

## SECOND QUARTER REPORT

**June 30, 2010**

### Dear Shareholders:

Net income for the three months ended June 30, 2010 was \$154 million or \$0.28 per diluted share.

Funds from operations (“FFO”) was \$209 million or \$0.40 per diluted share for the three months ended June 30, 2010, compared with \$123 million or \$0.32 per diluted share during the same period in 2009. The results include a realized gain of \$53 million, or \$0.10 per diluted share, related to an investment return.

Commercial property net operating income for the second quarter of 2010 was \$180 million, compared with \$162 million during the second quarter of 2009. Residential property net operating income for the second quarter of 2010 was \$33 million, compared with \$13 million during the second quarter of 2009.

Brookfield’s managed portfolio occupancy rate finished the quarter at 94.8%, consistent with the previous quarter.

### HIGHLIGHTS OF THE SECOND QUARTER

**Leased 1.3 million square feet** of space at an average net rent of \$26 per square foot, which represents an 8% improvement versus the average expiring net rent of \$24 per square foot on this space in the quarter. Renewals represent 66% of the total with new leases representing the remainder. Highlights include:

#### ***Toronto – 489,000 square feet***

- A five-year, 107,000-square-foot lease renewal with Aird & Berlis LLP at Bay Wellington Tower
- A 10-year 67,000-square-foot lease renewal with Lang Michener LLP at Bay Wellington Tower
- A new 10-year, 50,000-square-foot lease with Gluskin Sheff & Associates Inc. at Bay Adelaide Centre

#### ***Calgary – 299,000 square feet***

- A 12-year, 290,000-square-foot lease renewal with Canadian Natural Resources at Bankers Hall

#### ***Los Angeles – 223,000 square feet***

- A 12-year, 147,000-square-foot lease renewal with USC’s Information Sciences Institute at Marina Towers

#### ***New York – 100,000 square feet***

- A 10-year, 55,000-square-foot expansion with the Securities & Exchange Commission at Three World Financial Center

**Recorded an investment gain of \$53 million** from repayment of a loan purchased at a discount and secured by the equity in a portfolio of office properties in the Washington, DC area. The company, together with institutional clients, owned a 51% interest in the loan.

**Reduced 2011 debt exposure** by entering into an agreement to receive the net benefit from Brookfield Asset Management’s acquisition at a discount-to-face-value of \$570 million mezzanine debt of the U.S. Office Fund. As a result, the company has pre-funded the bulk of the equity deleveraging required to refinance this portfolio, and the company intends to refinance the properties on a more conventional basis over the next 12 months. The properties in this portfolio have performed well over the past four years and while capitalization rates have increased since purchase, cash flows have grown substantially. With the two largely offsetting each other, and with the recent mezzanine debt repurchases being turned into a future equity investment in the Fund, this should ensure that investment grade financing can be secured.

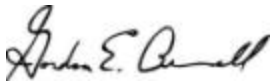
**Acquired remaining 50% ownership interest in 77 K Street, Washington, D.C.** Brookfield purchased the remaining equity interest from its 50% partner in the venture for \$38.6 million or \$237 per square foot. In addition, the company renewed a \$93.5 million loan on the asset to May 2013.

**Elected a new director, Michael Hegarty.** The company extends its sincere appreciation to Dr. Roderick Fraser who is leaving the board after five years of service.

**Announced management changes.** Steve Douglas has resigned as President of Brookfield Properties to become the Chief Financial Officer of General Growth Properties. Brookfield Properties Chief Executive Officer Ric Clark is re-assuming the title of President and Chief Executive Officer. Tom Farley is relinquishing the title of President of Canadian Commercial Operations, remaining CEO, to work with Ric Clark on certain global initiatives. Jan Sucharda, previously Chief Operating Officer of Canadian Commercial Operations, has been named President and Chief Operating Officer of Canadian Commercial Operations.

## OUTLOOK

With solid first half results, noticeable improvement in leasing activity especially in New York and Washington, D.C., the progress that we have made toward the deleveraging and refinancing of our U.S. Office Fund debt which matures in 2011, and with a 15-million-square-foot development pipeline, Brookfield Properties remains well-positioned to ride out the balance of the global economic downturn and to capitalize on its recovery.



Gordon E. Arnell  
Chairman



Richard B. Clark  
CEO

July 29, 2010

# Commercial Properties Portfolio

| (SQUARE FEET IN 000S)                | NUMBER    | LEASED %     | ASSETS UNDER MANAGEMENT |              |               |              |               | PROPORTIONATE <sup>(1)</sup> |               |               | PROPORTIONATE NET OF MINORITY SHARE <sup>(2)</sup> |               |
|--------------------------------------|-----------|--------------|-------------------------|--------------|---------------|--------------|---------------|------------------------------|---------------|---------------|--|---------------|
|                                      |           |              | OFFICE                  | RETAIL       | LEASABLE      | PARKING      | TOTAL         | OWNED %                      | LEASABLE      | TOTAL         | LEASEABLE  | TOTAL         |
| <b>Direct</b>                        |           |              |                         |              |               |              |               |                              |               |               |  |               |
| <b>NEW YORK</b>                      |           |              |                         |              |               |              |               |                              |               |               |  |               |
| World Financial Center               |           |              |                         |              |               |              |               |                              |               |               |  |               |
| One                                  | 1         | 99.4         | 1,603                   | 52           | 1,655         | 58           | 1,713         | 100                          | 1,655         | 1,713         | 1,645  | 1,703         |
| Two                                  | 1         | 100.0        | 2,671                   | 35           | 2,706         | —            | 2,706         | 100                          | 2,706         | 2,706         | 2,690  | 2,690         |
| Three                                | 1         | 99.7         | 1,254                   | —            | 1,254         | 53           | 1,307         | 100                          | 1,254         | 1,307         | 1,246  | 1,299         |
| Retail                               |           | 75.7         | —                       | 168          | 168           | 122          | 290           | 100                          | 168           | 290           | 167  | 288           |
| One Liberty Plaza                    | 1         | 96.5         | 2,327                   | 20           | 2,347         | —            | 2,347         | 100                          | 2,347         | 2,347         | 2,333  | 2,333         |
| 300 Madison Avenue                   | 1         | 100.0        | 1,089                   | 5            | 1,094         | —            | 1,094         | 100                          | 1,094         | 1,094         | 1,088  | 1,088         |
|                                      | <b>5</b>  | <b>98.5</b>  | <b>8,944</b>            | <b>280</b>   | <b>9,224</b>  | <b>233</b>   | <b>9,457</b>  | <b>100</b>                   | <b>9,224</b>  | <b>9,457</b>  | <b>9,169</b>                                       | <b>9,401</b>  |
| <b>BOSTON</b>                        |           |              |                         |              |               |              |               |                              |               |               |  |               |
| 53 State Street                      | 1         | 88.6         | 1,164                   | 30           | 1,194         | 41           | 1,235         | 100                          | 1,194         | 1,235         | 1,187  | 1,227         |
| 75 State Street                      | 1         | 85.1         | 771                     | 25           | 796           | 235          | 1,031         | 100                          | 796           | 1,031         | 791  | 1,025         |
|                                      | <b>2</b>  | <b>87.2</b>  | <b>1,935</b>            | <b>55</b>    | <b>1,990</b>  | <b>276</b>   | <b>2,266</b>  | <b>100</b>                   | <b>1,990</b>  | <b>2,266</b>  | <b>1,978</b>                                       | <b>2,252</b>  |
| <b>WASHINGTON, D.C.</b>              |           |              |                         |              |               |              |               |                              |               |               |  |               |
| 1625 Eye Street                      | 1         | 100.0        | 370                     | 16           | 386           | 185          | 571           | 10                           | 39            | 57            | 38   | 57            |
| 701 9th Street                       | 1         | 100.0        | 340                     | 24           | 364           | 183          | 547           | 100                          | 364           | 547           | 362  | 544           |
| Potomac Tower                        | 1         | 100.0        | 238                     | —            | 238           | 203          | 441           | 100                          | 238           | 441           | 236  | 438           |
| 601 South 12th Street                | 1         | 100.0        | 309                     | —            | 309           | —            | 309           | 100                          | 309           | 309           | 309  | 309           |
| 701 South 12th Street                | 1         | 100.0        | 253                     | —            | 253           | —            | 253           | 100                          | 253           | 253           | 253  | 253           |
| 77 K Street                          | 1         | 52.0         | 307                     | 19           | 326           | —            | 326           | 100                          | 326           | 326           | 324  | 324           |
|                                      | <b>6</b>  | <b>91.7</b>  | <b>1,817</b>            | <b>59</b>    | <b>1,876</b>  | <b>571</b>   | <b>2,447</b>  | <b>79</b>                    | <b>1,529</b>  | <b>1,933</b>  | <b>1,522</b>                                       | <b>1,925</b>  |
| <b>HOUSTON</b>                       |           |              |                         |              |               |              |               |                              |               |               |  |               |
| 1201 Louisiana Street                | 1         | 94.8         | 836                     | 8            | 844           | 48           | 892           | 100                          | 844           | 892           | 844  | 892           |
|                                      | <b>1</b>  | <b>94.8</b>  | <b>836</b>              | <b>8</b>     | <b>844</b>    | <b>48</b>    | <b>892</b>    | <b>100</b>                   | <b>844</b>    | <b>892</b>    | <b>844</b>   | <b>892</b>    |
| <b>DENVER</b>                        |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Republic Plaza                       | 1         | 94.4         | 1,281                   | 48           | 1,329         | 503          | 1,832         | 100                          | 1,329         | 1,832         | 1,329  | 1,832         |
|                                      | <b>1</b>  | <b>94.4</b>  | <b>1,281</b>            | <b>48</b>    | <b>1,329</b>  | <b>503</b>   | <b>1,832</b>  | <b>100</b>                   | <b>1,329</b>  | <b>1,832</b>  | <b>1,329</b>                                       | <b>1,832</b>  |
| <b>MINNEAPOLIS</b>                   |           |              |                         |              |               |              |               |                              |               |               |  |               |
| 33 South Sixth Street                | 2         | 92.4         | 1,108                   | 370          | 1,478         | 325          | 1,803         | 100                          | 1,478         | 1,803         | 1,478  | 1,803         |
| RBC Plaza                            | 2         | 91.3         | 610                     | 442          | 1,052         | 196          | 1,248         | 100                          | 1,052         | 1,248         | 1,052  | 1,248         |
|                                      | <b>4</b>  | <b>92.0</b>  | <b>1,718</b>            | <b>812</b>   | <b>2,530</b>  | <b>521</b>   | <b>3,051</b>  | <b>100</b>                   | <b>2,530</b>  | <b>3,051</b>  | <b>2,530</b>                                       | <b>3,051</b>  |
| <b>Direct U.S. Properties</b>        | <b>19</b> | <b>95.1</b>  | <b>16,531</b>           | <b>1,262</b> | <b>17,793</b> | <b>2,152</b> | <b>19,945</b> | <b>97</b>                    | <b>17,446</b> | <b>19,431</b> | <b>17,372</b>                                      | <b>19,353</b> |
| <b>Toronto</b>                       |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Brookfield Place                     |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Bay Wellington Tower                 | 1         | 98.0         | 1,298                   | 42           | 1,340         | —            | 1,340         | 100                          | 1,340         | 1,340         | 1,214  | 1,214         |
| Retail and Parking                   | 1         | 94.5         | —                       | 53           | 53            | 690          | 743           | 70                           | 37            | 520           | 23   | 472           |
| 22 Front Street                      | 1         | 100.0        | 136                     | 8            | 144           | —            | 144           | 100                          | 144           | 144           | 130  | 131           |
| Exchange Tower                       | 1         | 93.4         | 963                     | 66           | 1,029         | 131          | 1,160         | 50                           | 515           | 580           | 466  | 526           |
| 105 Adelaide                         | 1         | 99.5         | 176                     | 7            | 183           | 49           | 232           | 100                          | 183           | 232           | 166  | 210           |
| Hudson's Bay Centre                  | 1         | 99.3         | 536                     | 261          | 797           | 295          | 1,092         | 100                          | 797           | 1,092         | 722  | 989           |
| Queen's Quay Terminal                | 1         | 98.7         | 427                     | 77           | 504           | —            | 504           | 100                          | 504           | 504           | 457  | 457           |
| HSBC Building                        | 1         | 100.0        | 188                     | 6            | 194           | 31           | 225           | 100                          | 194           | 225           | 176  | 203           |
| Bay Adelaide West                    | 1         | 80.5         | 1,155                   | 37           | 1,192         | 382          | 1,574         | 100                          | 1,192         | 1,574         | 1,080  | 1,426         |
| 151 Yonge Street <sup>(3)</sup>      | 1         | 100.0        | 289                     | 10           | 299           | 72           | 371           | 25                           | 75            | 93            | 75   | 93            |
| 2 Queen Street East <sup>(3)</sup>   | 1         | 98.6         | 448                     | 16           | 464           | 81           | 545           | 25                           | 116           | 136           | 116  | 136           |
|                                      | <b>11</b> | <b>94.3</b>  | <b>5,616</b>            | <b>583</b>   | <b>6,199</b>  | <b>1,731</b> | <b>7,930</b>  | <b>81</b>                    | <b>5,097</b>  | <b>6,440</b>  | <b>4,625</b>                                       | <b>5,857</b>  |
| <b>Calgary</b>                       |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Bankers Hall                         | 3         | 99.9         | 1,944                   | 224          | 2,168         | 409          | 2,577         | 50                           | 1,084         | 1,289         | 982  | 1,167         |
| Bankers Court                        | 1         | 100.0        | 255                     | 7            | 262           | 62           | 324           | 50                           | 131           | 162           | 118  | 147           |
| Suncor Energy Centre                 | 2         | 100.0        | 1,710                   | 22           | 1,732         | 220          | 1,952         | 50                           | 866           | 976           | 784  | 884           |
| Fifth Avenue Place                   | 2         | 99.9         | 1,428                   | 47           | 1,475         | 206          | 1,681         | 50                           | 738           | 841           | 669  | 761           |
| Altius Centre <sup>(3)</sup>         | 1         | 98.2         | 303                     | 3            | 306           | 72           | 378           | 25                           | 77            | 95            | 77   | 95            |
|                                      | <b>9</b>  | <b>99.8</b>  | <b>5,640</b>            | <b>303</b>   | <b>5,943</b>  | <b>969</b>   | <b>6,912</b>  | <b>49</b>                    | <b>2,896</b>  | <b>3,363</b>  | <b>2,630</b>                                       | <b>3,054</b>  |
| <b>Ottawa</b>                        |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Place de Ville I <sup>(3)</sup>      | 2         | 99.8         | 571                     | 12           | 583           | 502          | 1,085         | 25                           | 146           | 271           | 146  | 271           |
| Place de Ville II <sup>(3)</sup>     | 2         | 99.2         | 598                     | 12           | 610           | 433          | 1,043         | 25                           | 152           | 261           | 152  | 261           |
| Jean Edmonds Towers <sup>(3)</sup>   | 2         | 100.0        | 541                     | 13           | 554           | 95           | 649           | 25                           | 138           | 162           | 138  | 162           |
|                                      | <b>6</b>  | <b>99.7</b>  | <b>1,710</b>            | <b>37</b>    | <b>1,747</b>  | <b>1,030</b> | <b>2,777</b>  | <b>25</b>                    | <b>436</b>    | <b>694</b>    | <b>436</b>   | <b>694</b>    |
| <b>Edmonton</b>                      |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Canadian Western Bank <sup>(3)</sup> | 1         | 93.1         | 371                     | 36           | 407           | 91           | 498           | 25                           | 102           | 125           | 102  | 125           |
| Enbridge Tower <sup>(3)</sup>        | 1         | 100.0        | 184                     | —            | 184           | 30           | 214           | 25                           | 46            | 54            | 46   | 54            |
|                                      | <b>2</b>  | <b>95.2</b>  | <b>555</b>              | <b>36</b>    | <b>591</b>    | <b>121</b>   | <b>712</b>    | <b>25</b>                    | <b>148</b>    | <b>179</b>    | <b>148</b>   | <b>179</b>    |
| <b>VANCOUVER</b>                     |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Royal Centre                         | 1         | 94.3         | 494                     | 95           | 589           | 264          | 853           | 100                          | 589           | 853           | 533  | 772           |
|                                      | <b>1</b>  | <b>94.3</b>  | <b>494</b>              | <b>95</b>    | <b>589</b>    | <b>264</b>   | <b>853</b>    | <b>100</b>                   | <b>589</b>    | <b>853</b>    | <b>533</b>   | <b>772</b>    |
| <b>OTHER</b>                         |           |              |                         |              |               |              |               |                              |               |               |  |               |
| Other                                | 1         | 100.0        | 70                      | 3            | 73            | —            | 73            | 100                          | 73            | 73            | 73   | 73            |
|                                      | <b>1</b>  | <b>100.0</b> | <b>70</b>               | <b>3</b>     | <b>73</b>     | <b>—</b>     | <b>73</b>     | <b>100</b>                   | <b>73</b>     | <b>73</b>     | <b>73</b>  | <b>73</b>     |
| <b>Direct Canadian Properties</b>    | <b>30</b> | <b>97.2</b>  | <b>14,085</b>           | <b>1,057</b> | <b>15,142</b> | <b>4,115</b> | <b>19,257</b> | <b>60</b>                    | <b>9,239</b>  | <b>11,602</b> | <b>8,445</b>                                       | <b>10,629</b> |
| <b>TOTAL DIRECT</b>                  | <b>49</b> | <b>96.1</b>  | <b>30,616</b>           | <b>2,319</b> | <b>32,935</b> | <b>6,267</b> | <b>39,202</b> | <b>79</b>                    | <b>26,685</b> | <b>31,033</b> | <b>25,817</b>                                      | <b>29,982</b> |

<sup>(1)</sup> Reflects Brookfield Properties interest before considering minority interest of other subsidiaries including Brookfield Financial Properties L.P. of 0.6% and Brookfield Office Properties Canada ("BOX") of 9.4%

<sup>(2)</sup> Reflects Brookfield Properties interest net of minority interests described in note above which includes a 99.4% ownership interest in Brookfield Financial Properties L.P. and a 90.6% ownership interest in BOX

