

February 15, 2013

Mr. Roddy Boyd  
c/o Southern Investigative Reporting Foundation

Dear Mr. Boyd,

Below are answers to the questions that you asked in your emails on February 8 and February 12, 2013.

1. On page 120 of your 2011 Annual Report BAM discloses that the GGP stake had a (then) carrying value of \$4.09 billion but a \$2.92 billion market value. Please describe why this highly liquid, publicly traded security was carried at a 40% premium to the market price?

*We account for our investment in GGP using the equity method of accounting, which is required for an investment of this nature under both International Financial Reporting Standards ("IFRS") and U.S. GAAP. Using this method dictated by both U.S. GAAP and IFRS, an equity accounted investment is accounted for at cost and during each reporting period the carrying value is adjusted to reflect the investor's proportionate share of undistributed net income and other changes in equity of the investee. Accordingly, the carrying value is determined independently from the stock market price. You will note from our 2011 financial statements (Note 7) that the public market value of our investment exceeded the carrying cost at the end of 2010.*

*IFRS, for equity accounted investments, requires that we reconcile GGP's net income determined under U.S. GAAP to net income determined under IFRS for purposes of determining our equity accounted income. This includes accounting for its retail properties at fair value based on internal and external appraisals conducted by or for GGP and recording any changes in fair value in net income. As a result, our investment in GGP represents our pro rata interest in GGP's net assets as determined on a fair value basis. This value may or may not be equal to its stock market value at any point in time.*

*The carrying value of an equity accounted investment is required to be written down if it is determined that an impairment in value that is significant or prolonged has occurred. It was our opinion at the time that no such impairment had occurred. We note that the current stock market value of GGP is at a value much closer to the carrying value of our investment which, by the way, is still well below what we believe the intrinsic and potential value of GGP's business to be.*

*For further information, please read in full our 2011 Annual Report and MD&A, including the notes to the financial statements. Should you require any further information, we would be pleased to put you in touch with an accounting professional that is knowledgeable in equity accounting matters.*

2. What goal does Partners Limited serve BAM and its investors? Has BAM considered using a board governance structure that has a majority of independent directors? Brookfield appears to perfectly fit the definition of a pyramid control company, like Edper before it. What advantages does this structure convey to a minority (non-control) shareholder?

*The management and directors of Brookfield own approximately 20% of the common equity, in large part through Partners Limited. If taken as a group, this is the largest ownership interest in the company and has a current value of \$5 billion. We believe this creates a significant alignment of interests with our shareholders that sets us apart from other companies and is valued by shareholders and our clients alike. We believe that Partners' participation in the ownership of Brookfield will result in greater long-term value creation for all shareholders.*

*In our opinion, Partners Limited provides an important stability in ownership and management to Brookfield by having the right to elect one-half of the directors to BAM's board through its ownership of the Class B Shares. The other half is elected by the holders of the publicly listed Class A Shares. This stability is very important to our clients who want assurances about the long-term continuity of the management team that is investing their capital, and to the financial and operating partners with whom we have developed deep relationships over the years. Furthermore, this stability is very important to the members of our management team who are committing a significant portion of their personal net worth to the company.*

*As disclosed on page 21 of our 2012 Management Information Circular, 12 of our 16 directors are independent, representing a clear majority. The Chairman of the Board is also independent.*

*We have established an ownership structure characterized by flagship public companies in each of our sectors of expertise, complemented by private funds. This gives us a tremendous advantage to make investments by providing us with multiple sources of capital. This is critical for Brookfield to compete in the "real asset" space where the transactions tend to be large, against competitors who have significant low cost of capital. Our success over the past several years since we established these affiliates is a testament to the validity of our approach. As you appreciate, the term "pyramid" has taken on a negative connotation in a completely different context. In this context, it is perfectly benign, merely being a term of art used to describe a situation where there is a chain of companies under common control.*

*Please refer to the Management Information Circular for further information on Partners Limited, our directors and our governance arrangements.*

3. The switch to IFRS in 2009 led to a massive expansion of BIP's balance sheet assets as five sub-80% ownership entities, especially the two timber properties, were consolidated. In discussing this with the SEC in the 1/31/12 response, BAM/BIP discussed the ceding of voting rights as a key factor for consolidating assets they owned ~30%-40% stakes in. My question: As BAM personnel control every BIP decision as general partner, how are voting rights an issue in consolidation?

