		22,834	9,480	11,142	6,217	7,216	
Opportunity and Private Equity							
Real Estate Opportunity	2006	951	235	254	99	118	52%
Real Estate Opportunity II	2007	565	145	202	53	77	62%
Brazil Retail Property	2006	1,915	343	830	235	610	25%
Brazil Timber	2008	—	—	280	—	230	18%
Residential Properties – U.S. ⁵	2007	1,226	455	455	200	200	29%
Tricap Restructuring I	2002	903	387	387	193	193	48%
Tricap Restructuring II	2006	849	597	975	341	590	36%
		6,409	2,162	3,383	1,121	2,018	
Listed Securities and Fixed Income							
Equity Funds	various	5,489	5,489	5,489	5,489	5,489	3%
Fixed Income Funds	various	20,637	20,637	20,637	20,637	20,637	n/a
		26,126	26,126	26,126	26,126	26,126	
Total fee bearing assets/capital		55,369	37,768	40,651	\$ 33,464	\$ 35,360	
Directly Held Non-Fee Bearing Assets							
Core Office – North America ²		10,336	2,195	2,195			
Core Office – Europe		795	251	251			
Core Office – Australia		3,502	1,050	1,050			
Residential Properties – Canada ² / Brazil		2,396	645	645			
Power Generation – North America		6,455	1,159	1,159			
Power Generation – Brazil		940	650	650			
Timber – Brazil		117	87	87			
Other		15,096	9,061	9,061			
		39,637	15,098	15,098			
		\$ 95,006	\$ 52,866	\$ 55,749			

¹ Includes incremental co-investment capital

² Represents interests held by 51%-owned Brookfield Properties

³ Comprised of four funds with ownership interests ranging from 20% to 25%

⁴ Represents direct interests plus pro rata share of indirect interests held by 40%-owned Brookfield Infrastructure Partners

⁵ Represents interests held by 58%-owned Brookfield Homes