<sup>(3)</sup> Represent Canadian Office Fund assets

| (SQUARE FEET IN 000S)             | NUMBER    | LEASED %    | ASSETS UNDER MANAGEMENT |              |               |              |               | PROPORTIONATE <sup>(1)</sup> |               |               | PROPORTIONATE NET OF MINORITY SHARE <sup>(2)</sup> |               |
|-----------------------------------|-----------|-------------|-------------------------|--------------|---------------|--------------|---------------|------------------------------|---------------|---------------|--|---------------|
|                                   |           |             | OFFICE                  | RETAIL       | LEASABLE      | PARKING      | TOTAL         | OWNED %                      | LEASABLE      | TOTAL         | LEASABLE   | TOTAL         |
| <b>U.S. OFFICE FUND</b>           |           |             |                         |              |               |              |               |                              |               |               |  |               |
| <b>MANAGED PROPERTIES</b>         |           |             |                         |              |               |              |               |                              |               |               |  |               |
| <b>NEW YORK</b>                   |           |             |                         |              |               |              |               |                              |               |               |  |               |
| The Grace Building                | 1         | 89.8        | 1,537                   | 20           | 1,557         | —            | 1,557         | 31                           | 489           | 489           | 498  | 489           |
| One New York Plaza                | 1         | 98.9        | 2,558                   | 31           | 2,589         | —            | 2,589         | 63                           | 1,631         | 1,631         | 1,631  | 1,631         |
| Newport Tower                     | 1         | 89.0        | 1,059                   | 41           | 1,100         | —            | 1,100         | 63                           | 693           | 693           | 693  | 693           |
|                                   | <b>3</b>  | <b>94.1</b> | <b>5,154</b>            | <b>92</b>    | <b>5,246</b>  | <b>—</b>     | <b>5,246</b>  | <b>54</b>                    | <b>2,813</b>  | <b>2,813</b>  | <b>2,813</b>                                       | <b>2,813</b>  |
| <b>WASHINGTON, D.C.</b>           |           |             |                         |              |               |              |               |                              |               |               |  |               |
| 1200 K Street                     | 1         | 99.5        | 366                     | 24           | 390           | 44           | 434           | 63                           | 246           | 273           | 246  | 273           |
| 1250 23rd Street                  | 1         | 60.6        | 128                     | —            | 128           | 16           | 144           | 63                           | 81            | 91            | 81   | 91            |
| 1250 Connecticut Avenue           | 1         | 87.6        | 163                     | 21           | 184           | 26           | 210           | 63                           | 116           | 132           | 116  | 132           |
| 1400 K Street                     | 1         | 92.2        | 178                     | 12           | 190           | 34           | 224           | 63                           | 120           | 141           | 120  | 141           |
| 2000 L Street                     | 1         | 91.9        | 308                     | 75           | 383           | —            | 383           | 63                           | 241           | 241           | 241  | 241           |
| 2001 M Street                     | 1         | 99.6        | 190                     | 39           | 229           | 35           | 264           | 62                           | 141           | 163           | 141  | 163           |
| 2401 Pennsylvania Avenue          | 1         | 95.2        | 58                      | 19           | 77            | 16           | 93            | 63                           | 49            | 59            | 49   | 59            |
| Bethesda Crescent                 | 3         | 90.8        | 241                     | 27           | 268           | 68           | 336           | 63                           | 169           | 212           | 169  | 212           |
| One Reston Crescent               | 1         | 100.0       | 185                     | —            | 185           | —            | 185           | 63                           | 117           | 117           | 117  | 117           |
| Silver Spring Metro Plaza         | 3         | 83.5        | 640                     | 47           | 687           | 84           | 771           | 63                           | 433           | 486           | 433  | 486           |
| Sunrise Tech Park                 | 4         | 90.2        | 315                     | 1            | 316           | —            | 316           | 63                           | 199           | 199           | 199  | 199           |
| Two Reston Crescent               | 1         | 99.1        | 182                     | 3            | 185           | —            | 185           | 63                           | 117           | 117           | 117  | 117           |
| Two Ballston Plaza                | 1         | 95.4        | 204                     | 19           | 223           | —            | 223           | 63                           | 140           | 140           | 140  | 140           |
| Victor Building                   | 1         | 88.5        | 302                     | 45           | 347           | —            | 347           | 31                           | 109           | 109           | 109  | 109           |
| 1550 & 1560 Wilson Blvd           | 2         | 96.5        | 248                     | 35           | 283           | 76           | 359           | 63                           | 178           | 226           | 178  | 226           |
| 1225 Connecticut Ave              | 1         | 100.0       | 216                     | 25           | 241           | 94           | 335           | 63                           | 152           | 211           | 152  | 211           |
|                                   | <b>24</b> | <b>91.7</b> | <b>3,924</b>            | <b>392</b>   | <b>4,316</b>  | <b>493</b>   | <b>4,809</b>  | <b>61</b>                    | <b>2,608</b>  | <b>2,917</b>  | <b>2,608</b>                                       | <b>2,917</b>  |
| <b>LOS ANGELES</b>                |           |             |                         |              |               |              |               |                              |               |               |  |               |
| 601 Figueroa                      | 1         | 77.1        | 1,037                   | 2            | 1,039         | 123          | 1,162         | 63                           | 655           | 732           | 655  | 732           |
| Bank of America Plaza             | 1         | 94.8        | 1,383                   | 39           | 1,422         | 343          | 1,765         | 63                           | 896           | 1,112         | 896  | 1,112         |
| Ernst & Young Tower               | 1         | 73.8        | 910                     | 335          | 1,245         | 391          | 1,636         | 63                           | 784           | 1,031         | 784  | 1,031         |
| Landmark Square                   | 1         | 90.7        | 420                     | 23           | 443           | 212          | 655           | 63                           | 279           | 413           | 279  | 413           |
| Marina Towers                     | 2         | 90.6        | 356                     | 25           | 381           | 87           | 468           | 32                           | 120           | 147           | 120  | 147           |
|                                   | <b>6</b>  | <b>84.2</b> | <b>4,106</b>            | <b>424</b>   | <b>4,530</b>  | <b>1,156</b> | <b>5,686</b>  | <b>60</b>                    | <b>2,734</b>  | <b>3,435</b>  | <b>2,734</b>                                       | <b>3,435</b>  |
| <b>Houston</b>                    |           |             |                         |              |               |              |               |                              |               |               |  |               |
| One Allen Center                  | 1         | 96.8        | 914                     | 79           | 993           | —            | 993           | 63                           | 626           | 626           | 626  | 626           |
| Two Allen Center                  | 1         | 97.3        | 987                     | 9            | 996           | —            | 996           | 63                           | 627           | 627           | 627  | 627           |
| Three Allen Center                | 1         | 90.6        | 1,173                   | 22           | 1,195         | —            | 1,195         | 63                           | 753           | 753           | 753  | 753           |
| 1400 Smith Street                 | 1         | 100.0       | 1,229                   | 38           | 1,267         | —            | 1,267         | 63                           | 798           | 798           | 798  | 798           |
| Continental Center I              | 1         | 94.5        | 1,048                   | 50           | 1,098         | 411          | 1,509         | 63                           | 692           | 951           | 692  | 951           |
| Continental Center II             | 1         | 81.2        | 428                     | 21           | 449           | 81           | 530           | 63                           | 283           | 334           | 283  | 334           |
| KBR Tower                         | 1         | 99.6        | 985                     | 63           | 1,048         | 254          | 1,302         | 32                           | 330           | 410           | 330  | 410           |
| 500 Jefferson Street              | 1         | 97.3        | 351                     | 39           | 390           | 44           | 434           | 63                           | 246           | 273           | 246  | 273           |
|                                   | <b>8</b>  | <b>95.5</b> | <b>7,115</b>            | <b>321</b>   | <b>7,436</b>  | <b>790</b>   | <b>8,226</b>  | <b>58</b>                    | <b>4,355</b>  | <b>4,772</b>  | <b>4,355</b>                                       | <b>4,772</b>  |
| <b>U.S. Office Fund – Managed</b> | <b>41</b> | <b>92.1</b> | <b>20,299</b>           | <b>1,229</b> | <b>21,528</b> | <b>2,439</b> | <b>23,967</b> | <b>58</b>                    | <b>12,510</b> | <b>13,937</b> | <b>12,510</b>                                      | <b>13,937</b> |
| U.S. Office Fund – Non-managed    | 19        | 83.3        | 6,002                   | 253          | 6,255         | 1,019        | 7,274         | 61                           | 3,398         | 4,010         | 2,580  | 3,046         |
| <b>TOTAL U.S. OFFICE FUND</b>     | <b>60</b> | <b>90.1</b> | <b>26,301</b>           | <b>1,482</b> | <b>27,783</b> | <b>3,458</b> | <b>31,241</b> | <b>56</b>                    | <b>15,908</b> | <b>17,947</b> | <b>15,090</b>                                      | <b>16,983</b> |

<sup>(1)</sup> Reflects Brookfield Properties interest before considering minority interest of fund subsidiaries of 14%

<sup>(2)</sup> Reflects Brookfield Properties interest net of minority interests described in note above which includes an effective 47% interest in U.S. Office Fund

| (SQUARE FEET IN 000S)                         | NUMBER   | LEASED %    | ASSETS UNDER MANAGEMENT |            |              |            |              | PROPORTIONATE <sup>(1)</sup> |              |              | PROPORTIONATE NET OF MINORITY SHARE <sup>(2)</sup> |              |
|---|----------|-------------|-------------------------|------------|--------------|------------|--------------|------------------------------|--------------|--------------|--|--------------|
|   |          |             | OFFICE                  | RETAIL     | LEASABLE     | PARKING    | TOTAL        | OWNED %                      | LEASABLE     | TOTAL        | LEASABLE   | TOTAL        |
| <b>JOINTLY CONTROLLED</b>                     |          |             |                         |            |              |            |              |                              |              |              |  |              |
| 245 Park Avenue (NY)                          | 1        | 96.8        | 1,719                   | 68         | 1,787        | —          | 1,787        | 51                           | 911          | 911          | 906  | 906          |
| Four World Financial Center (NY)              | 1        | 100.0       | 1,861                   | 43         | 1,904        | 48         | 1,952        | 51                           | 971          | 996          | 965  | 990          |
| First Canadian Place (Toronto) <sup>(3)</sup> | 1        | 95.5        | 2,378                   | 232        | 2,610        | 170        | 2,780        | 25                           | 653          | 695          | 653  | 695          |
| <b>TOTAL</b>                                  | <b>3</b> | <b>97.2</b> | <b>5,958</b>            | <b>343</b> | <b>6,301</b> | <b>218</b> | <b>6,519</b> | <b>40</b>                    | <b>2,535</b> | <b>2,602</b> | <b>2,524</b>                                       | <b>2,591</b> |

|                         |            |             |               |              |               |              |               |           |               |               |               |               |
|-------------------------|------------|-------------|---------------|--------------|---------------|--------------|---------------|-----------|---------------|---------------|---------------|---------------|
| <b>TOTAL PROPERTIES</b> | <b>112</b> | <b>93.7</b> | <b>62,875</b> | <b>4,144</b> | <b>67,019</b> | <b>9,943</b> | <b>76,962</b> | <b>67</b> | <b>45,128</b> | <b>51,582</b> | <b>43,431</b> | <b>49,556</b> |
| <b>TOTAL MANAGED</b>    | <b>93</b>  | <b>94.8</b> | <b>56,873</b> | <b>3,891</b> | <b>60,764</b> | <b>8,924</b> | <b>69,688</b> | <b>68</b> | <b>41,730</b> | <b>47,572</b> | <b>40,851</b> | <b>46,510</b> |

<sup>(1)</sup> Reflects Brookfield Properties interest before considering minority interest of other subsidiaries including Brookfield Financial Properties L.P. of 0.6% and BOX of 9.4%

<sup>(2)</sup> Reflects Brookfield Properties interest net of minority interests described in note above which includes a 99.4% ownership interest in Brookfield Financial Properties L.P. and a 90.6% ownership interest in BOX

<sup>(3)</sup> Represent Canadian Office Fund assets

# Management’s Discussion and Analysis of Financial Results

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## FORWARD-LOOKING STATEMENTS

This interim report to shareholders contains forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management’s current beliefs and are based on assumptions and information currently available to management of Brookfield Properties. In some cases, forward-looking statements can be identified by terminology such as “may,” “will,” “expect,” “plan,” “anticipate,” “believe,” “intend,” “estimate,” “predict,” “forecast,” “outlook,” “potential,” “continue,” “should,” “likely,” or the negative of these terms or other comparable terminology. Although management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Brookfield Properties to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements and information include, but are not limited to, general economic conditions; local real estate conditions, including the development of properties in close proximity to the company’s properties; timely leasing of newly developed properties and re-leasing of occupied square footage upon expiration; dependence on tenants’ financial condition; the uncertainties of real estate development and acquisition activity; the ability to effectively integrate acquisitions; interest rates; availability of equity and debt financing; the impact of newly adopted accounting principles on the company’s accounting policies and on period-to-period comparisons of financial results; and other risks and factors described from time to time in the 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 of Brookfield Properties – Company and Real Estate Industry Risks.” The company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law.

# Management's Discussion and Analysis of Financial Results

July 29, 2010

## PART I – OBJECTIVES AND FINANCIAL HIGHLIGHTS

### BASIS OF PRESENTATION

Financial data included in Management's Discussion and Analysis ("MD&A") for the three and six months ended June 30, 2010 includes material information up to July 29, 2010. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar references, unless otherwise stated, are in millions of US dollars except per share amounts. Amounts in Canadian dollars are identified as "C\$."

Pursuant to the exemptive relief granted by the Ontario Securities Commission, effective January 1, 2010, Brookfield Properties Corporation ("Brookfield Properties") has adopted IFRS as our basis of financial reporting commencing with our interim financial statements for the three months ended March 31, 2010 and using January 1, 2009 as our transition date. The adoption of IFRS by the company is one year ahead of the mandatory conversion date for Canadian public companies. While the adoption of IFRS has not had an impact on the company's reported net cash flows, there have been material impacts on its consolidated balance sheets and statements of income, which are discussed further in Part II of this MD&A.

The following discussion and analysis is intended to provide readers with an assessment of the performance of Brookfield Properties over the past six months as well as our financial position and future prospects. It should be read in conjunction with the consolidated financial statements and appended notes, which begin on page 55 of this report. In our discussion of operating performance, we refer to net operating income and funds from operations on a total and per share basis. We define net operating income as income from property operations after operating expenses have been deducted, but prior to financing, administration, depreciation, income tax expenses, fair value gains (losses) and share of net earnings (losses) from equity accounted investments. We define funds from operations as income before fair value gains (losses), depreciation, income taxes and certain other non cash items, if any, less non-controlling interests in the foregoing. Funds from operations includes funds from operations of our consolidated properties, our share of funds from operations of our equity accounted investments and funds from discontinued operations. Net operating income is an important measure that we use to assess operating performance, and funds from operations is a widely used measure in analyzing real estate. We provide the components of net operating income and a reconciliation of net income to funds from operations on page 34. We reconcile funds from operations to net income rather than cash flow from operating activities as we believe net income is the most comparable measure. Net operating income and funds from operations do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other companies. When calculating diluted funds from operations and common equity per share in this MD&A, we exclude the effects of settling our capital securities – corporate through the issuance of common shares, as we intend to redeem the capital securities for cash prior to conversion. This diluted calculation is not in accordance with IFRS. Diluted net income per share is calculated in accordance with IFRS.

Additional information, including our Annual Information Form, is available on our Web site at [www.brookfieldproperties.com](http://www.brookfieldproperties.com), or on [www.sedar.com](http://www.sedar.com) or [www.sec.gov](http://www.sec.gov).

### OVERVIEW OF THE BUSINESS

Brookfield Properties is a publicly traded North American commercial real estate company listed on the New York and Toronto stock exchanges under the symbol BPO. We operate in two principal business segments, the first being the ownership, development and management of premier commercial office properties in select cities in North America, and the second being the development of residential land. Since 2005, we have established and fully invested two core office funds for the purpose of enhancing our position as a leading real estate asset manager. The U.S. Office Fund is a single-purpose fund established to acquire the Trizec portfolio and the Canadian Office Fund is a single-purpose fund established to acquire the O&Y portfolio. The term "Brookfield Properties Direct" ("Direct") refers to those properties that are wholly-owned or owned through property-level joint ventures. Throughout our MD&A, we also reflect our proportionate interests in the U.S. Office Fund and certain other properties which are owned through entities that we jointly control with our partners.

At June 30, 2010, the carrying value of Brookfield Properties' assets was \$16.1 billion. During the three months ended June 30, 2010, we generated \$154 million of net income attributable to common shareholders (\$0.28 per diluted share) and \$209 million of funds from operations (\$0.40 per share). During the six months ended June 30, 2010, we generated \$406 million of net income attributable to common shareholders (\$0.72 per diluted share) and \$342 million of funds from operations (\$0.65 per share).

## FINANCIAL HIGHLIGHTS

Brookfield Properties' financial results are as follows:

| (Millions, except per share amounts)                                    | Three months ended Jun. 30 |        | Six months ended Jun. 30 |                      |
|---|----------------------------|--------|--------------------------|----------------------|
|   | 2010                       | 2009   | 2010                     | 2009                 |
| <b>Results of operations</b>  |                            |        |                          |                      |
| Total revenue   | \$ 446                     | \$ 347 | \$ 838                   | \$ 657               |
| Net income (loss) attributable to common shareholders                   | 154                        | (396)  | 406                      | (1,001)              |
| Earnings (loss) per share attributable to common shareholders – diluted | 0.28                       | (1.01) | 0.72                     | (2.56)               |
| Funds from operations   | 209                        | 123    | 342                      | 225                  |
| Funds from operations per share   | 0.40                       | 0.32   | 0.65                     | 0.58                 |
| Common share dividends paid per share                                   | 0.14                       | 0.14   | 0.28                     | 0.28                 |
|   |                            |        | <b>Jun. 30, 2010</b>     | <b>Dec. 31, 2009</b> |
| <b>Balance sheet</b>  |                            |        |                          |                      |
| Total assets  |                            |        | \$ 16,077                | \$ 15,446            |
| Commercial properties <sup>(1)</sup>                                    |                            |        | 9,972                    | 9,820                |
| Commercial property debt <sup>(1)</sup>                                 |                            |        | 5,300                    | 5,307                |
| Shareholders' equity  |                            |        | 7,274                    | 6,818                |
| Common equity per share – diluted                                       |                            |        | 13.37                    | 12.99                |
| Common equity per share – diluted (pre-tax) <sup>(2)</sup>              |                            |        | 14.36                    | 13.99                |

<sup>(1)</sup>Includes assets and liabilities related to discontinued operations

<sup>(2)</sup>Excluding deferred tax liability

## COMMERCIAL PROPERTY OPERATIONS

Our managed commercial property portfolio consists of interests in 93 properties totaling 70 million square feet, including 9 million square feet of parking. Our development portfolio comprises interests in 13 sites totaling 15 million square feet. Our primary markets are the financial, energy and government center cities of New York, Boston, Washington, D.C., Houston, Los Angeles, Toronto, Calgary and Ottawa. We intend to continue our strategy of maintaining a meaningful presence in a select number of North American cities with attractive tenant bases.

We remain focused on the following strategic priorities:

- Realizing value from our properties through proactive leasing and select redevelopment initiatives;
- Prudent capital management including the refinancing of mature properties; and
- Monetizing development assets as the economy rebounds and supply constraints create opportunities.