*The consolidation of additional business units, which resulted in an increase in BIP's balance sheet assets, was entirely a result of changes pertaining to certain voting rights that were transferred to the BIP-owned entities, and not by a switch to IFRS.*

*IFRS requires that an entity be controlled for it to be consolidated. U.S. GAAP, BIP's prior accounting framework, also requires that a controlled entity be consolidated under virtually all circumstances, but also sets out other criteria that could lead to an entity being consolidated.*

*BIP's interest in the underlying business units is held through intermediate partnerships that are controlled by BAM in its capacity as the General Partner, and manager. Accordingly, BIP was required to account for its interests in these entities on an equity accounted basis (i.e. one line) as opposed to consolidation basis of accounting, as it did not exercise formal control over these business units. As a result of the voting control agreements consummated in 2009, BIP commenced consolidation of these entities.*

*These amendments were consistent with establishing BIP as a preeminent owner of global infrastructure assets. Furthermore, the board of directors and management team of BIP felt BIP's various stakeholders (i.e. investors, analysts, etc.) would benefit from a much clearer depiction of BIP's underlying investments by showing on a consolidated basis the company's assets, liabilities and financial performance.*

*Your assertion that "BAM personnel control every BIP decision...." is factually inaccurate and unsupported. The BIP board has eight directors of which seven are independent. The BIP board approves all significant matters involving BIP. BIP also has fully independent audit, compensation and governance committees which are required to approve the matters within their purview. Accordingly, the ceding of voting rights had substantive effect.*

4. The peer group described as competitors in the 2008 Brookfield Homes (now BRP) annual report had a 27.1% average impairment level to year-end inventories; you reported 14.5%. Moreover this was done with ~70% of its revenue coming from California, and much of that was concentrated in Southern California. Using this as a fair price-point barometer, the SoCal markets you operate in all reported higher declines in average price of greater than 14.5%. Please describe how you managed to sharply beat your peer group and regional averages?

*Given the variability between different companies' land and housing portfolios such as project age, term and product composite it is not possible to do a straight comparison. In particular, BRP's asset base includes a larger proportion of long-term development land than its "peer group," which generally are more focused on the more volatile shorter cycle of manufacturing and selling homes. The valuation of longer-term assets requires a longer-term view as to valuation, relative to short-term assets such as inventory. Accordingly, the comparisons and characterizations in your questions are not appropriate.*

*We believe BRP's accounting of the 2008 results was correct and the correctness has been borne out by subsequent events and performance. The financial statements were given a clean opinion by the external auditors and approved by the audit committee of the company.*

5. Why were the Brookfield Homes debt covenants changed in the 2008 annual report? Did the company violate the net debt to book capitalization and minimum equity provisions? Given that the figures available support this conclusion, and that BAM's ownership stake and the size of the figures involved make it material, why did BAM not publicly acknowledge this?

*Brookfield Homes did not violate any financial covenants with third-party lenders. The company did amend certain covenants with Brookfield as we supported the company through this period of time. This was not material to BAM and therefore did not require any disclosure.*

6. A former senior financial official at your Brazilian real estate subsidiary (Brookfield Brazil Real Estate Fund) has publicly accused Brookfield of paying hundreds of thousands of dollars in bribes to obtain municipal permits. Numerous arrests have been made by Brazilian prosecutors. Given the multiple billions of dollars in assets these malls represent, and the approximately \$400 million in fair value changes it contributed to the company (also \$14 million to funds from operations), why has no SEC filing been made addressing these issues? The former employee, Ms. Gonzalez, also has accused Mr. Douglas, a senior real estate executive whose then job was to oversee Brazil, of intentionally ignoring her multiple attempts to highlight this illegal activity. Does he wish to comment on this, specifically as to her allegation that he made the comment, "This is how business gets done in Brazil"?