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

The following table summarizes our investment properties portfolio by ownership type (refer to commercial properties portfolio listing for more detail on page 3):

|                                     | Number of Properties | (Square Feet in 000's) |        | Proportionate <sup>(1)</sup> |        | Proportionate Net of Minority Share <sup>(2)</sup> |        |
|-------------------------------------|----------------------|------------------------|--------|------------------------------|--------|--|--------|
|                                     |                      | Leasable               | Total  | Leasable                     | Total  | Leasable   | Total  |
| <b>Direct<sup>(3)</sup></b>         |                      |                        |        |                              |        |  |        |
| U.S. Properties                     | 19                   | 17,793                 | 19,945 | 17,446                       | 19,431 | 17,372   | 19,353 |
| Canadian Properties                 | 30                   | 15,142                 | 19,257 | 9,239                        | 11,602 | 8,445  | 10,629 |
|                                     | 49                   | 32,935                 | 39,202 | 26,685                       | 31,033 | 25,817   | 29,982 |
| <b>Equity accounted investments</b> |                      |                        |        |                              |        |  |        |
| U.S. Office Fund – Managed          | 41                   | 21,528                 | 23,967 | 12,510                       | 13,937 | 12,510   | 13,937 |
| U.S. Office Fund – Non-Managed      | 19                   | 6,255                  | 7,274  | 3,398                        | 4,010  | 2,580  | 3,046  |
| Other jointly controlled entities   | 3                    | 6,301                  | 6,519  | 2,535                        | 2,602  | 2,524  | 2,591  |
|                                     | 63                   | 34,084                 | 37,760 | 18,443                       | 20,549 | 17,614   | 19,574 |
| <b>Total</b>                        | 112                  | 67,019                 | 76,962 | 45,128                       | 51,582 | 43,431   | 49,556 |
| <b>Total – Managed</b>              | 93                   | 60,764                 | 69,688 | 41,730                       | 47,572 | 40,851   | 46,510 |

<sup>(1)</sup> Reflects Brookfield Properties interest before considering minority interest of fund subsidiaries of 14% and of other subsidiaries including Brookfield Financial Properties L.P. of 0.6% and Brookfield Office Properties Canada ("BOX") of 9.4%

<sup>(2)</sup> Reflects Brookfield Properties interest net of minority interests described in note above which includes a 99.4% ownership interest in Brookfield Financial Properties L.P., a 90.6% ownership interest in BOX, and an effective 47% interest in the U.S. Office Fund

<sup>(3)</sup> Includes 27 properties that are fully consolidated and 22 that are proportionately consolidated, 11 of which are in our Canadian Office Fund

We have historically explored property-level joint venture opportunities with strategic institutional partners. Although we plan to continue with this endeavor, we also consider opportunities to pursue the acquisition of individual assets and portfolios through joint venture fund vehicles. In 2005 we formed our Canadian Office Fund to acquire the O&Y portfolio and in 2006 we formed our U.S. Office Fund to consummate the acquisition of the Trizec portfolio. Of our 112 commercial office properties including non-managed properties, 27 are wholly owned, 13 are held in property-level joint ventures or co-tenancies, and 72 are held in our funds.

Our Canadian Office Fund consists of a consortium of institutional investors, led and managed by us. Affiliates of the consortium members own direct interests in property-level joint ventures and have entered into several agreements relating to property management, fees, transfer rights and other material issues associated with the operation of the properties. We proportionately consolidate our interest in this Fund with the exception of our interest in First Canadian Place which, as a result of the interest being owned through a jointly controlled entity, is equity accounted. Our U.S. Office Fund consists of a consortium of institutional investors, which we lead and manage, investing through direct and indirect investment vehicles that have also entered into several agreements relating to property management, fees, transfer rights and other material issues associated with the operation of the properties. We account for our interest in this Fund following the equity method.

We believe that investing our liquidity with these partners in fund formats enables us to enhance returns. The funds and associated asset management fees represent an important area of growth as we expand our assets under management. Purchasing properties or portfolios of properties in a fund format allows us to earn the following categories of fees:

- **Asset Management**                      Stable base fee for providing regular, ongoing services.
- **Transaction**                              Development, redevelopment and leasing activities conducted on behalf of these funds.
- **Performance**                              Earned when certain predetermined benchmarks are exceeded. Performance fees, which can add considerably to fee revenue, typically arise later in a fund's life cycle and are therefore not fully reflected in current results.

An important characteristic of our portfolio is the strong credit quality of our tenants. We direct special attention to credit quality, particularly in the current economic environment, in order to ensure the long-term sustainability of rental revenues through economic cycles. Major tenants with over 1,000,000 square feet of space in the portfolio include Bank of America/Merrill Lynch, U.S. and Canadian governments and government agencies, Chevron U.S.A., Wells Fargo/Wachovia, CIBC, RBC Financial Group, Kellogg Brown & Root, LLC, Bank of Montreal and Suncor Energy. A detailed list of major tenants is included in Part IV ("Risks and Uncertainties") of this MD&A, which begins on page XX.

Our strategy is to sign long-term leases in order to mitigate risk and reduce our overall retensing costs. We typically commence discussions with tenants regarding their space requirements well in advance of the contractual expiration, and although each market is different, the majority of our leases, when signed, extend between 10- and 20-year terms. As a result of this strategy, approximately 9% of our leases, on average, mature annually over the next five years and excluding Bank of America/Merrill Lynch, our largest tenant, less than 8% of our leases, on average, mature annually over the next five years.

Our average lease term is seven years. The following is a breakdown of lease maturities in our managed portfolio, including jointly controlled assets and entities, by region with associated in-place rental rates:

|                            | Current      | 2010            |             | 2011            |             | 2012            |             | 2013            |             |
|----------------------------|--------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
|                            |              | (000's sq. ft.) | Net Rent    | (000's sq. ft.) | Net Rent    | (000's sq. ft.) | Net Rent    | (000's sq. ft.) | Net Rent    |
| Jun. 30, 2010              |              |                 |             |                 |             |                 |             |                 |             |
| <b>U.S. Properties</b>     |              |                 |             |                 |             |                 |             |                 |             |
| Midtown New York           | 216          | 85              | \$39        | 66              | \$38        | 15              | \$44        | 611             | \$34        |
| Downtown New York          | 287          | 36              | 30          | 957             | 31          | 419             | 11          | 4,772           | 35          |
| Washington                 | 513          | 156             | 23          | 191             | 24          | 630             | 23          | 420             | 25          |
| Los Angeles                | 716          | 90              | 22          | 316             | 19          | 835             | 24          | 190             | 27          |
| Houston                    | 375          | 207             | 10          | 709             | 14          | 1,000           | 13          | 505             | 16          |
| Boston                     | 254          | 149             | 30          | 411             | 44          | 48              | 23          | 32              | 28          |
| Denver                     | 75           | 80              | 21          | 97              | 19          | 86              | 21          | 151             | 23          |
| Minneapolis                | 204          | 33              | 8           | 53              | 13          | 129             | 16          | 189             | 7           |
|                            | 2,640        | 836             | \$22        | 2,800           | \$26        | 3,162           | \$18        | 6,870           | \$32        |
| <b>Canadian Properties</b> |              |                 |             |                 |             |                 |             |                 |             |
| Toronto                    | 467          | 383             | \$28        | 328             | \$25        | 604             | \$27        | 1,533           | \$29        |
| Calgary                    | 10           | 126             | 25          | 319             | 31          | 446             | 30          | 505             | 32          |
| Ottawa                     | 6            | 3               | 25          | 14              | 17          | 13              | 22          | 1,151           | 20          |
| Other                      | 62           | 22              | 22          | 126             | 19          | 63              | 22          | 98              | 23          |
|                            | 545          | 534             | \$27        | 787             | \$26        | 1,126           | \$28        | 3,287           | \$26        |
| <b>Total</b>               | <b>3,185</b> | <b>1,370</b>    | <b>\$24</b> | <b>3,587</b>    | <b>\$26</b> | <b>4,288</b>    | <b>\$21</b> | <b>10,157</b>   | <b>\$30</b> |
| <b>Total % expiring</b>    | <b>5.2%</b>  | <b>2.3%</b>     |             | <b>5.9%</b>     |             | <b>7.1%</b>     |             | <b>16.7%</b>    |             |
| End of prior year          | 5.0%         | 3.8%            |             | 6.8%            |             | 7.9%            |             | 17.8%           |             |
| Difference                 | 0.2%         | -1.5%           |             | -0.9%           |             | -0.8%           |             | -1.1%           |             |

|                            | 2014            |             | 2015            |             | 2016            |             | Beyond          |             | Total           |
|----------------------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|-------------|-----------------|
|                            | (000's sq. ft.) | Net Rent    | (000's sq. ft.) | Net Rent    | (000's sq. ft.) | Net Rent    | (000's sq. ft.) | Net Rent    | (000's sq. ft.) |
| Jun. 30, 2010              |                 |             |                 |             |                 |             |                 |             |                 |
| <b>U.S. Properties</b>     |                 |             |                 |             |                 |             |                 |             |                 |
| Midtown New York           | 148             | \$34        | 110             | \$51        | 98              | \$37        | 3,089           | \$54        | 4,438           |
| Downtown New York          | 298             | 38          | 2,193           | 19          | 494             | 29          | 4,267           | 34          | 13,723          |
| Washington                 | 1,346           | 25          | 393             | 32          | 104             | 31          | 2,439           | 43          | 6,192           |
| Los Angeles                | 261             | 23          | 269             | 22          | 380             | 28          | 1,473           | 28          | 4,530           |
| Houston                    | 381             | 12          | 951             | 14          | 57              | 11          | 4,095           | 19          | 8,280           |
| Boston                     | 46              | 38          | 3               | 45          | 507             | 31          | 540             | 32          | 1,990           |
| Denver                     | 128             | 17          | 65              | 21          | 154             | 24          | 493             | 22          | 1,329           |
| Minneapolis                | 202             | 14          | 178             | 5           | 345             | 16          | 1,197           | 13          | 2,530           |
|                            | 2,810           | \$24        | 4,162           | \$20        | 2,139           | \$27        | 17,593          | \$33        | 43,012          |
| <b>Canadian Properties</b> |                 |             |                 |             |                 |             |                 |             |                 |
| Toronto                    | 302             | \$31        | 596             | \$29        | 659             | \$28        | 3,937           | \$28        | 8,809           |
| Calgary                    | 161             | 37          | 1,204           | 31          | 791             | 23          | 2,381           | 34          | 5,943           |
| Ottawa                     | 9               | 26          | 543             | 14          | 4               | 20          | 4               | 49          | 1,747           |
| Other                      | 33              | 15          | 218             | 21          | 45              | 22          | 586             | 15          | 1,253           |
|                            | 505             | \$32        | 2,561           | \$26        | 1,499           | \$25        | 6,908           | \$29        | 17,752          |
| <b>Total</b>               | <b>3,315</b>    | <b>\$25</b> | <b>6,723</b>    | <b>\$22</b> | <b>3,638</b>    | <b>\$26</b> | <b>24,501</b>   | <b>\$32</b> | <b>60,764</b>   |
| <b>Total % expiring</b>    | <b>5.5%</b>     |             | <b>11.1%</b>    |             | <b>6.0%</b>     |             | <b>40.3%</b>    |             | <b>100.0%</b>   |
| End of prior year          | 5.8%            |             | 11.2%           |             | 5.0%            |             | 36.7%           |             | 100.0%          |
| Difference                 | -0.3%           |             | -0.1%           |             | 1.0%            |             | 3.6%            |             |                 |

## COMMERCIAL DEVELOPMENT

We hold interests in 15 million square feet of high-quality, centrally-located development sites in planning stages. We will seek to monetize these sites through development only when our risk-adjusted return hurdles are met and when preleasing targets with one or more lead tenants have been achieved.

The following table summarizes our commercial development projects at June 30, 2010:

|  | Region           | Description  | Sites | Owned Interest (%) | (Square feet in 000's) |                              |  |
|--|------------------|--|-------|--------------------|------------------------|------------------------------|--|
|  |                  |  |       |                    | Total                  | Proportionate <sup>(1)</sup> | Proportionate Net of Minority Share <sup>(2)</sup> |
| <b>Direct owned</b>                      |                  |  |       |                    |                        |                              |  |
| Manhattan West                           | New York         | Between 31 <sup>st</sup> and 33 <sup>rd</sup> Streets across from the Farley Post Office | 1     | 100%               | 5,400                  | 5,400                        | 5,400  |
| Bay Adelaide Centre East & North         | Toronto          | Bay and Adelaide Streets   | 1     | 100%               | 1,400                  | 1,400                        | 1,400  |
| Brookfield Place III                     | Toronto          | Third phase of Brookfield Place project  | 1     | 54%                | 800                    | 432                          | 432  |
| Bankers West Parkade                     | Calgary          | West Parkade adjacent to Bankers Hall  | 1     | 50%                | 250                    | 125                          | 125  |
| Herald Site                              | Calgary          | One block from our existing Calgary assets   | 1     | 100%               | 1,200                  | 1,200                        | 1,200  |
| 300 Queen Street <sup>(3)</sup>          | Ottawa           | Third phase of Place de Ville project  | 1     | 25%                | 577                    | 144                          | 144  |
| 1501 Tremont Place                       | Denver           | One Block from Republic Plaza  | 1     | 100%               | 733                    | 733                          | 733  |
| Block 173                                | Denver           | One Block from Republic Plaza  | 1     | 100%               | 600                    | 600                          | 600  |
|  |                  |  | 8     |                    | 10,960                 | 10,034                       | 10,034   |
| <b>U.S. Office Fund</b>                  |                  |  |       |                    |                        |                              |  |
| Reston Crescent                          | Washington, D.C. | 36 acre landscaped campus in Reston, VA  | 1     | 63%                | 724                    | 456                          | 456  |
| 1500 Smith Street                        | Houston          | Adjacent to 1400 Smith Street  | 1     | 63%                | 500                    | 315                          | 315  |
| Allen Center Clay Street                 | Houston          | Located in the heart of the Allen Center / Cullen Center complex                         | 1     | 63%                | 600                    | 378                          | 378  |
| Five Allen Center                        | Houston          | Adjacent to the Allen Center   | 1     | 63%                | 1,100                  | 693                          | 693  |
|  |                  |  | 4     |                    | 2,924                  | 1,842                        | 1,842  |
| <b>Other jointly controlled entities</b> |                  |  |       |                    |                        |                              |  |
| 100 Bishopsgate                          | London, U.K.     | Located within the central core of the city of London                                    | 1     | 50%                | 820                    | 410                          | 410  |
| <b>Total Development</b>                 |                  |  | 13    |                    | 14,704                 | 12,286                       | 12,286   |

<sup>(1)</sup> Reflects Brookfield Properties interest before considering non-controlling interest of fund subsidiaries of 14% and of other subsidiaries including Brookfield Financial Properties L.P. of 0.6% and BOX of 9.4%

<sup>(2)</sup> Reflects Brookfield Properties interest net of non-controlling interests described in note above which includes a 99.4% ownership interest in Brookfield Financial Properties L.P., a 90.6% ownership interest in BOX, and an effective 47% interest in the U.S. Office Fund

<sup>(3)</sup> Included in Canadian Office Fund

## RESIDENTIAL DEVELOPMENT INVENTORIES

Through our residential development business segment, we develop residential land and conduct homebuilding operations. Operations are currently focused in five markets: Alberta and Ontario in Canada, and Colorado, Texas and Missouri in the U.S. These business units primarily entitle and develop land in master-planned communities and then sell these lots to other homebuilders. However, in Alberta and Ontario we also build and sell homes.

We classify our residential development business into three categories: land held for development; land under development; and housing inventory. Costs attributable to land held for development include costs of acquiring land as well as general infrastructure costs to service the land within a community. These costs are not directly related to saleable lots and accordingly are classified as non-current on the balance sheet. Once development of a phase begins, the associated costs with that phase are transferred from land held for development to land under development, which includes all underlying costs that are attributable to the phase of saleable lots, including costs of the underlying land, roads, and parks. Included in housing inventory is associated land as well as construction costs. Both land under development and housing inventory consist of inventory that will be sold in the current operating cycle for that phase and accordingly are classified as current assets on our balance sheet.

| (\$ in Millions)                                     | Current                                   |                                      | Non-current                             |
|--|---|--------------------------------------|---|
|  | Under Development<br>Number of Lots/Acres | Housing Inventory<br>Number of Units | Held for Development<br>Number of Acres |
| Single Family (Lots/Acres)                           |   |                                      |   |
| Alberta  | 2,850                                     | 261                                  | 6,003                                   |
| Ontario  | 231                                       | 280                                  | 1,488                                   |
| Colorado   | 919                                       | —                                    | 2,298                                   |
| Texas  | 94  | —                                    | 3,944                                   |
| Missouri   | 91  | —                                    | 205                                     |
| Total Single Family (Lots/Acres)                     | 4,185                                     | 541                                  | 13,938                                  |
| Total Single Family (Acre Equivalent) <sup>(1)</sup> | 714                                       |                                      |   |
| Multi-Family and Commercial (Acres)                  |   |                                      |   |
| Alberta  | 149                                       | 322                                  | —                                       |
| Colorado   | 10  | —                                    | —                                       |
| Texas  | 1   | —                                    | —                                       |
| Total Multi-Family and Commercial (Acres)            | 160                                       | 322                                  | —                                       |

<sup>(1)</sup>Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

## PERFORMANCE MEASUREMENT

The key indicators by which we measure our performance are:

- Net income attributable to common shareholders;
- Net operating income;
- Funds from operations;
- Overall indebtedness level;
- Weighted average cost of debt; and
- Occupancy levels.

Although we monitor and analyze our financial performance using a number of indicators, our primary business objective of generating reliable and growing cashflow is monitored and analyzed using net income attributable to common shareholders, net operating income and funds from operations. Although net income attributable to common shareholders is calculated in accordance with IFRS, net operating income and funds from operations do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. We provide the components of net operating income and a full reconciliation of net income attributable to common shareholders to funds from operations on page 34 of this MD&A.

### Net Income Attributable to Common Shareholders

Net income attributable to common shareholders is calculated in accordance with IFRS. Net income attributable to common shareholders is used as a key indicator in assessing the profitability of the company.

### Net Operating Income

Net operating income is defined by us as income from property operations after operating expenses have been deducted, but prior to financing, administration, depreciation, income tax expenses, fair value gains (losses) and share of net earnings (losses) from equity accounted investments. Net operating income is used as a key indicator of performance as it represents a measure over which management has control. We measure the performance of management by comparing the performance of the property portfolio adjusted for the effect of current and prior year dispositions and acquisitions.

### Funds from Operations

We define funds from operations as income before fair value adjustments, depreciation, income taxes and certain other non cash items, if any, less non-controlling interests in the foregoing. Although funds from operations is a widely used measure to analyze real estate, we believe that funds from operations, net operating income and net income attributable to common shareholders are all relevant measures. Funds from operations does not represent or approximate cash generated from operating activities determined in accordance with IFRS. We provide a reconciliation of funds from operations to net income attributable to common shareholders as we believe net income attributable to common shareholders is the most comparable measure.

## KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing performance in terms of net income, net operating income and funds from operations, we consider the following items to be important drivers of our current and anticipated financial performance:

- Increases in occupancies by leasing vacant space;
- Increases in rental rates as market conditions permit; and
- Reduction in occupancy costs through achieving economies of scale and diligently managing contracts.

We also believe that the key external performance drivers are:

- The availability of equity capital at a reasonable cost;
- The availability of debt capital at a cost and on terms conducive to our goals; and
- The availability of new property acquisitions that fit into our strategic plan.

## PART II – INTERNATIONAL FINANCIAL REPORTING STANDARDS

### Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS did not have an impact on our reported net cash flows, it did have a material impact on our consolidated balance sheets and statements of income. In particular, our opening IFRS balance sheet reflects the revaluation of substantially all of our commercial properties and developments to fair value and, as a result, our intangible assets and liabilities are no longer separately recognized. Also, our U.S. Office Fund and certain other joint ventures which were consolidated as variable interest entities or proportionately consolidated are recorded as investments accounted for following the equity method. All such changes to the opening balance sheet required a corresponding tax adjustment to be recorded based on the resultant differences. The impact of these differences on the January 1, 2009 opening balance sheet under IFRS compared to our December 31, 2008 balance sheet under Canadian GAAP resulted in common equity increasing from \$3.4 billion to approximately \$5.8 billion or approximately \$15 per share. In addition, the impact of these differences on our December 31, 2009 balance sheet under IFRS compared to the balance sheet under Canadian GAAP resulted in common equity increasing from \$4.5 billion to \$6.5 billion or approximately \$13 per share.

### IFRS 1: First-Time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”), which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions. The following are the optional exemptions available under IFRS 1 which we applied in preparation of our first financial statements under IFRS:

a) *Business Combinations*

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3, “Business Combinations” (“IFRS 3”) retrospectively to business combinations that occurred before the date of transition to IFRS. We made this election in order to only apply IFRS 3 to business combinations prospectively (i.e. to those that occur on or after January 1, 2009).

b) *Cumulative Translation Differences*

IAS 21, “The Effects of Changes in Foreign Exchange Rates”, requires an entity to determine the translation differences in accordance with IFRS from the date on which a subsidiary was formed or acquired. IFRS allows cumulative translation differences for all foreign operations to be deemed zero at the date of transition to IFRS, with future gains or losses on subsequent disposal of any foreign operations to exclude translation differences arising from periods prior to the date of transition to IFRS. We deemed all cumulative translation differences to be zero on transition to IFRS by adjusting the cumulative amounts through opening retained earnings.

IFRS 1 allows for certain other optional exemptions; however, such exemptions were not deemed to be significant to our adoption of IFRS.

The following discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of our first annual IFRS reporting period, which will be December 31, 2010. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact of our conversion to IFRS may be different than its current expectation.

### Impact of IFRS on Financial Position

The following paragraphs quantify and describe the impact of significant differences between Canadian GAAP and IFRS on our consolidated balance sheet.

#### *Commercial Properties and Commercial Developments*

We consider our commercial properties and commercial developments to be investment properties under IAS 40, “Investment Property” (“IAS 40”). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. We have elected to use the fair value model. We have determined that the fair value of our commercial property and development portfolio at January 1, 2009 is approximately \$3.3 billion (December 31, 2009 - \$1.8 billion) greater than the carrying value under Canadian GAAP, inclusive of fair value adjustments relating to investment properties that are held in joint ventures that will be accounted for following the equity method under IFRS and net of corresponding intangible assets and liabilities and straight-line rent which were recorded separately under Canadian GAAP. This increase is offset by the deconsolidation of the aforementioned equity accounted joint ventures which is discussed further below. We determined the fair value of each investment property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at January 1, 2009 and December 31, 2009 less future cash outflows in respect of such leases. Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows, and using weighted average discount and terminal capitalization rates of approximately 8% and 7%, respectively. Commercial developments under active development were also measured using a discounted cash flow model, net of costs to complete. Developments in the planning phase were measured using comparable market data.

#### *Equity Accounted Investments*

The balance of equity accounted investments at January 1, 2009 is approximately \$3.0 billion (December 31, 2009 - \$1.9 billion) under IFRS. These investments relate primarily to entities that were consolidated as variable interest entities or proportionately consolidated under Canadian GAAP that we will account for following the equity method, including our investment in the U.S. Office Fund. The carrying amount of our equity accounted investments reflects our proportionate share of the adjustments required in order to measure the investment properties in these joint ventures at their fair values.

#### *Receivables and Other*

Straight-line rent receivable reflected in receivables and other under Canadian GAAP is included in the carrying amount of commercial properties in our balance sheets under IFRS. The balance of receivables and other at January 1, 2009 decreased by approximately \$0.3 billion (December 31, 2009 - \$0.6 billion) under IFRS as a result of the reclassification of straight-line rent receivable balances to commercial property, as well as the impact of accounting for the U.S. Office Fund and certain other joint ventures following the equity method.

#### *Intangible Assets and Liabilities*

With the adoption of IFRS, we derecognized our intangible assets and liabilities that relate to tenant leases otherwise considered in the determination of the fair value of our investment properties. This resulted in a decrease to intangible assets and liabilities of \$0.6 billion and \$0.7 billion, respectively at January 1, 2009 (December 31, 2009 - \$0.5 billion and \$0.6 billion).

#### *Deferred Tax Liability*

The deferred tax liability at January 1, 2009 increased by approximately \$0.4 billion (December 31, 2009 \$0.3 billion) under IFRS primarily due to the increased carrying values of our commercial properties and developments. The deferred tax liability under IFRS will generally be determined by applying tax rates to temporary differences based on the general expectation that the method of realization is through owning and operating our properties rather than through sale.

#### *Commercial Property Debt*

The reported balances of property specific mortgages and subsidiary borrowings at January 1, 2009 decreased by approximately \$5.5 billion (December 31, 2009 - \$6.2 billion) under IFRS compared to balances reported in accordance with Canadian GAAP. The decrease primarily related to the deconsolidation of debt held by entities that were consolidated as variable interest entities or proportionately consolidated under Canadian GAAP that are equity accounted under IFRS.

#### *Financial Instruments*

The following are the summary of differences from Canadian GAAP in respect of the following instruments:

a) *Secured loans*

Under IFRS the company designated its secured loans as fair value through profit and loss ("FVTPL") on the basis that these financial assets are managed and performance evaluated on a fair value basis. Under Canadian GAAP, these loans were carried at amortized cost. The secured loans were acquired in the fourth quarter of 2009 and had a fair value adjustment of approximately \$7 million at December 31, 2009.

b) *Commercial property debt*

Under Canadian GAAP certain participating commercial property debt was being accounted for as a single hybrid instrument at amortized cost using the effective interest rate method and the embedded participation feature was determined not to be an embedded derivative which was required to be accounted for separate from the host instrument. Under IFRS, the participation feature is accounted for separately at fair value and had a carrying amount of \$49 million at January 1, 2009 (December 31, 2009 - \$54 million).

c) *U.S. Office Fund put and call arrangement*

The company's option under the U.S. Office Fund put and call arrangement is a derivative financial instrument measured at fair value. Similarly, the company's obligation under the related cash "true-up" payments represents a financial instrument with an embedded derivative relating to the adjustment for cross participation in changes in fair value of the respective portfolios of sub-managed properties. The true-up is measured at amortized cost using the effective interest method, except for that portion representing the embedded derivative that is measured at fair value. The gains and losses associated with these instruments are recorded in earnings as fair value gains (losses). Prior to the reorganization of ownership interests in the U.S. Office Fund in the second quarter of 2009, the company did not hold a direct investment in the venture and therefore was not legally a party to the put and call arrangement. Accordingly, the company first recognized the effects of the U.S. Office Fund option and the true-up following the reorganization. The net carrying amount of the U.S. Office Fund option and true up at December 31, 2009 was \$321 million.

#### *Non-controlling Interests and Capital Securities – Fund Subsidiaries*

The reported balances of non-controlling interests and capital securities – fund subsidiaries at January 1, 2009 decreased by approximately \$0.5 billion (December 31, 2009 - \$0.5 billion) under IFRS compared to balances reported in accordance with Canadian GAAP. The decrease primarily relates to the deconsolidation of net assets held by entities that were consolidated under Canadian GAAP that are equity accounted under IFRS. Any remaining non-controlling interests are presented in equity under IFRS.

## **Impact of IFRS on Results of Operations**

The following paragraphs highlight the significant recurring differences between Canadian GAAP and IFRS that affect net income.

### *Fair Value Changes*

As a result of electing to use the fair value model to account for our investment properties, net income during any given period may be greater or less than as determined under Canadian GAAP depending on whether an increase or decrease in fair value occurs during the period. The impact of fair value changes resulted in a decrease to net income in 2009 of approximately \$1.8 billion on an annualized basis (three and six months ended June 30, 2009 - \$0.7 billion and \$1.4 billion, respectively).

### *Depreciation and Amortization Expense*

Under the fair value model, depreciation of investment properties is not recorded. Additionally, historic intangible balances established under Canadian GAAP in connection with past business combinations are no longer separately recognized and accordingly not amortized under IFRS. The impact of no longer amortizing historic intangible balances along with no longer recording depreciation expense on our commercial properties resulted in an increase to net income of approximately \$0.5 billion on an annualized basis (three and six months ended June 30, 2009 - \$0.1 billion and \$0.2 billion, respectively).

### *Revenue Recognition*

IFRS requires rental revenue to be determined on a straight-line basis considering all rentals from the inception of the lease, whereas Canadian GAAP only requires rental income to be recognized on a straight-line basis prospectively commencing January 1, 2004. This difference, applied retrospectively, resulted in a reduction of net income under IFRS. For the three months ended June 30, 2009 this reduction was insignificant. Also, as we are no longer separately accounting for intangible assets and liabilities relating to acquired above and below market tenant leases, the related amortization of these balances to commercial property revenue is eliminated under IFRS. This difference resulted in a reduction of revenue under IFRS of approximately \$123 million on an annualized basis (three and six months ended June 30, 2009 - \$35 million and \$68 million, respectively).

### *Financial Instruments*

As described above, certain financial instruments were not separately recognized under Canadian GAAP or are measured on a different basis under IFRS. Additionally, certain cash flow hedges previously meeting hedge accounting criteria under Canadian GAAP are de-designated under IFRS and included in fair value gains (losses).

### *Income Taxes*

We have recorded the corresponding tax effect of the foregoing differences, which resulted in an increase to net income in the amount of \$0.1 billion on an annualized basis for 2009 (three and six months ended June 30, 2009 – increase to net income of \$44 million and \$85 million, respectively) owing primarily to the fair value loss recorded in respect of our investment properties for the period.

### *Other*

In connection with the reorganization of the U.S. Office Fund, a \$39 million gain was recognized under Canadian GAAP, principally relating to the settlement of debt securities with consideration in the form of non-controlling equity interest in the Fund. Under IFRS, no such gain was recognized in connection with the settlement of the aforementioned debt securities as the non-controlling interest was initially recorded at its estimated fair value which approximated the carrying amount of the debenture. However, we did recognize a bargain purchase gain of approximately \$159 million under IFRS in connection with the reorganization, representing the excess of the fair value of the interest in the venture that we received in the reorganization over the deemed cost, which was the carrying amount of the our pre-existing investment in a subsidiary of the venture. The adjustment to December 31, 2009 retained earnings also reflects the cumulative amortization of the excess of the carrying amount of our investment in the venture over the inside basis carrying amount of its net assets.

## **Internal Control over Financial Reporting**

The conversion to IFRS from Canadian GAAP impacts the way we present our financial results and the accompanying disclosures. We have evaluated the impact of the conversion on our financial reporting systems, processes and controls and have noted that the most significant change to our internal and disclosure environment is the requirement to measure and report our portfolio of investment properties at fair value. This change has required us to design and implement new processes and internal controls surrounding the determination of fair values which include, but are not limited to, management's consideration of recent and comparable transactions, discount rates, estimates of future rental rates and leasing activities, and future capital expenditures, as well as, where appropriate, engaging external specialists to assist with the evaluation of fair value.

## PART III – FINANCIAL STATEMENT ANALYSIS

### ASSET PROFILE

Our total asset carrying value was \$16.1 billion at June 30, 2010, up \$0.6 billion as compared with December 31, 2009 largely as a result of an increase in the value of our commercial properties and developments as well as certain investments entered into in the first six months of 2010. The following is a summary of our assets:

| (Millions)                          | Jun. 30, 2010 |               | Dec. 31, 2009 |               |
|-------------------------------------|---------------|---------------|---------------|---------------|
| <b>Non-current assets</b>           |               |               |               |               |
| Investment properties               |               |               |               |               |
| Commercial properties               | \$            | 9,659         | \$            | 9,513         |
| Commercial developments             |               | 443           |               | 469           |
| Equity accounted investments        |               |               |               |               |
| Investment in U.S. Office Fund      |               | 1,124         |               | 945           |
| Other jointly controlled entities   |               | 1,019         |               | 891           |
| Investments in associates           |               | 17            |               | 15            |
| Residential development inventories |               | 755           |               | 797           |
| Non-current financial assets        |               | 1,135         |               | 583           |
|                                     |               | <b>14,152</b> |               | <b>13,213</b> |
| <b>Current assets</b>               |               |               |               |               |
| Residential development inventories |               | 465           |               | 438           |
| Receivables and other assets        |               | 981           |               | 1,341         |
| Restricted cash and deposits        |               | 37            |               | 39            |
| Cash and cash equivalents           |               | 127           |               | 104           |
|                                     |               | <b>1,610</b>  |               | <b>1,922</b>  |
| Assets held for sale <sup>(1)</sup> |               | 315           |               | 311           |
| <b>Total assets</b>                 | <b>\$</b>     | <b>16,077</b> | <b>\$</b>     | <b>15,446</b> |

<sup>(1)</sup> Includes \$313 million of commercial properties and \$2 million of other assets associated with discontinued operations at June 30, 2010 (December 31, 2009 - \$307 million and \$4 million, respectively)

### COMMERCIAL PROPERTIES

Commercial properties comprises our direct and indirect interests in wholly owned properties, and our proportionate share in jointly controlled assets.

The fair value of our commercial properties was \$9.7 billion as at June 30, 2010 up \$0.2 billion from the balance at December 31, 2009. The increase is attributable to an underlying increase in the values of our properties as well as the acquisition of an additional 50% ownership interest in 77 K Street in Washington, D.C, bringing our ownership in this property to 100%. The increase in the value of our properties is also due to improvements in leasing and timing of cash flows. The consolidated fair value of our North American commercial properties is approximately \$345 per square foot.

A breakdown of our direct commercial properties is as follows:

| (Millions, except per square feet) | Jun. 30, 2010   |                 |               | Dec. 31, 2009   |                 |               |
|------------------------------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
|                                    | Value           | (000's Sq. Ft.) | Value psf     | Value           | (000's Sq. Ft.) | Value psf     |
| United States <sup>(1)</sup>       | \$ 5,933        | 16,380          | \$ 362        | \$ 5,777        | 16,052          | \$ 360        |
| Canada                             | 3,726           | 11,602          | 321           | 3,736           | 11,602          | 322           |
| <b>Total</b>                       | <b>\$ 9,659</b> | <b>27,982</b>   | <b>\$ 345</b> | <b>\$ 9,513</b> | <b>27,654</b>   | <b>\$ 344</b> |

<sup>(1)</sup> Excludes value associated with assets held for sale of \$313 million (December 31, 2009 - \$307 million) or \$103 psf (December 31, 2009 - \$101 psf)

The key valuation metrics for commercial properties, including properties accounted for under the equity method, are set out in the following table:

|                          | Jun. 30, 2010 |         |                  | Dec. 31, 2009 |         |                  |
|--------------------------|---------------|---------|------------------|---------------|---------|------------------|
|                          | Maximum       | Minimum | Weighted Average | Maximum       | Minimum | Weighted Average |
| <b>United States</b>     |               |         |                  |               |         |                  |
| Discount rate            | 12.25%        | 7.25%   | 8.83%            | 12.25%        | 7.25%   | 8.80%            |
| Terminal cap rate        | 10.00%        | 5.50%   | 6.87%            | 10.00%        | 5.50%   | 6.87%            |
| Investment horizon (yrs) | 15            | 2       | 10               | 15            | 2       | 10               |
| <b>Canada</b>            |               |         |                  |               |         |                  |
| Discount rate            | 8.75%         | 6.75%   | 7.37%            | 8.75%         | 6.75%   | 7.38%            |
| Terminal cap rate        | 8.00%         | 6.25%   | 6.65%            | 8.00%         | 6.25%   | 6.65%            |
| Investment horizon (yrs) | 15            | 10      | 10               | 15            | 10      | 10               |

Values are most sensitive to changes in discount rates.

Fair value of \$9,659 million at June 30, 2010 (December 31, 2009 - \$9,513 million) results in a going in capitalization rate of 6.7% (December 31, 2009 – 6.8%) based on annualized second quarter 2010 net operating income, adjusted for certain non-recurring income and stabilization of certain properties recently transferred from development.

Upon the signing of the majority of our leases, we provide a capital allowance for tenant improvements for leased space in order to accommodate the specific space requirements of the tenant. In addition to this capital allowance, leasing commissions are paid to third-party brokers representing tenants in lease negotiations. Capital expenditures for tenant improvements that enhance the value of our properties and leasing commissions are capitalized in the year incurred. For the three months and six months ended June 30, 2010, such expenditures totaled \$9 million and \$15 million, respectively, compared with \$12 million and \$34 million expended during the same periods in 2009.

We also invest in on-going maintenance and capital improvement projects to sustain the high quality of the infrastructure and tenant service amenities in our properties. Capital expenditures for the three and six months ended June 30, 2010 totaled \$10 million and \$15 million, respectively, compared with \$5 million and \$6 million during the same periods in 2009. These expenditures exclude repairs and maintenance costs, a portion of which are recovered through contractual tenant cost recovery payments. Fluctuations to our capital expenditures vary period over period based on required and planned expenditures on our properties. In the current year, we incurred costs related to roof repairs, elevator upgrades, lobby renovations and fire safety at various properties. Capital expenditures include revenue-enhancing capital expenditures, which represent improvements to an asset or reconfiguration of space to increase rentable area or increase current rental rates, and non-revenue-enhancing expenditures, which are those required to extend the service life of an asset. These expenditures are recoverable in some cases. During the three and six months ended June 30, 2010, \$2 million and \$4 million of our total capital expenditures were recoverable, compared with \$3 million and \$4 million in the prior year.

The following table summarizes the changes in value of our commercial properties:

| (Millions)                  | Jun. 30, 2010 |
|-----------------------------|---------------|
| <b>Beginning of period</b>  | \$ 9,513      |
| Fair value adjustments      | 67            |
| Foreign exchange            | (41)          |
| Acquisitions <sup>(1)</sup> | 78            |
| Expenditures and other      | 42            |
| <b>End of period</b>        | \$ 9,659      |

<sup>(1)</sup> Represents acquisition of remaining 50% ownership interest in 77 K Street in Washington, D.C. as well as the reclassification of our existing 50% ownership interest, previously classified as an equity accounted entity

## COMMERCIAL DEVELOPMENTS

Commercial developments consist of commercial property development sites, density rights and related infrastructure. The total fair value of development land and infrastructure was \$443 million at June 30, 2010, a decrease of \$26 million from \$469 million at December 31, 2009. The decrease is primarily attributable to a decline in values resulting from changes in expected timing of cash flows. Based on 10 million of development square feet at our owned interest, the value at June 30, 2010 represents approximately \$45 per square foot.