*Brookfield owns and operates eight shopping malls in Brazil, and owns a property management company that manages these malls.*

*These allegations were made by a former Brookfield employee who was terminated in 2010, with cause. She is the defendant in a lawsuit for embezzlement filed by Brookfield, and is also the subject of a criminal investigation by Sao Paulo police.*

*Ms. Gonzalez has made allegations against the property management company and certain of its officers of paying bribes to Sao Paulo city officials to obtain permits for renovations to shopping malls. Based on these allegations, the prosecutor has filed charges against Brookfield and two of its employees. There have been no arrests made.*

*These allegations are strongly denied by the individuals accused of wrongdoing. With respect to Mr. Douglas, this is another unsubstantiated allegation by a disgruntled employee.*

*Notwithstanding the suspect source of the allegations, Brookfield is conducting an investigation into these matters. The investigation is substantially complete and based on the findings to date, there is no evidence of wrongdoing by Brookfield or any of its employees.*

*It is our policy that all of Brookfield's activities are conducted to the highest standards of honesty and integrity and in compliance with all legal and regulatory requirements as outlined in our Code of Business Conduct and Ethics. Brookfield has been operating in Brazil over 100 years, and has shown the highest integrity in its operations. Brookfield currently employs 8,000 people in Brazil, and manages approximately \$13 billion of investments in the country. In fact, as far as we are aware, this is the first allegation of corruption in Brookfield's history.*

7. I am trying to identify the components of income that are cash versus the components -- like fair value adjustments -- that may well be additive to the franchise, but for income purposes, are accounting entries. In the "Equity Accounted Income" line for 2011, the figure given is \$2.2 billion. Is \$1.175 bn of this from GGP (the difference between carrying and market value)? How much of Equity Accounted Income is converted to cash?

*If this question is meant to imply that a portion of the accounting entries were made solely for the purpose of inflating value, and without appropriate business justification or accounting treatment, that assumption is wrong and is not supported by the facts.*

*Note 7 to our 2011 consolidated financial statements discloses that \$1.4 billion of the \$2.2 billion of equity accounted income presented as a line item in our statement of operations for 2011 was derived from our investment in GGP. That represents our share of GGP's net income under IFRS, which in 2011 included our proportionate share of fair value gains. Note 7 also discloses that we received \$204 million of cash distributions relative to the aggregate \$2.2 billion of equity accounted income.*

8. Is Non-Controlling (i.e. minority) Interest income converted to cash?

*Non-Controlling Interests represent the share of net income or FFO (assuming you are referring to operating results) of the consolidated entity that is attributable to shareholders other than the controlling entity, does not represent cash payments, and is not "converted to cash" per se.*

*A consolidated entity may make distributions of cash and other property to shareholders that represent a portion of net income or FFO. These distributions are recorded in our Consolidated Statement of Cash Flows as "Shareholder distributions – subsidiaries" and totaled \$639 million in 2011. For example, this figure includes dividends paid by Brookfield Office Properties to its shareholders other than BAM. The dividends paid to BAM are eliminated on consolidation. It is also worth noting that most companies typically distribute a portion of their net income, or FFO, with the remaining cash flow retained within the business to fund growth initiatives.*

9. Forgive the basic nature of the question but the accounting gets thick in places: When BIP consolidates assets like the Columbian Gas transmission company, does it take onto its balance sheet the entire enterprise's revenues, income et al., or just the percentage (22%) it owns? Also, there are several BIP investments where you have substantively higher % ownership than Warwick/Columbian Gas but you elect not to consolidate. Please explain this incongruity.

*Let me respond to your last question first. Consolidation is not an "election." While there is occasionally some degree of judgment and subjectivity, IFRS sets out clear guidelines for when consolidation is required and includes all entities over which the company has control.*

*Consolidation typically requires that all of the enterprise's "revenues, income et al." are included in the financial statements of the consolidating entity with the portion of net income not attributable to us reflected in the allocation of net income to non-controlling interests. "Proportionate Consolidation" permits the inclusion of a proportionate share of these items, however this basis of presentation is used infrequently and is subject to very specific conditions. The Colombian gas transmission company is consolidated.*

*Voting control is the key consideration in determining whether an investment is consolidated. In the case of "Warwick/Colombian Gas," we own a controlling interest by virtue of our power to govern the financial and operating policies of these entities as we manage controlling interests (90% and 100% of these two entities, respectively) through funds that BAM is the general partner and manager of. In the case of other investments (such as NGPL, Powerco and Euroports) we own an interest that provides the power to participate in the financial and operating decisions of the*

*investee, but we do not have control over the decision making as our partners in those investments own an equal or greater amount of voting rights. It is also worthwhile to note that from an economic interest perspective, BIP owns its interests in NGPL, Powerco and Euroports directly and as such its interest is larger in these entities than its indirect interests in “Warwick/Colombian Gas” given that those are held through funds that BAM owns a partial interest in.*