Although we are generally not a speculative developer, we are a full-service real estate company with in-house development expertise. With 15 million square feet of high-quality, centrally-located development properties in New York, Washington, D.C., Houston, Toronto, Calgary, Ottawa and Denver, we will undertake developments when our risk-adjusted returns and preleasing targets have been achieved.

Expenditures for development of commercial properties totaled \$7 million and \$13 million, respectively, for the three and six months ended June 30, 2010 as compared with \$46 million and \$80 million during the three and six months ended June 30, 2009. The decrease is due to lower construction costs as a result of reaching practical completion on our largest active projects in 2009, including Bay Adelaide Centre in Toronto and Bankers Court in Calgary.

The details of development and redevelopment expenditures are as follows:

| (Millions)                  | Three months ended Jun. 30 |       | Six months ended Jun. 30 |       |
|-----------------------------|----------------------------|-------|--------------------------|-------|
|                             | 2010                       | 2009  | 2010                     | 2009  |
| Construction costs          | \$ —                       | \$ 27 | \$ —                     | \$ 50 |
| Capitalized borrowing costs | 6                          | 11    | 12                       | 21    |
| Property taxes and other    | 1                          | —     | 1                        | —     |
| Tenant improvements         | —                          | 8     | —                        | 9     |
| Total                       | \$ 7                       | \$ 46 | \$ 13                    | \$ 80 |

The following table summarizes the changes in value of our commercial developments:

| (Millions)                 | Jun. 30, 2010 |
|----------------------------|---------------|
| <b>Beginning of period</b> | \$ 469        |
| Fair value adjustments     | (39)          |
| Foreign exchange           | (2)           |
| Expenditures and other     | 15            |
| <b>End of period</b>       | \$ 443        |

### INVESTMENT IN U.S. OFFICE FUND

Our interest in the Trizec portfolio was initially purchased for \$857 million, after the assumption of debt and acquisition financing totaling \$3.7 billion in the fourth quarter of 2006. A reorganization of investors' interests in the U.S. Office Fund was completed in the second quarter of 2009 which resulted in a small increase in our economic interest in the Fund from 45% to 47%.

Our interest in the U.S. Office Fund (the "Fund") is held through an indirect interest in TRZ Holdings LLC (the "Venture"), an entity established by us and our joint venture partner, The Blackstone Group ("Blackstone"). The Venture owns a portfolio of commercial properties which are sub-managed by us and Blackstone. Together with Blackstone we have joint control over the strategic financial and operating policy decisions relating to the activities of the Venture and, accordingly, we account for our interest in the Venture following the equity method of accounting. We manage the Brookfield sub-managed portfolio on behalf of the Venture, and manage the interest in the Fund on behalf of a consortium of investors.

Following a reorganization of the investors' interests in the Fund which was completed in the second quarter of 2009, our interest in the Fund is principally held through a 76% equity interest in a subsidiary, BPOP Holdings (U.S.) LLC. The remaining 24% interest is held by one of our Fund partners. BPOP Holdings (U.S.) LLC in turn holds a 60% equity interest in the Venture. BPOP Holdings (U.S.) LLC is consolidated in our financial statements with the 24% interest held by a Fund partner included as non-controlling interests – fund subsidiaries. The balance of our investment is held through a 7% interest in Brookfield Properties Office Partners, Inc., which in turn owns a 14% interest in the Venture. Prior to the reorganization, our interest in the U.S. Office Fund was principally held through a wholly-owned subsidiary, BPOP (Canada) Inc., which indirectly owned a 38% equity interest in a subsidiary of the Venture, TRZ Holdings II Inc. (formerly Trizec Properties Inc.).

The economic interests in the Fund can be summarized as follows:

|                       | Holdings   | Economic Interest |
|-----------------------|--|-------------------|
| Brookfield Properties | 76% of BPOP Holdings (U.S.) LLC which owns 60% of Venture <sup>(1)</sup>     | 47%               |
| Fund Partners         | 24% of BPOP Holdings (U.S.) LLC which owns 60% of Venture                    | 14%               |
|                       |  | 61%               |
| Blackstone            | 26% of Venture   | 26%               |
| Other Fund Partners   | 93% of Brookfield Properties Office Partners, Inc. which owns 14% of Venture | 13%               |
|                       |  | 100%              |

<sup>(1)</sup>In addition Brookfield Properties owns 7% of Brookfield Properties Office Partners, Inc. which owns 14% of Venture

Under the terms of the joint venture agreement with Blackstone, commencing in 2011, for a period of nine months, Blackstone has the option to call the properties that are sub-managed by Blackstone in exchange for its equity interest in the Venture. If Blackstone does not exercise this option, commencing in 2013, for a period of 14 months, the Brookfield led consortium has the option to put the Blackstone sub-managed properties to Blackstone in redemption of Blackstone's equity in the Venture. On exercise of either the put or call (collectively, the "U.S. Office Fund option"), the parties are subject to certain cash adjustment payments (the "true-up") to compensate for differences between the distributions paid and the actual cash flows of the respective sub-managed properties. Such cash adjustments also provide for cross participation in cash flows and changes in fair value of each party's sub-managed properties. The company's put option is a derivative financial instrument classified as fair value through profit or loss ("FVTPL") and presented in non-current financial assets. The company's obligation under the true-up represent a financial instrument with an embedded derivative relating to the adjustment for changes in fair value of the properties. The true-up is measured at amortized cost using the effective interest method, except for that portion representing the embedded derivative that is measured at fair value, and is presented in non-current financial liabilities. The gains and losses associated with these instruments are recorded in earnings as fair value gains (losses).

The fair value of the U.S. Office Fund option is estimated as the difference between the expected value of Blackstone's interest in the Venture and the expected value of the equity in the Blackstone sub-managed properties to be transferred to Blackstone at the anticipated exercise

date discounted to the balance sheet date using the applicable risk-free discount rate. The fair value of the embedded derivative in the true-up is estimated by discounting the expected future cash flows under the true-up in respect of changes in fair values of the parties' sub-managed properties up to the anticipated settlement date using the applicable risk-free discount rate. The remainder of the true-up is measured at amortized cost using the effective interest method.

Summarized financial information in respect of the Venture is set out below:

| (Millions)                                       | Jun. 30, 2010 | Dec. 31, 2009 |
|--|---------------|---------------|
| Non-current assets                               |               |               |
| Commercial properties                            | \$ 7,405      | \$ 6,873      |
| Commercial developments                          | 44            | 244           |
| Current assets                                   | 150           | 177           |
| Total assets                                     | 7,599         | 7,294         |
| Non-current liabilities                          |               |               |
| Commercial property debt <sup>(1)</sup>          | 5,695         | 5,704         |
| Current liabilities                              | 246           | 287           |
| Total liabilities                                | 5,941         | 5,991         |
| Net assets                                       | 1,658         | 1,303         |
| Our net investment in the venture <sup>(2)</sup> | \$ 1,124      | \$ 945        |

<sup>(1)</sup>Refer to page 25 for debt details

<sup>(2)</sup>Includes non-controlling interests share of net assets of the venture of \$345 million as at June 30, 2010 (2009 - \$305 million)

Brookfield Properties net investment in the U.S. Office Fund of \$1,124 million at June 30, 2010 (December 31, 2009 - \$945 million) is inclusive of a non-controlling interest of a Fund partner of \$345 million at June 30, 2010 (December 31, 2009 - \$305 million). The company's investment, net of this interest, of \$779 million at June 30, 2010 (December 31, 2009 - \$640 million) should be considered in conjunction with the value of the U.S. Office Fund option of \$317 million at June 30, 2010 (December 31, 2009 - \$346 million) which is included in non-current financial assets and described on page 21 and the value of the true-up liability of \$21 million at June 30, 2010 (December 31, 2009 - \$25 million) which is included in non-current financial liabilities and is described on page 27.

| (Millions)  | Three months ended Jun. 30 |          | Six months ended Jun. 30 |          |
|---|----------------------------|----------|--------------------------|----------|
|   | 2010                       | 2009     | 2010                     | 2009     |
| Revenue   | \$ 219                     | \$ 207   | \$ 424                   | \$ 409   |
| Expenses  | (154)                      | (144)    | (296)                    | (283)    |
| Earnings before fair value gains (losses)                 | 65                         | 63       | 128                      | 126      |
| Fair value gains (losses)                                 | 133                        | (637)    | 258                      | (1,306)  |
| Net earnings (losses)                                     | 198                        | (574)    | 386                      | (1,180)  |
| Our net earnings (losses) from the venture <sup>(1)</sup> | \$ 94                      | \$ (377) | \$ 197                   | \$ (601) |

<sup>(1)</sup>Includes non-controlling interests share of earnings (losses) of \$17 million and \$40 million for the three and six months ended June 30, 2010, respectively (2009 - losses of \$18 million and \$18 million, respectively)

## OTHER JOINTLY CONTROLLED ENTITIES

Brookfield Properties has investments in joint ventures that are jointly controlled entities. These joint ventures hold individual commercial properties that we own together with co-owners.

At June 30, 2010, we had interests in a number of jointly controlled entities, which have been accounted for following the equity method. These jointly controlled entities own interests in the following assets:

|                             | Location           | Proportionate Ownership Interest |               |
|-----------------------------|--------------------|----------------------------------|---------------|
|                             |                    | Jun. 30, 2010                    | Dec. 31, 2009 |
| Commercial properties:      |                    |                                  |               |
| 245 Park Avenue             | Midtown, New York  | 51%                              | 51%           |
| Four World Financial Center | Downtown, New York | 51%                              | 51%           |
| First Canadian Place        | Toronto, Canada    | 25%                              | 25%           |
| 77 K Street <sup>(1)</sup>  | Washington, D.C.   | —                                | 50%           |
| Commercial developments:    |                    |                                  |               |
| 100 Bishopsgate             | London, U.K.       | 50%                              | —             |

<sup>(1)</sup> As of June 30, 2010 we own 100% of 77 K Street in Washington, D.C.

Four World Financial Center in downtown, New York is owned through WFP Tower D. Co. LP, a joint venture between us and an affiliate of the principal tenant of the property. WFP Tower D. Co. LP is required under the joint venture agreement to make annual preferred distributions of \$11 million to the company's joint venture partner through September 2013. The ground lease on which the building is situated expires on June 17, 2069.

First Canadian Place in Toronto is owned through 2072790 Ontario Inc., a joint venture company that owns all of the outstanding shares of First Place Tower Brookfield Properties, Inc. which holds the property known as First Canadian Place in Toronto. The office tower is subject to a land lease with respect to 50% of the land on which the property is situated. The land lease will expire on December 1, 2023 subject to extension under certain circumstances. At the expiry of the land lease, the other land owner will have the option to acquire, for a nominal amount, an undivided 50% beneficial interest in the office tower.

During the second quarter of 2010, we purchased the remaining 50% interest in 77 K Street in Washington, D.C. This property is now 100% owned and no longer a jointly controlled entity.

During the first quarter of 2010, we entered into a joint venture agreement to acquire a 50% ownership in a development site, 100 Bishopsgate, in London, U.K.

Summarized financial information in respect of our interests in these jointly controlled entities is as follows:

| (Millions)                              | Jun. 30, 2010 | Dec. 31, 2009 |
|---|---------------|---------------|
| Non-current assets                      |               |               |
| Commercial properties                   | \$ 3,103      | \$ 3,210      |
| Commercial developments                 | 138           | —             |
| Current assets                          | 100           | 104           |
| Total assets                            | 3,341         | 3,314         |
| Non-current liabilities                 |               |               |
| Commercial property debt <sup>(1)</sup> | 884           | 981           |
| Current liabilities                     | 424           | 375           |
| Total liabilities                       | 1,308         | 1,356         |
| Net assets                              | \$ 2,033      | \$ 1,958      |
| Our share of net assets                 | \$ 1,019      | \$ 891        |

<sup>(1)</sup> Refer to page 25 for debt details

| (Millions)                                | Three months ended Jun. 30 |         | Six months ended Jun. 30 |          |
|---|----------------------------|---------|--------------------------|----------|
|   | 2010                       | 2009    | 2010                     | 2009     |
| Revenue                                   | \$ 111                     | \$ 101  | \$ 221                   | \$ 206   |
| Expenses                                  | (79)                       | (67)    | (149)                    | (125)    |
| Earnings before fair value gains (losses) | 32                         | 34      | 72                       | 81       |
| Fair value gains (losses)                 | 4                          | (92)    | 60                       | (306)    |
| Net earnings (losses)                     | 36                         | (58)    | 132                      | (225)    |
| Our share of net earnings (losses)        | \$ 21                      | \$ (29) | \$ 67                    | \$ (115) |

## INVESTMENTS IN ASSOCIATES

The company exercises significant influence over the following investments which have been accounted for using the equity method:

| (\$ in Millions)<br>Investment     | Principal activity                 | Ownership Interest |               |
|------------------------------------|------------------------------------|--------------------|---------------|
|                                    |                                    | Jun. 30, 2010      | Dec. 31, 2009 |
| Brookfield LePage Johnson Controls | Facilities Management              | 40%                | 40%           |
| Oakridges                          | Residential development investment | 23.75%             | 23.75%        |
| Brookfield net investment          |                                    | \$ 17              | \$ 15         |

Included in investments in associates is our interest in Brookfield LePage Johnson Controls, one of the largest facilities management operations in Canada, which is owned 40% by Brookfield Properties in partnership with Johnson Controls. This joint venture manages nearly 199 million square feet of premises for major corporations and government, comprised of 101 million square feet of facility management services, 67 million square feet of workplace technology services and 30 million square feet of energy and sustainability services, representing growth of 22 million square feet of facility management services and 30 million square feet of energy and sustainability services.

Investments in associates also includes our 23.75% investment in Oakridges, which is a residential development project in Toronto.

## RESIDENTIAL DEVELOPMENT INVENTORIES

Our residential development operations are focused in five markets: Alberta, Ontario, Colorado, Texas and Missouri. The book value of these investments at June 30, 2010 was \$1,220 million, compared with \$1,235 million at the end of 2009. The decrease was primarily attributable to foreign exchange fluctuations due to the weakening of the Canadian dollar since December 31, 2009.

The details of our residential development property portfolio are as follows:

| (Millions)                         | Jun. 30, 2010 | Dec. 31, 2009 |
|------------------------------------|---------------|---------------|
| Under development                  | \$ 348        | \$ 337        |
| Housing inventory                  | 117           | 101           |
| Total current                      | 465           | 438           |
| Held for development – non-current | 755           | 797           |
| Total                              | \$ 1,220      | \$ 1,235      |

The details of our land under development, housing inventory and land held for development are as follows:

|  | Current              |               |                       |               |
|--|----------------------|---------------|-----------------------|---------------|
|  | Number of Lots/Acres |               | Book Value (Millions) |               |
|  | Jun. 30, 2010        | Dec. 31, 2009 | Jun. 30, 2010         | Dec. 31, 2009 |
| Under development                                    |                      |               |                       |               |
| Single Family (Lots)                                 |                      |               |                       |               |
| Alberta  | 2,850                | 1,827         | \$ 230                | \$ 223        |
| Ontario  | 231                  | —             | 9                     | —             |
| Colorado   | 919                  | 996           | 50                    | 53            |
| Texas  | 94                   | 80            | 4                     | 4             |
| Missouri   | 91                   | 93            | 3                     | 3             |
| Total Single Family (Lots)                           | 4,185                | 2,996         | \$ 296                | \$ 283        |
| Total Single Family (Acre Equivalent) <sup>(1)</sup> | 714                  | 546           |                       |               |
| Multi-Family and Commercial (Acres)                  |                      |               |                       |               |
| Alberta  | 149                  | 136           | \$ 50                 | \$ 52         |
| Colorado   | 10                   | 10            | 2                     | 2             |
| Texas  | 1                    | 1             | —                     | —             |
| Total Multi-Family and Commercial (Acres)            | 160                  | 147           | \$ 52                 | \$ 54         |
| Total Book Value                                     |                      |               | \$ 348                | \$ 337        |

<sup>(1)</sup>Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

| Current           |                 |               |                       |               |
|-------------------|-----------------|---------------|-----------------------|---------------|
| Housing Inventory | Number of Units |               | Book Value (Millions) |               |
|                   | Jun. 30, 2010   | Dec. 31, 2009 | Jun. 30, 2010         | Dec. 31, 2009 |
| Single Family     |                 |               |                       |               |
| Alberta           | 261             | 165           | \$ 33                 | \$ 21         |
| Ontario           | 280             | 341           | 49                    | 48            |
|                   | 541             | 506           | 82                    | 69            |
| Multi-Family      |                 |               |                       |               |
| Alberta           | 322             | 265           | 35                    | 32            |
| Total             | 863             | 771           | \$ 117                | \$ 101        |

| Non-current          |                 |               |                       |               |
|----------------------|-----------------|---------------|-----------------------|---------------|
| Held for Development | Number of Acres |               | Book Value (Millions) |               |
|                      | Jun. 30, 2010   | Dec. 31, 2009 | Jun. 30, 2010         | Dec. 31, 2009 |
| Alberta              | 6,003           | 6,385         | \$ 430                | \$ 477        |
| Ontario              | 1,488           | 1,488         | 55                    | 57            |
| Colorado             | 2,298           | 2,299         | 159                   | 153           |
| Texas                | 3,944           | 3,946         | 103                   | 102           |
| Missouri             | 205             | 205           | 8                     | 8             |
| Total                | 13,938          | 14,323        | \$ 755                | \$ 797        |

### NON-CURRENT FINANCIAL ASSETS

The components of non-current financial assets are as follows:

| (Millions)  | Jun. 30, 2010 | Dec. 31, 2009 |
|---|---------------|---------------|
| Equity securities designated as available-for-sale                | \$ 102        | \$ 102        |
| Equity securities designated as fair value through profit or loss | 209           | —             |
| Derivative assets   | 317           | 346           |
| Loans receivable  | 507           | 135           |
|   | \$ 1,135      | \$ 583        |

#### Equity securities designated as available-for-sale

Following a transaction in the fourth quarter of 2009 that diluted our ownership interest in 1625 Eye Street in Washington, D.C. by 90%, the company retained a 10% common equity interest, initially recorded at \$10 million and received preferred equity securities of \$92 million, bearing a fixed dividend of 6.25% and redeemable by the issuer at par in 2016, which are pledged as security for a loan payable to the issuer in the same amount. Following the transaction, the company neither controls nor exercises significant influence over 1625 Eye Street and classifies this interest as available-for-sale.

#### Equity securities designated as fair value through profit or loss

Equity securities designated as FVTPL represents a portfolio investment in a privately held property development and investment company that is designated as FVTPL.

#### Derivative assets

Derivative assets includes the value of our U.S. Office Fund option to put the Blackstone sub-managed portfolio to Blackstone in settlement of their interest in the Venture as discussed on page 17.

#### Loans receivable

Loans receivable includes our indirect interest, through cash collateralized total return swaps entered into with Brookfield Asset Management Inc. ("BAM"), in debt securities secured by a portfolio of commercial properties. We invested cash collateral of approximately \$505 million for our interest in these debt securities. At December 31, 2009, loans receivable included a \$135 million investment in loans secured by commercial property bearing interest at LIBOR plus 1.75% and maturing between December 31, 2011 and December 31, 2012.

## RECEIVABLES AND OTHER ASSETS

Receivables and other assets decreased to \$981 million at June 30, 2010 from \$1,341 million at December 31, 2009 largely due to a decrease in the loan receivable from our parent company, BAM. This loan earns interest at a rate of LIBOR plus 42.5 basis points.

The components of receivables and other assets are as follows:

| (Millions)                                    | Jun. 30, 2010 | Dec. 31, 2009 |
|---|---------------|---------------|
| Accounts receivable                           | \$ 194        | \$ 194        |
| Loan receivable from affiliate <sup>(1)</sup> | 326           | 648           |
| Residential receivables and other assets      | 308           | 343           |
| Prepaid expenses and other assets             | 153           | 156           |
| Total   | \$ 981        | \$ 1,341      |

<sup>(1)</sup> Refer to page 53 for further details

## RESTRICTED CASH AND DEPOSITS

Restricted cash and deposits are considered restricted when there are limits imposed by third parties that prevent its use for current purposes. Restricted cash and deposits was \$37 million at June 30, 2010, a slight decrease from \$39 million at December 31, 2009.

## CASH AND CASH EQUIVALENTS

We endeavor to maintain liquidity to ensure that we can react quickly to potential investment opportunities. This liquidity consists of cash, which contributes investment returns, as well as committed lines of credit. To ensure we maximize our returns, cash balances are generally carried at a modest level and excess cash is used to repay revolving credit lines.

As at June 30, 2010, cash balances increased to \$127 million from \$104 million at December 31, 2009.

## ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

At June 30, 2010, the four properties that comprise the company's Minneapolis portfolio, namely, RBC Plaza, 33 South Sixth Street, and Gaviidae I and II continued to be classified as assets held for sale. As the portfolio represents a specific geographic market that management intends to exit, the corresponding revenues and expenses have been reclassified to discontinued operations in the statement of income. We still intend to exit this market through the sale of these properties and continue to make adjustments to our marketing efforts in response to current market conditions.

| (Millions)                                       | Jun. 30, 2010 | Dec. 31, 2009 |
|--|---------------|---------------|
| Investment properties                            | \$ 313        | \$ 307        |
| Other assets                                     | 2             | 4             |
| Assets held for sale                             | 315           | 311           |
| Commercial property debt                         | 149           | 156           |
| Other liabilities                                | 9             | 18            |
| Liabilities associated with assets held for sale | \$ 158        | \$ 174        |

The following table summarizes income from discontinued operations:

| (Millions)  | Three months ended Jun. 30 |       | Six months ended Jun. 30 |       |
|---|----------------------------|-------|--------------------------|-------|
|   | 2010                       | 2009  | 2010                     | 2009  |
| Revenue   | \$ 14                      | \$ 13 | \$ 28                    | \$ 26 |
| Operating expenses  | (7)                        | (7)   | (14)                     | (14)  |
| Interest expense  | (3)                        | (3)   | (6)                      | (6)   |
| Income from discontinued operations before fair value gains | 4                          | 3     | 8                        | 6     |
| Fair value gains  | 2                          | —     | 2                        | —     |
| Income from discontinued operations                         | \$ 6                       | \$ 3  | \$ 10                    | \$ 6  |

## LIABILITIES AND EQUITY

Our asset base of \$16.1 billion is financed with a combination of debt, capital securities and preferred and common equity. The components of our liabilities and shareholders' equity over the past two years are as follows:

| (Millions)  | Jun. 30, 2010    | Dec. 31, 2009    |
|---|------------------|------------------|
| <b>Liabilities</b>  |                  |                  |
| <b>Non-current liabilities</b>                                  |                  |                  |
| Commercial property debt  | \$ 4,954         | \$ 4,525         |
| Residential development debt                                    | 84               | 46               |
| Capital securities – corporate                                  | 1,001            | 1,009            |
| Other non-current financial liabilities                         | 113              | 117              |
| Other non-current liabilities                                   | 172              | 172              |
| Deferred tax liabilities  | 513              | 516              |
|   | <b>6,837</b>     | <b>6,385</b>     |
| <b>Current liabilities</b>                                      |                  |                  |
| Commercial property debt  | 197              | 626              |
| Residential development debt                                    | 244              | 131              |
| Accounts payable and accrued liabilities                        | 408              | 475              |
|   | <b>849</b>       | <b>1,232</b>     |
| Liabilities associated with assets held for sale <sup>(1)</sup> | 158              | 174              |
| <b>Total liabilities</b>  | <b>7,844</b>     | <b>7,791</b>     |
| <b>Equity</b>   |                  |                  |
| Preferred equity – corporate                                    | 561              | 304              |
| Common equity   | 6,713            | 6,514            |
| Total shareholder's equity                                      | 7,274            | 6,818            |
| Preferred equity – subsidiaries                                 | 359              | 363              |
| Non-controlling interests – fund subsidiaries                   | 345              | 305              |
| Non-controlling interests – other subsidiaries                  | 255              | 169              |
| <b>Total equity</b>   | <b>8,233</b>     | <b>7,655</b>     |
| <b>Total liabilities and equity</b>                             | <b>\$ 16,077</b> | <b>\$ 15,446</b> |

<sup>(1)</sup> Includes \$149 million of commercial property debt and \$9 million of other liabilities related to discontinued operations at June 30, 2010 (December 31, 2009 – \$156 and \$18 million, respectively)

## COMMERCIAL PROPERTY DEBT

Commercial property debt totaled \$5,151 million at June 30, 2010, consistent with \$5,151 million at December 31, 2009. During the quarter, changes are attributable to an additional advance on a construction loan as well as an increase in debt due to the purchase of the remaining interest in 77 K Street in Washington, D.C., and concurrent refinancing of the property, allowing for full consolidation of this property which was previously equity accounted, offset by principal amortization payments and the impact of foreign exchange. Commercial property debt at June 30, 2010 had a weighted average interest rate of 5.95% (December 31, 2009 – 5.94%).

We attempt to match the maturity of our commercial property debt portfolio with the average lease term of our properties. At June 30, 2010, the average term to maturity of our commercial property debt was six years, compared to our average lease term of seven years.

The tightening of the credit markets over the last two years has posed a significant challenge to property owners and managers. However, in spite of these conditions, we were successful in refinancing or extending \$1 billion of commercial property debt during 2009. We believe completing these financings in this tough credit environment is a validation of our strategy of owning high-quality assets in North America's top markets and positioned us well to deal with our remaining 2010 and 2011 maturities.

We have \$788 million of committed corporate credit facilities consisting of a \$488 million revolving credit facility from a syndicate of banks and a \$300 million line from BAM. At June 30, 2010, the balance drawn on these facilities was nil and nil, respectively (balances drawn at December 31, 2009 were also nil and nil, respectively). We incurred nil and nil, respectively, in interest expense related to the line from BAM for the three and six months ended June 30, 2010 (June 30, 2009 – \$0.5 million and \$1 million). Additionally, we have a term loan facility, which was refinanced during the third quarter of 2009 at a rate of LIBOR + 375 basis points (with a LIBOR floor of 2%). The outstanding balance at June 30, 2010 on this facility was \$100 million (December 31, 2009 - \$100 million) and it matures on September 30, 2010.

As at June 30, 2010, we had \$15 million (December 31, 2009 - \$15 million) of indebtedness outstanding to BAM and its affiliates. Interest expense related to this indebtedness totaled nil and nil, respectively, for the three and six months ended June 30, 2010, consistent with the same periods in 2009.

The details of commercial property debt at June 30, 2010 are as follows:

| (\$ in Millions)                            | Location         | Rate %      | Maturity Date  | Jun. 30, 2010 <sup>(1,2)</sup> | Mortgage Details <sup>(3)</sup> |
|---|------------------|-------------|----------------|--------------------------------|---------------------------------|
| <b>Direct</b>                               |                  |             |                |                                |                                 |
| Bankers Court                               | Calgary          | 2.14        | October 2010   | \$ 42                          | Non-recourse, floating rate     |
| Queen's Quay Terminal                       | Toronto          | 7.26        | March 2011     | 30                             | Non-recourse, fixed rate        |
| Bay Adelaide Centre <sup>(4)</sup>          | Toronto          | 2.05        | July 2011      | 371                            | Non-recourse, floating rate     |
| Fifth Avenue Place                          | Calgary          | 7.59        | August 2011    | 64                             | Non-recourse, fixed rate        |
| 1201 Louisiana Street                       | Houston          | 6.73        | September 2011 | 100                            | Non-recourse, fixed rate        |
| Potomac Tower                               | Washington, D.C. | 4.72        | November 2011  | 75                             | Non-recourse, fixed rate        |
| West 31 <sup>st</sup> Street <sup>(5)</sup> | New York         | 6.00        | January 2012   | 105                            | Non-recourse, floating rate     |
| 300 Madison Avenue                          | New York         | 0.25        | April 2012     | 34                             | Non-recourse, floating rate     |
| Exchange Tower                              | Toronto          | 6.83        | April 2012     | 55                             | Non-recourse, fixed rate        |
| RBC Plaza <sup>(6)</sup>                    | Minneapolis      | 5.50        | April 2012     | 68                             | Non-recourse, floating rate     |
| Royal Centre                                | Vancouver        | 4.96        | May 2012       | 108                            | Non-recourse, fixed rate        |
| 151 Yonge Street <sup>(7)</sup>             | Toronto          | 6.01        | June 2012      | 10                             | Non-recourse, fixed rate        |
| HSBC Building                               | Toronto          | 8.19        | October 2012   | 20                             | Non-recourse, fixed rate        |
| 105 Adelaide                                | Toronto          | 5.32        | February 2013  | 21                             | Non-recourse, fixed rate        |
| Bay Wellington Tower                        | Toronto          | 6.49        | April 2013     | 307                            | Non-recourse, fixed rate        |
| 77 K Street                                 | Washington, D.C. | 5.25        | May 2013       | 66                             | Non-recourse, floating rate     |
| Hudson's Bay Centre <sup>(8)</sup>          | Toronto          | 5.20        | May 2013       | 102                            | Non-recourse, fixed rate        |
| 75 State Street                             | Boston           | 5.50        | June 2013      | 297                            | Non-recourse, floating rate     |
| Two World Financial Center                  | New York         | 6.91        | September 2013 | 278                            | Non-recourse, fixed rate        |
| 601 South 12th Street                       | Washington, D.C. | 5.42        | October 2013   | 52                             | Non-recourse, fixed rate        |
| 701 South 12th Street                       | Washington, D.C. | 5.42        | October 2013   | 43                             | Non-recourse, fixed rate        |
| Bankers Hall                                | Calgary          | 7.20        | November 2013  | 158                            | Non-recourse, fixed rate        |
| Jean Edmonds Tower <sup>(7)</sup>           | Ottawa           | 5.55        | January 2014   | 1                              | Non-recourse, fixed rate        |
| Republic Plaza                              | Denver           | 5.14        | April 2014     | 158                            | Non-recourse, fixed rate        |
| Suncor Energy Centre                        | Calgary          | 6.38        | June 2014      | 204                            | Non-recourse, fixed rate        |
| Two World Financial Center                  | New York         | 9.00        | September 2014 | 157                            | Non-recourse, fixed rate        |
| 53 State Street                             | Boston           | 5.96        | August 2016    | 278                            | Non-recourse, fixed rate        |
| One World Financial Center                  | New York         | 5.83        | February 2017  | 309                            | Non-recourse, fixed rate        |
| One Liberty Plaza                           | New York         | 6.14        | September 2017 | 833                            | Non-recourse, fixed rate        |
| 2 Queen Street East <sup>(7)</sup>          | Toronto          | 5.64        | December 2017  | 27                             | Non-recourse, fixed rate        |
| Altius Centre <sup>(7)</sup>                | Calgary          | 5.64        | December 2017  | 19                             | Non-recourse, fixed rate        |
| Canadian Western Bank <sup>(7)</sup>        | Edmonton         | 5.64        | December 2017  | 14                             | Non-recourse, fixed rate        |
| West 33 <sup>rd</sup> Street <sup>(5)</sup> | New York         | 5.90        | April 2018     | 122                            | Non-recourse, fixed rate        |
| Enbridge Tower <sup>(7)</sup>               | Edmonton         | 6.50        | July 2019      | 6                              | Non-recourse, fixed rate        |
| 22 Front Street                             | Toronto          | 6.24        | October 2020   | 18                             | Non-recourse, fixed rate        |
| Jean Edmonds Tower <sup>(7)</sup>           | Ottawa           | 6.79        | January 2024   | 16                             | Non-recourse, fixed rate        |
| 33 South Sixth Street <sup>(6)</sup>        | Minneapolis      | 8.72        | May 2028       | 81                             | Non-recourse, fixed rate        |
| 701 9th Street                              | Washington, D.C. | 6.73        | December 2028  | 151                            | Non-recourse, fixed rate        |
| 300 Madison Avenue                          | New York         | 7.26        | April 2032     | 400                            | Non-recourse, fixed rate        |
| <b>Total Direct</b>                         |                  | <b>5.95</b> |                | <b>5,200</b>                   |                                 |
| <b>Corporate</b>                            |                  |             |                |                                |                                 |
| Term Facility                               | —                | 5.75        | September 2010 | 100                            | Recourse, floating rate         |
| Corporate Revolver <sup>(9)</sup>           | —                | 4.42        | December 2010  | —                              | Recourse, floating rate         |
| Corporate Revolver                          | —                | 4.10        | June 2011      | —                              | Recourse, floating rate         |
| <b>Total Corporate</b>                      |                  | <b>5.75</b> |                | <b>100</b>                     |                                 |
| <b>Total Commercial Property Debt</b>       |                  | <b>5.95</b> |                | <b>\$ 5,300</b>                |                                 |

<sup>(1)</sup> Represents our consolidated interest before non-controlling interests

<sup>(2)</sup> Net of \$28 million of transaction costs

<sup>(3)</sup> Non-recourse to Brookfield Properties

<sup>(4)</sup> Has a one-year extension option available at maturity. The criteria to extend to 2012 have been met as of June 30, 2010

<sup>(5)</sup> Development debt

<sup>(6)</sup> Commercial property debt of \$149 million relates to discontinued operations

<sup>(7)</sup> Canadian Office Fund debt

<sup>(8)</sup> Has a two-year extension option to May 2015 which is available to us provided certain debt service and loan-to-value thresholds are met

<sup>(9)</sup> Represents corporate line from BAM

Commercial property debt maturities for the next five years and thereafter are as follows:

| (Millions)                            | Scheduled Amortization <sup>(1)</sup> | Maturities      | Total <sup>(2)</sup> | Weighted-Average Interest Rate at Jun. 30, 2010 |
|---------------------------------------|---------------------------------------|-----------------|----------------------|---|
| Remainder 2010                        | \$ 58                                 | \$ 141          | \$ 199               | 5.20%   |
| 2011                                  | 135                                   | 636             | 771                  | 3.59%   |
| 2012                                  | 129                                   | 359             | 488                  | 5.97%   |
| 2013                                  | 40                                    | 1,085           | 1,125                | 6.04%   |
| 2014                                  | 34                                    | 495             | 529                  | 4.95%   |
| 2015 and thereafter                   | 448                                   | 1,740           | 2,188                | 6.30%   |
| <b>Total commercial property debt</b> | <b>\$ 844</b>                         | <b>\$ 4,456</b> | <b>\$ 5,300</b>      | <b>5.95%</b>                                    |

<sup>(1)</sup> Paid through our annual cash flows

<sup>(2)</sup> Includes \$149 million of commercial property debt related to discontinued operations at June 30, 2010 (December 31, 2009 - \$156 million)

### Commercial property debt – equity accounted investments

The details of commercial property debt of our equity accounted investments at June 30, 2010 are as follows:

| (\$ in Millions)                         | Location         | Rate %       | Maturity Date  | Jun. 30, 2010               |                 | Mortgage Details <sup>(2)</sup>   |
|--|------------------|--------------|----------------|-----------------------------|-----------------|-----------------------------------|
|  |                  |              |                | Proportional <sup>(1)</sup> | Total           |                                   |
| <b>U.S. Office Fund</b>                  |                  |              |                |                             |                 |                                   |
| Waterview                                | Washington, D.C. | 2.25%        | August 2010    | \$ 3                        | \$ 5            | Non-recourse, floating rate       |
| Two Ballston Plaza                       | Washington, D.C. | 6.90%        | April 2011     | 15                          | 24              | Non-recourse, fixed rate          |
| Bethesda Crescent                        | Washington, D.C. | 6.90%        | April 2011     | 19                          | 31              | Non-recourse, fixed rate          |
| Silver Spring Metro Plaza <sup>(3)</sup> | Washington, D.C. | 6.00%        | September 2011 | 55                          | 87              | Non-recourse, fixed rate          |
| 2401 Pennsylvania Avenue <sup>(3)</sup>  | Washington, D.C. | 6.00%        | September 2011 | 16                          | 25              | Non-recourse, fixed rate          |
| 1250 Connecticut <sup>(3)</sup>          | Washington, D.C. | 6.00%        | September 2011 | 27                          | 43              | Non-recourse, fixed rate          |
| 1460 Broadway                            | New York         | 5.11%        | November 2012  | —                           | 12              | Non-recourse, fixed rate          |
| 5670 Wilshire                            | Los Angeles      | 2.30%        | May 2013       | —                           | 58              | Non-recourse, floating rate       |
| 1400 Smith Street                        | Houston          | 5.77%        | October 2013   | 151                         | 240             | Non-recourse, fixed rate          |
| Ernst & Young Plaza                      | Los Angeles      | 5.07%        | February 2014  | 67                          | 107             | Non-recourse, fixed rate          |
| 2000 L Street                            | Washington, D.C. | 4.24%        | April 2014     | 35                          | 55              | Non-recourse, floating rate       |
| Grace Building                           | New York         | 5.54%        | July 2014      | 117                         | 186             | Non-recourse, fixed rate          |
| 1411 Broadway                            | New York         | 5.50%        | July 2014      | —                           | 107             | Non-recourse, fixed rate          |
| Bank of America Plaza                    | Los Angeles      | 5.31%        | September 2014 | 143                         | 227             | Non-recourse, fixed rate          |
| 2001 M Street                            | Washington, D.C. | 5.25%        | December 2014  | 28                          | 44              | Non-recourse, fixed rate          |
| Victor Building                          | Washington, D.C. | 5.39%        | February 2016  | 31                          | 49              | Non-recourse, fixed rate          |
| One New York Plaza                       | New York         | 5.50%        | March 2016     | 243                         | 386             | Non-recourse, fixed rate          |
| Marina Towers                            | Los Angeles      | 5.84%        | April 2016     | 13                          | 21              | Non-recourse, fixed rate          |
| U.S. Fund Pool debt                      | —                | 6.84%        | May 2011       | 141                         | 301             | Non-recourse, fixed rate          |
| U.S. Fund corporate debt <sup>(4)</sup>  | —                | 2.85%        | October 2011   | 1,220                       | 3,094           | Non-recourse, fixed/floating rate |
| U.S. Fund Pool debt                      | —                | 1.10%        | October 2011   | 279                         | 593             | Non-recourse, floating rate       |
| <b>Total U.S. Office Fund</b>            |                  | <b>3.87%</b> |                | <b>2,603</b>                | <b>5,695</b>    |                                   |
| <b>Other jointly controlled entities</b> |                  |              |                |                             |                 |                                   |
| 245 Park Avenue                          | New York         | 6.65%        | February 2011  | 220                         | 431             | Non-recourse, fixed rate          |
| Four World Financial Center              | New York         | 6.95%        | September 2013 | 165                         | 165             | Non-recourse, fixed rate          |
| First Canadian Place                     | Toronto          | 5.37%        | December 2014  | 72                          | 288             | Non-recourse, fixed rate          |
| <b>Total</b>                             |                  | <b>4.27%</b> |                | <b>\$ 3,060</b>             | <b>\$ 6,579</b> |                                   |