10. Two transactions from the BIP year end release caught my eye: The closing of the UK gas transmission purchase for \$525 million and then turning around and selling a 20% stake to an “institutional investor” for a valuation that was 80% higher at \$235 million. Given that on the BIP call it was disclosed that this investor wanted in @\$125 million when BIP bought its initial stake, it is unusual that they would buy in at an 80% higher valuation days after you closed at a lower valuation. What is the name of this investor? Have you worked with it previously? Is it related to, or managed by, BAM or any of its subsidiaries? Its seemingly rare for a hard asset to appreciate so rapidly in value – were there any market events that prompted such an unusual sale?

*The investor that purchased the 20% stake in Brookfield’s British utility is a European institution. This investor is not affiliated with Brookfield in any way.*

*During the BIP call, Chief Executive Officer, Sam Pollock, stated that BIP’s initial investment in the UK utility was \$125 million. Wherever you got the information that “this investor wanted in at \$125 million when BIP bought its initial stake,” that information is wrong. No such statement was made.*

*BIP made its initial investment three years ago, so the sale to the European investor occurred three years after the purchase of this asset, not “days after.” During the intervening three years we have significantly expanded the business and BIP invested an additional \$525 million of equity into the business to finance a merger with a major competitor.*

*It was after the three years of growth and the merger that the European institution purchased a 20% stake for \$235 million.*

The second deal was the purchase of a 10% stake in BAMs Chilean transmission business for \$235 million. Is there a connection between the \$235 million outlay for the Chilean stake and what it received on the sale from the UK gas stake? My reporting notes the substantial related party nature of the transaction: BAM selling to BAM controlled enterprise for a \$278 million profit.

*There is no connection between the \$235 million received from the institution that invested in the UK utilities business and the \$235 million that was invested in the Chilean transmission network, which is called Transelec.*

*The purchase of the Transelec interest was approved by independent members of the BIP board of trustees, who received a valuation prepared by independent advisors. This valuation is in fact done each year and is approved by our institutional partners in Transelec.*

*The transaction price was approximately equal to BAM’s carrying cost. BAM did not record any gain or loss in respect of the transaction.*

11. I noticed that in a BPY filing the risks section now notes openly that “Risks commonly associated with pyramid control structures” are a factor for BAM related enterprises. Please explain how this risk came to be disclosed. Was it from an SEC related comment or query?

*At the present time this risk is not relevant as Brookfield will own over 90% of the economics of BPY on completion of the spin-off.*

*The disclosure of this risk was in response to a SEC comment. It is merely a reference to the multi-tiered ownership structure of a number of our investments in which control and ownership may not be the same. A risk factor was added to address this.*

12. Brookfield Renewable Energy Partners LP annual report describes a pair of power purchase agreements on page 95 that were amended to sharply higher prices; one was ~50% higher. Both customers were related parties and the revisions materially improved the EBITDA and funds from operations. Please describe why this was done. Accordingly, why were the non related party PPAs not adjusted?

*The contracts are between Brookfield Renewable Energy Partners (“BREP”) and a subsidiary of BAM and were amended as part of the formation of BREP in late 2011 whereby we created one of the world’s largest listed global renewable power business. The increase in prices reflected increases in energy prices since the date that the contracts were originally entered into, and was intended to provide BREP with an appropriate (and higher) price for its generation. In addition, the existence of these contracts provided BREP with greater stability in cash flow and earnings compared to selling the power into the short term or spot markets.*

*BREP was able to amend these agreements because BAM consented to it. BREP would require the consent of the counterparties to amend the other agreements. Furthermore, the amendments were approved by a committee of independent directors with advice and a fairness opinion/valuation from independent legal and financial advisors, and approved by a majority of independent unit holders.*

13. In the Lionel Conacher vs. Edper matter from the mid 1990s, Jack Cockwell (under testimony in a deposition) acknowledged the existence of “Quadco,” a holding company owned by Jack and Ian Cockwell, David Kerr and Tim Price, that effectively controlled Partners Limited Holdings. Does this entity still exist, or if not, does something like it exist?

*A number of the shareholders of Partners make use of holding companies to own their personal investments. We are not able to comment on their personal financial arrangements.*

If you have any questions, please contact me.

Yours very truly,



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