<sup>(1)</sup> Reflects Brookfield Properties' effective 47% interest in properties in the U.S. Office Fund

<sup>(2)</sup> Non-recourse to Brookfield Properties

<sup>(3)</sup> Property debt is cross-collateralized

<sup>(4)</sup> As at June 30, 2010 \$1 billion of this debt has been swapped to a fixed rate at an average rate of 1.38%

Commercial property debt maturities of our equity accounted investments for the next five years and thereafter are as follows:

| (Millions)                            | Scheduled Amortization <sup>(1)</sup> | Maturities      | Total           | Weighted-Average Interest Rate at Jun. 30, 2010 |
|---------------------------------------|---------------------------------------|-----------------|-----------------|---|
| Remainder 2010                        | \$ 48                                 | \$ 5            | \$ 53           | 5.45%   |
| 2011                                  | 74                                    | 4,617           | 4,691           | 3.29%   |
| 2012                                  | 76                                    | 11              | 87              | 6.28%   |
| 2013                                  | 25                                    | 340             | 365             | 5.32%   |
| 2014                                  | 10                                    | 956             | 966             | 5.29%   |
| 2015 and thereafter                   | 99                                    | 318             | 417             | 5.51%   |
| <b>Total commercial property debt</b> | <b>\$ 332</b>                         | <b>\$ 6,247</b> | <b>\$ 6,579</b> | <b>3.86%</b>                                    |

<sup>(1)</sup> Paid through our annual cash flows

## RESIDENTIAL DEVELOPMENT DEBT

Land development debt increased to \$328 million at June 30, 2010 from \$177 million at December 31, 2009 due to additional draw downs on our corporate bank lines. Our land development financing is primarily recourse to the underlying residential development properties and relates to construction and development loans, which are repaid from the sales proceeds of building lots and homes, and other short-term advances. As new homes are constructed, loans are funded on a rolling basis. This financing had a weighted average interest rate of 4.18% at June 30, 2010 (December 31, 2009 – 4.01%).

| (Millions)    | Jun. 30, 2010         |              | Dec. 31, 2009         |              |
|---------------|-----------------------|--------------|-----------------------|--------------|
|               | Weighted Average Rate | Debt Balance | Weighted Average Rate | Debt Balance |
| Fixed rate    | 5.59%                 | \$ 28        | 6.04%                 | \$ 28        |
| Variable rate | 4.11%                 | 300          | 3.82%                 | 149          |
|               | 4.18%                 | \$ 328       | 4.01%                 | \$ 177       |
| Current       |                       | 244          |                       | 131          |
| Non-current   |                       | 84           |                       | 46           |
|               |                       | \$ 328       |                       | \$ 177       |

## CONTRACTUAL OBLIGATIONS

The following table presents our contractual obligations over the next five years and thereafter:

| (Millions)   | Payments Due By Period |                  |             |             |               |
|--|------------------------|------------------|-------------|-------------|---------------|
|  | Total                  | Less than 1 Year | 2 – 3 years | 4 – 5 Years | After 5 Years |
| Commercial property debt <sup>(1)</sup>                | \$ 5,300               | \$ 199           | \$ 1,325    | \$ 1,588    | \$ 2,188      |
| Residential development debt                           | 328                    | 244              | 83          | 1           | —             |
| Capital securities - corporate                         | 1,001                  | 188              | —           | 376         | 437           |
| Interest expense <sup>(2)</sup>                        |                        |                  |             |             |               |
| Commercial property debt                               | 1,621                  | 144              | 504         | 335         | 638           |
| Capital securities - corporate                         | 215                    | 27               | 89          | 69          | 30            |
| Minimum rental payments - ground leases <sup>(3)</sup> | 1,204                  | 11               | 44          | 42          | 1,107         |

<sup>(1)</sup> Net of transaction costs and includes \$149 million of debt associated with discontinued operations

<sup>(2)</sup> Represents aggregate interest expense expected to be paid over the term of the debt, on an undiscounted basis, based on current interest and foreign exchange rates

<sup>(3)</sup> Represents payments on properties situated on land held under leases or other agreements

## Corporate Guarantees and Contingent Obligations

We conduct our operations through entities that are either fully or proportionately consolidated in our financial statements except for our investment in the U.S. Office Fund, certain other commercial properties held through jointly controlled entities, and our investments in Brookfield LePage Johnson Controls and Oakridges, which is a residential development project in Toronto.

We may be contingently liable with respect to litigation and claims that arise in the normal course of business as well as for certain obligations of our associates in joint ventures. A specific litigation is being pursued against one of our subsidiaries related to security on a defaulted loan. The financial effect of this litigation is not currently determinable.

In addition, we may execute agreements that provide for indemnifications and guarantees to third parties. Disclosure of guarantees, contingencies and commitments can be found in Note 28 to our consolidated financial statements.

## CAPITAL SECURITIES – CORPORATE

Certain of our Class AAA preferred shares are classified as liabilities under the caption “Capital securities.” As at June 30, 2010 and December 31, 2009, we have the following capital securities – corporate outstanding:

| (Millions, except share information) | Shares Outstanding | Cumulative Dividend Rate | Jun. 30, 2010 <sup>(1)</sup> | Dec. 31, 2009 <sup>(1)</sup> |
|--------------------------------------|--------------------|--------------------------|------------------------------|------------------------------|
| Class AAA Series E <sup>(2)</sup>    | 8,000,000          | 70% of bank prime        | \$ —                         | \$ —                         |
| Class AAA Series F                   | 8,000,000          | 6.00%                    | 188                          | 190                          |
| Class AAA Series G                   | 4,400,000          | 5.25%                    | 110                          | 109                          |
| Class AAA Series H                   | 8,000,000          | 5.75%                    | 187                          | 189                          |
| Class AAA Series I                   | 8,000,000          | 5.20%                    | 188                          | 190                          |
| Class AAA Series J                   | 8,000,000          | 5.00%                    | 188                          | 190                          |
| Class AAA Series K                   | 6,000,000          | 5.20%                    | 140                          | 141                          |
| Total                                |                    |                          | \$ 1,001                     | \$ 1,009                     |

<sup>(1)</sup> Net of transaction costs of \$2 million and \$3 million at June 30, 2010 and December 31, 2009, respectively

<sup>(2)</sup> Owned by BAM; balance has been offset with a promissory note receivable from BAM

For redemption dates, refer to Note 17 of the consolidated financial statements.

For details regarding the terms on our capital securities – corporate, refer to our Annual Information Form

## OTHER NON-CURRENT FINANCIAL LIABILITIES

Included in other non-current financial liabilities is a loan payable of \$92 million (December 31, 2009 - \$92 million) maturing in 2019, bearing interest at 7% and secured by our preferred equity interest in 1625 Eye Street in Washington, D.C.

The remaining balance represents our obligation in connection with the true-up under the U.S. Office Fund put and call arrangement (refer to page 17). The carrying value of the true-up includes an embedded derivative valued at \$46 million (December 31, 2009 - \$50 million) relating to cross participation in changes in the relative fair values of the properties in the venturers’ respective sub-managed portfolios.

## OTHER NON-CURRENT LIABILITIES

A deferred gain of \$172 million (December 31, 2009 - \$172 million) was recorded in connection upon the reorganization of the U.S. Office Fund in the second quarter of 2009 and relates to the initial value of the U.S. Office Fund option under the put and call arrangement assumed by us at the date of reorganization. The value was determined pursuant to a valuation methodology based on unobservable inputs.

## DEFERRED INCOME TAXES

At June 30, 2010, we had a net deferred tax liability of \$513 million broken out as follows:

| (Millions)  | Dec. 31, 2009 | Recognized in |        |        | Jun. 30, 2010 |
|---|---------------|---------------|--------|--------|---------------|
|   |               | Income        | Equity | OCI    |               |
| Deferred tax assets related to non-capital losses and capital losses      | \$ 190        | \$ (3)        | —      | \$ (2) | \$ 185        |
| Deferred tax liabilities related to difference in tax and book basis, net | (706)         | (33)          | 43     | (2)    | (698)         |
| Net deferred tax liabilities  | \$ (516)      | \$ (36)       | \$ 43  | \$ (4) | \$ (513)      |

Together with our Canadian subsidiaries, we have deferred tax assets of \$46 million (December 31, 2009 - \$50 million) that relate to non-capital losses which expire over the next 20 years and \$70 million (December 31, 2009 - \$76 million) that relate to capital losses which have no expiry. Our U.S. subsidiaries have deferred tax assets of \$69 million (December 31, 2009 - \$64 million) that relate to net operating losses which expire over the next 20 years.

Income earned in our Canadian and U.S. operations conducted outside of Real estate investment trust (“REIT”) structures, as well as distributions from our REIT structures, are subject to corporate tax. Our tax loss pools are available to reduce cash tax obligations.

## ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities from our commercial business totaled \$296 million at June 30, 2010, compared with \$327 million at December 31, 2009. Residential payables and accrued liabilities decreased to \$112 million at June 30, 2010 from \$148 million at December 31, 2009.

A summary of the components of accounts payable and other liabilities is as follows:

| (Millions)                                   | Jun. 30, 2010 | Dec. 31, 2009 |
|--|---------------|---------------|
| Accounts payable and accrued liabilities     | \$ 296        | \$ 327        |
| Residential payables and accrued liabilities | 112           | 148           |
| Total  | \$ 408        | \$ 475        |

## PREFERRED EQUITY – CORPORATE

At June 30, 2010 we had \$561 million of preferred equity outstanding. These preferred shares represent low-cost capital to us without dilution to our common equity base. Dividends paid on these preferred shares are accounted for as equity distributions.

We have the following preferred shares outstanding:

| (Millions, except share information) | Shares<br>Outstanding | Cumulative<br>Dividend Rate | Jun. 30, 2010 | Dec. 31, 2009 |
|--------------------------------------|-----------------------|-----------------------------|---------------|---------------|
| Class A redeemable voting            | 14,202,000            | 7.50%                       | \$ 11         | \$ 11         |
| Class AA Series E                    | 2,000,000             | 70% of bank prime           | 34            | 34            |
| Class AAA Series L                   | 11,500,000            | 6.75%                       | 259           | 259           |
| Class AAA Series N                   | 11,000,000            | 6.15%                       | 257           | —             |
| <b>Total</b>                         |                       |                             | <b>\$ 561</b> | <b>\$ 304</b> |

For details regarding the terms on our Class A, Class AA and Class AAA preferred shares, refer to our Annual Information Form

During the first quarter of 2010, we issued 11 million Class AAA Series N preferred shares at C\$25 per share. The proceeds from the share issuance were approximately \$257 million, net of share issuance costs of \$5 million. Holders of Series N shares receive fixed rate cumulative preferred cash dividends and will have the right to convert into Class AAA Series O preferred shares receiving floating rate cumulative preferred cash dividends, subject to certain conditions on June 30, 2016 and on June 30 every five years thereafter.

During the three and six months ended June 30, 2010, we paid preferred dividends of \$8 million and \$17 million, respectively, compared with nil and \$1 million during the same periods in 2009. The increase is attributable to the preferred share offerings in the third quarter of 2009 and the first quarter of 2010.

## COMMON EQUITY

As at June 30, 2010, we had 501,543,517 issued and outstanding common shares. On a diluted basis, we had 520,011,036 common shares outstanding, calculated as follows:

|  | Jun. 30, 2010 | Dec. 31, 2009 |
|--|---------------|---------------|
| Common shares outstanding                          | 501,543,517   | 501,363,940   |
| Unexercised options                                | 18,467,519    | 15,348,765    |
| Common shares outstanding – diluted <sup>(1)</sup> | 520,011,036   | 516,712,705   |
| Common shares repurchased                          | —             | —             |

<sup>(1)</sup> Includes potential common shares at June 30, 2010 and December 31, 2009 from the exercise of options but excludes the effects of settling our capital securities – corporate in common shares as we intend to redeem our capital securities for cash prior to conversion. Refer to page 6

We did not purchase any shares during the second quarter of 2010. Since the inception of our normal course issuer bid in 1999, we have repurchased approximately 38 million shares at an average price of \$11.96 per share on a post-split adjusted basis.

At June 30, 2010, the book value of our common equity was \$6.7 billion, compared with a market equity capitalization of approximately \$7.0 billion, calculated as total common shares outstanding multiplied by \$14.04, the closing price per common share on the New York Stock Exchange on June 30, 2010.

Our common equity per share is calculated as follows:

| (Millions, except per share information)               | Jun. 30, 2010 | Dec. 31, 2009 |
|--|---------------|---------------|
| Shareholders' equity                                   | \$ 7,274      | \$ 6,818      |
| Less: preferred equity                                 | (561)         | (304)         |
|  | 6,713         | 6,514         |
| Add: option proceeds <sup>(1)</sup>                    | 240           | 200           |
| Fully diluted common shareholders' equity              | 6,953         | 6,714         |
| Fully diluted common shares outstanding <sup>(2)</sup> | 520.0         | 516.7         |
| Common equity per share                                | \$ 13.37      | \$ 12.99      |

<sup>(1)</sup> Calculated as options outstanding multiplied by the weighted average exercise price of options outstanding at period end

<sup>(2)</sup> The calculation of common equity per share includes potential common shares at June 30, 2010 and December 31, 2009 from the exercise of options but excludes the effects of settling our capital securities – corporate in common shares as we intend to redeem our capital securities for cash prior to conversion. Refer to page 6

## PREFERRED EQUITY – SUBSIDIARIES

In addition to the preferred equity classified as capital securities, we had \$359 million of preferred equity outstanding at June 30, 2010 issued by BPO Properties Ltd. (“BPO Properties”). These preferred shares represent low-cost capital to Brookfield Properties, without dilution to our common equity base. Dividends paid on these preferred shares are a component of the non-controlling interest in our net income. The decrease over December 31, 2009 is primarily driven by the impact of foreign exchange.

The following table details the preferred shares issued by BPO Properties:

| (Millions, except share information) | Shares Outstanding | Preferred Shares Series | Cumulative Dividend Rate | Jun. 30, 2010 | Dec. 31, 2009 |
|--------------------------------------|--------------------|-------------------------|--------------------------|---------------|---------------|
| BPO Properties                       | 1,805,489          | Series G                | 70% of bank prime        | \$ 42         | \$ 43         |
|                                      | 3,816,527          | Series J                | 70% of bank prime        | 90            | 91            |
|                                      | 300                | Series K                | 30-day BA + 0.4%         | 141           | 142           |
|                                      | 2,847,711          | Series M                | 70% of bank prime        | 67            | 68            |
|                                      | 800,000            | Series N                | 30-day BA + 0.4%         | 19            | 19            |
| <b>Total</b>                         |                    |                         |                          | <b>\$ 359</b> | <b>\$ 363</b> |

During the three and six months ended June 30, 2010, dividends of \$2 million and \$3 million, respectively, were paid on preferred shares issued by BPO Properties, compared with \$1 million and \$3 million during the same periods in 2009.

## NON-CONTROLLING INTERESTS – FUND SUBSIDIARIES

At June 30, 2010, non-controlling interests – fund subsidiaries was \$345 million (December 31, 2009 – \$305 million) and represents equity contributions by certain other U.S. Office Fund investors in the Brookfield Properties-led consortium, together with their cumulative share of our earnings from the Fund.

## NON-CONTROLLING INTERESTS – OTHER SUBSIDIARIES

In addition to our 100% owned subsidiaries and our U.S. Office Fund, we conduct our commercial property operations through Brookfield Financial Properties, L.P. (“Brookfield Financial Properties”) in the U.S., which holds substantially all of our Direct interests in our New York, Boston and some of our Washington, D.C. assets. During the second quarter of 2010, BPO Properties, of which we own 100% of the common shares, reorganized certain of its Direct assets under a newly created REIT named Brookfield Office Properties Canada, of which we own 90.6% through BPO Properties. In connection with this reorganization, the non-controlling interests in BPO Properties were exchanged for a non-controlling interest in BOX and our effective ownership interest in net assets of BPO Properties that were not transferred to BOX increased to 100%. As the transaction did not result in a loss of control of either the assets contributed to BOX or Brookfield Place, any differences between the consideration exchanged among us, BPO Properties and the non-controlling interest holders in BPO Properties, and the carrying amount of the net assets transferred have been recorded directly in equity, including any related tax effects. Also, as of December 31, 2009, our residential subsidiary, Carma Inc., consolidated UCAR Development LLC, a joint venture in which it held a 50% interest. In the first quarter of 2010, this joint venture was dissolved and Carma Inc. now has a 100% ownership interest.

The following table details the components of non-controlling interests in these entities:

| (Millions)   | Others’ Equity Ownership | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009  |
|--|--------------------------|---------------|---------------|---------------|
| Common shares of BPO Properties <sup>(1)</sup>               | —                        | \$ —          | \$ 133        | \$ 144        |
| Units of Brookfield Office Properties Canada <sup>(1)</sup>  | 9.4%                     | 226           | —             | —             |
| UCAR joint venture <sup>(2)</sup>                            | —                        | —             | 9             | 10            |
| Limited partnership units of Brookfield Financial Properties | 0.6%                     | 29            | 27            | 26            |
|  |                          | 255           | 169           | 180           |
| Non-controlling interests – fund subsidiaries <sup>(3)</sup> |                          | 345           | 305           | 43            |
| <b>Total</b>   |                          | <b>\$ 600</b> | <b>\$ 474</b> | <b>\$ 223</b> |

<sup>(1)</sup> Canadian dollar denominated

<sup>(2)</sup> 50% joint venture with Carma Inc. to develop residential building lots in 2009 which was dissolved in the first quarter of 2010

<sup>(3)</sup> Represents equity contributions by investors in the Brookfield led consortium to subsidiaries of the company that hold the direct investment in the U.S. Office Fund

Non-controlling interests in BOX (formerly in BPO Properties) increased to \$226 million at June 30, 2010, from \$133 million at December 31, 2009, primarily due to earnings attributable to non-controlling interests, the transfer of Brookfield Place from a wholly-owned subsidiary into BOX and the release of the non-controlling interests’ share of deferred tax liabilities upon the formation of BOX, as well as an increase in our commercial property values and the impact of foreign exchange.

## CAPITAL RESOURCES AND LIQUIDITY

We employ a broad range of financing strategies to facilitate growth and manage financial risk, with particular emphasis on the overall reduction of the weighted average cost of capital, in order to enhance returns for common shareholders. Our principal liquidity needs for the next year are to:

- fund recurring expenses;
- meet debt service requirements;
- make dividend payments;
- fund those capital expenditures deemed mandatory, including tenant improvements;
- fund current development costs not covered under construction loans; and
- fund investing activities which could include:
  - discretionary capital expenditures;
  - repurchase of our stock; and
  - property acquisitions.

We believe that our liquidity needs will be satisfied using cash on hand, cashflows generated from operating and financing activities, as well as proceeds from asset sales. Rental revenue, recoveries from tenants, interest and other income, available cash balances, draws on our corporate credit facilities and refinancing of maturing indebtedness are our principal sources of capital used to pay operating expenses, dividends, debt service and recurring capital and leasing costs in our commercial property portfolio. We seek to increase income from our existing properties by maintaining quality standards for our properties that promote high occupancy rates and support increases in rental rates while reducing tenant turnover and related retensing costs, and by controlling operating expenses. Another source of cashflow includes third-party fees generated by our asset management, leasing and development businesses. In addition, our tax status and tax loss pools allow us to retain and reinvest cash generated by our operations without incurring significant cash taxes. Consequently, we believe our revenue, along with proceeds from financing activities, will continue to provide the necessary funds to cover our short-term liquidity needs. However, material changes in the factors described above may adversely affect our net cashflows.

Our principal liquidity needs for periods beyond the next year are for scheduled debt maturities, recurring and non-recurring capital expenditures, development costs and potential property acquisitions. We plan to meet these needs with one or more of the following:

- cashflows from operations;
- construction loans;
- proceeds from asset sales; and
- our credit facilities and refinancing opportunities.

Our commercial property debt is primarily fixed-rate and non-recourse to us. These investment-grade financings are typically structured on a loan-to-appraised value basis of between 55% and 65% as market conditions permit. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This reduces our equity requirements to finance commercial property, and enhances equity returns.

Most of our borrowings are in the form of long term property-specific financings with recourse only to the specific assets. Limiting recourse to specific assets ensures that poor performance within one area does not compromise our ability to finance the balance of our operations. Our maturity schedule is fairly diversified so that financing requirements in any given year are manageable.

Our focus on structuring financings with investment grade characteristics ensures that debt levels on any particular asset can typically be maintained throughout a business cycle, and so enables us to limit covenants and other performance requirements, thereby reducing the risk of early payment requirements or restrictions on the distribution of cash from the assets being financed.

We attempt to maintain a level of liquidity to ensure we are able to react to investment opportunities quickly and on a value basis. Our primary sources of liquidity consist of cash and undrawn committed credit facilities. In addition, we structure our affairs to facilitate monetization of longer-duration assets through financings, co-investor participations or refinancings.

At June 30, 2010, we had approximately \$1.3 billion of liquidity consisting of \$127 million of cash, approximately \$270 million on deposit and approximately \$950 million of undrawn capacity on our corporate and residential credit facilities.

## Cost of capital

We continually strive to reduce our weighted average cost of capital and improve common shareholders' equity returns through value-enhancement initiatives and the consistent monitoring of the balance between debt and equity financing.

As at June 30, 2010, our weighted average cost of capital, assuming a 12% return on common equity, was 8.11% (2009 – 7.89%). Our cost of capital is lower than many of our peers because of the greater amount of investment-grade financing which can be placed on our assets, a function of the high-quality nature of both the assets and the tenant base which comprise our portfolio.

The following schedule details our capitalization as at June 30, 2010 and December 31, 2009 and the related costs thereof:

| (Millions)  | Cost of Capital <sup>(1)</sup> |               | Underlying Value <sup>(2)</sup> |                  |
|---|--------------------------------|---------------|---------------------------------|------------------|
|   | Jun. 30, 2010                  | Dec. 31, 2009 | Jun. 30, 2010                   | Dec. 31, 2009    |
| <b>Liabilities</b>  |                                |               |                                 |                  |
| Commercial property debt                                      | 5.95%                          | 5.94%         | \$ 5,300                        | \$ 5,307         |
| Residential development debt                                  | 4.18%                          | 4.01%         | 328                             | 177              |
| Capital securities – corporate                                | 5.42%                          | 5.42%         | 1,001                           | 1,009            |
| <b>Shareholders' equity</b>                                   |                                |               |                                 |                  |
| Preferred equity - corporate                                  | 6.19%                          | 6.20%         | 561                             | 304              |
| Common equity <sup>(3)</sup>                                  | 12.00%                         | 12.00%        | 7,042                           | 6,077            |
| <b>Other equity</b>   |                                |               |                                 |                  |
| Preferred equity - subsidiaries                               | 5.39%                          | 4.83%         | 359                             | 363              |
| Non-controlling interests – fund subsidiaries <sup>(4)</sup>  | 10.00%                         | 10.00%        | 345                             | 305              |
| Non-controlling interests – other subsidiaries <sup>(5)</sup> | 12.00%                         | 12.00%        | 255                             | 169              |
| <b>Total<sup>(6)</sup></b>                                    | <b>8.11%</b>                   | <b>7.89%</b>  | <b>\$ 15,191</b>                | <b>\$ 13,711</b> |

<sup>(1)</sup> As a percentage of average book value unless otherwise noted

<sup>(2)</sup> Underlying value of liabilities represents the cost to retire on maturity. Underlying value of common equity is based on the closing stock price of Brookfield Properties' common shares

<sup>(3)</sup> Underlying value determined on a market value basis

<sup>(4)</sup> Assuming 10% return on co-invested capital

<sup>(5)</sup> Assuming 12% return on co-invested capital

<sup>(6)</sup> In calculating the weighted average cost of capital, the cost of debt has been tax-effected

## OPERATING RESULTS

### NET INCOME ATTRIBUTABLE TO SHAREHOLDERS

Our net income attributable to common shareholders for the three and six months ended June 30, 2010 was \$154 million and \$406 million (\$0.28 and \$0.72 per diluted share), respectively, compared with a net loss of \$396 million and \$1,001 million (\$1.01 and \$2.56 per diluted share) during the same periods in 2009. The increase in net income quarter over quarter is largely the result of:

- an increase of \$18 million (\$0.05 per diluted share) in commercial property operating income due to lease termination income of \$6 million, the reclassification of Bankers Court in Calgary and Bay Adelaide Centre in Toronto in the third quarter of 2009 to operating as well as the impact of same store growth and foreign exchange;
- an increase of \$20 million (\$0.05 per diluted share) in residential operating income due to increased lot and home sales;
- an increase in earnings from our equity accounted investments of \$553 million (\$1.41 per diluted share) mainly due to the increase in the fair value of our commercial properties and development properties that are equity accounted in the current period compared to a decrease in the prior period as well as a return on investment received in the current period;
- a decrease of \$179 million (\$0.46 per diluted share) in fair value losses;
- an increase in income from discontinued operations of \$3 million (\$0.01 per diluted share); offset by,
  - a decrease in interest and other income of \$1 million (nil per diluted share);
  - an increase in commercial property interest expense of \$2 million (\$0.01 per diluted share) as a result of various refinancings done in the last 12 months as well as the impact of foreign exchange;
  - an increase of \$1 million (nil per diluted share) in interest expense on capital securities - corporate due to the impact of foreign exchange;
  - an increase of \$4 million (\$0.01 per diluted share) in general and administrative expenses as a result of costs incurred on the conversion of one of our subsidiaries into a REIT;
  - an increase of \$1 million (nil per diluted share) in depreciation expense;
  - a gain in the prior year of \$151 million (\$0.39 per diluted share) which resulted from the restructure of the U.S. Office Fund in the second quarter of 2009;
  - an increase of income tax expense of \$22 million (\$0.06 per diluted share) due to increased earnings driven by fair value adjustments; and
  - an increase in non-controlling interests of \$41 million (\$0.11 per diluted share) as a result of increased earnings driven by fair value adjustments.

Net income on a per diluted share basis had an offsetting decrease of approximately \$0.10 per diluted share from the overall increase noted above due to the dilution impact of the common equity offering in the third quarter of 2009.

Set out below is a summary of the various components of our net income attributable to shareholders and funds from operations. Discussion of each of these components is provided on the following pages.

| (Millions, except per share amounts)   | Three months ended Jun. 30 |                 | Six months ended Jun. 30 |                   |
|--|----------------------------|-----------------|--------------------------|-------------------|
|  | 2010                       | 2009            | 2010                     | 2009              |
| <b>Total revenue</b>   | \$ 446                     | \$ 347          | \$ 838                   | \$ 657            |
| <b>Net operating income</b>  |                            |                 |                          |                   |
| Commercial operations  | 180                        | 162             | 351                      | 315               |
| Residential operations   | 33                         | 13              | 48                       | 19                |
|  | 213                        | 175             | 399                      | 334               |
| Interest and other income  | 16                         | 17              | 34                       | 24                |
|  | 229                        | 192             | 433                      | 358               |
| Interest expense   |                            |                 |                          |                   |
| Commercial property debt   | 76                         | 74              | 147                      | 146               |
| Capital securities – corporate   | 15                         | 14              | 29                       | 26                |
| General and administrative expense   | 31                         | 27              | 59                       | 54                |
| Depreciation   | 4                          | 3               | 7                        | 6                 |
| <b>Income before gains and other items, fair value gains (losses), share of net earnings (losses) of equity accounted investments and income tax expense (benefit)</b> | <b>103</b>                 | <b>74</b>       | <b>191</b>               | <b>126</b>        |
| Gains and other items  | —                          | 151             | —                        | 151               |
| Fair value gains (losses)  | (54)                       | (233)           | 12                       | (619)             |
| Share of earnings from equity accounted investments  | 148                        | (405)           | 298                      | (714)             |
| <b>Net income (loss) before taxes</b>  | <b>197</b>                 | <b>(413)</b>    | <b>501</b>               | <b>(1,056)</b>    |
| Income tax expense (benefit)   | 29                         | 7               | 60                       | (27)              |
| <b>Net income (loss) from continuing operations</b>  | <b>168</b>                 | <b>(420)</b>    | <b>441</b>               | <b>(1,029)</b>    |
| Income from discontinued operations <sup>(1)</sup>   | 6                          | 3               | 10                       | 6                 |
| <b>Net income (loss)</b>   | <b>174</b>                 | <b>(417)</b>    | <b>451</b>               | <b>(1,023)</b>    |
| Non-controlling interests  | 20                         | (21)            | 45                       | (22)              |
| <b>Net income (loss) attributable to common shareholders</b>   | <b>\$ 154</b>              | <b>\$ (396)</b> | <b>\$ 406</b>            | <b>\$ (1,001)</b> |

<sup>(1)</sup> Refer to page 22 for further details on discontinued operations

Our net income per share and weighted average common shares outstanding are calculated as follows:

| (Millions, except per share amounts)                             | Three months ended Jun. 30 |           | Six months ended Jun. 30 |            |
|--|----------------------------|-----------|--------------------------|------------|
|  | 2010                       | 2009      | 2010                     | 2009       |
| Net income (loss) attributable to common shareholders            | \$ 154                     | \$ (396)  | \$ 406                   | \$ (1,001) |
| Preferred share dividends  | (8)                        | —         | (17)                     | (1)        |
| Net income (loss) attributable to common shareholders – basic    | 146                        | (396)     | 389                      | (1,002)    |
| Dilutive effect of conversion of capital securities – corporate  | 15                         | —         | 29                       | —          |
| Net income (loss) attributable to common shareholders – diluted  | \$ 161                     | \$ (396)  | \$ 418                   | \$ (1,002) |
| Weighted average shares outstanding – basic                      | 501.6                      | 391.1     | 501.5                    | 391.1      |
| Unexercised options  | 5.0                        | 0.5       | 4.5                      | 0.3        |
|  | 506.6                      | 391.6     | 506.0                    | 391.4      |
| Conversion of capital securities – corporate                     | 77.0                       | —         | 77.0                     | —          |
| Weighted average shares outstanding – diluted                    | 583.6                      | 391.6     | 583.0                    | 391.4      |
| Weighted average shares outstanding – basic                      | 501.6                      | 391.1     | 501.5                    | 391.1      |
| Earnings per share attributable to common shareholders – basic   | \$ 0.29                    | \$ (1.01) | \$ 0.78                  | \$ (2.56)  |
| Weighted average shares outstanding – diluted                    | 583.6                      | 391.6     | 583.0                    | 391.4      |
| Earnings per share attributable to common shareholders – diluted | \$ 0.28                    | \$ (1.01) | \$ 0.72                  | \$ (2.56)  |

## RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

| (Millions)   | Three months ended Jun. 30 |          | Six months ended Jun. 30 |            |
|--|----------------------------|----------|--------------------------|------------|
|  | 2010                       | 2009     | 2010                     | 2009       |
| <b>Net income (loss) attributable to common shareholders</b>         | \$ 154                     | \$ (396) | \$ 406                   | \$ (1,001) |
| Add (deduct) non-cash and certain non-recurring items:               |                            |          |                          |            |
| Fair value and other (gains) losses                                  | 54                         | 82       | (12)                     | 468        |
| Fair value adjustments in earnings from equity accounted investments | (85)                       | 464      | (178)                    | 823        |
| Non-controlling interests in above items                             | 9                          | (32)     | 21                       | (35)       |
| Income taxes   | 29                         | 7        | 60                       | (27)       |
| Fair value adjustments on discontinued operations                    | (2)                        | —        | (2)                      | —          |
| Realized gain on investment  | 53                         | —        | 53                       | —          |
| Cash payments under interest rate swap contracts                     | (3)                        | (2)      | (6)                      | (3)        |
| <b>Funds from operations</b>   | \$ 209                     | \$ 123   | \$ 342                   | \$ 225     |

After providing for preferred share dividends, our funds from operations per share is calculated as follows:

| (Millions, except per share amounts)                   | Three months ended Jun. 30 |         | Six months ended Jun. 30 |         |
|--|----------------------------|---------|--------------------------|---------|
|  | 2010                       | 2009    | 2010                     | 2009    |
| Funds from operations                                  | \$ 209                     | \$ 123  | \$ 342                   | \$ 225  |
| Preferred share dividends                              | (8)                        | —       | (17)                     | (1)     |
|  | \$ 201                     | \$ 123  | \$ 325                   | \$ 224  |
| Funds from operations per diluted share <sup>(1)</sup> | \$ 0.40                    | \$ 0.32 | \$ 0.65                  | \$ 0.58 |

<sup>(1)</sup> The calculation of funds from operations per diluted share includes potential common shares at June 30, 2010 and June 30, 2009 from the exercise of options but excludes the effects of settling our capital securities – corporate in common shares as we intend to redeem our capital securities for cash prior to conversion. Refer to page 6

## REVENUE

The components of revenue are as follows:

| (Millions)  | Three months ended Jun. 30 |        | Six months ended Jun. 30 |        |
|---|----------------------------|--------|--------------------------|--------|
|   | 2010                       | 2009   | 2010                     | 2009   |
| Commercial property revenue   |                            |        |                          |        |
| Revenue from continuing operations                                      | \$ 276                     | \$ 256 | \$ 547                   | \$ 508 |
| Recurring fee income  | 14                         | 13     | 33                       | 24     |
| Lease termination, non-recurring fee and other income                   | 6                          | —      | 7                        | 1      |
| Total commercial property revenue                                       | 296                        | 269    | 587                      | 533    |
| Revenue from residential development operations                         | 136                        | 70     | 226                      | 111    |
| Revenue from commercial property and residential development operations | \$ 432                     | \$ 339 | \$ 813                   | \$ 644 |
| Interest and other <sup>(1)</sup>                                       | 14                         | 8      | 25                       | 13     |
| Total   | \$ 446                     | \$ 347 | \$ 838                   | \$ 657 |

<sup>(1)</sup> Excludes impact of foreign exchange gains and losses associated with our net Canadian dollar denominated monetary asset position

## COMMERCIAL PROPERTY OPERATIONS

Commercial property net operating income totaled \$180 million and \$351 million for the three and six months ended June 30, 2010 compared with \$162 million and \$315 million during the same periods in 2009.

The components of commercial property net operating income from continuing operations are as follows:

| (Millions)  | Three months ended Jun. 30 |        | Six months ended Jun. 30 |        |
|---|----------------------------|--------|--------------------------|--------|
|   | 2010                       | 2009   | 2010                     | 2009   |
| Commercial property revenue                           |                            |        |                          |        |
| Revenue from current properties                       | \$ 279                     | \$ 256 | \$ 545                   | \$ 515 |
| Straight-line rental income                           | (3)                        | —      | 2                        | (7)    |
| Revenue from continuing operations                    | 276                        | 256    | 547                      | 508    |
| Recurring fee income                                  | 14                         | 13     | 33                       | 24     |
| Lease termination, non-recurring fee and other income | 6                          | —      | 7                        | 1      |
| Total commercial property revenue                     | 296                        | 269    | 587                      | 533    |
| Property operating costs                              | (116)                      | (107)  | (236)                    | (218)  |
| Commercial property net operating income              | \$ 180                     | \$ 162 | \$ 351                   | \$ 315 |

Our net operating income for the three and six months ended June 30, 2010 and 2009 is as follows:

| (Millions)   | Three months ended Jun. 30 |               | Six months ended Jun. 30 |               |
|--|----------------------------|---------------|--------------------------|---------------|
|  | 2010                       | 2009          | 2010                     | 2009          |
| Same property  | \$ 152                     | \$ 155        | \$ 295                   | \$ 300        |
| Properties reclassified from development               | 8                          | —             | 16                       | —             |
| Lease terminations, non-recurring fee and other income | 6                          | —             | 7                        | 1             |
| Recurring fee income                                   | 14                         | 13            | 33                       | 24            |
| Properties sold during the period                      | —                          | (6)           | —                        | (10)          |
| <b>Total commercial property net operating income</b>  | <b>\$ 180</b>              | <b>\$ 162</b> | <b>\$ 351</b>            | <b>\$ 315</b> |

Same property net operating income increased as a result of higher average rents on new leases versus expiring leases, increased parking income and the strengthening of the Canadian dollar since the second quarter of 2009.

Owing to our strategy of owning, proactively managing and developing premier properties in high-growth, and in many instances supply-constrained, markets with high barriers to entry, along with our focus on executing long-term leases with strong credit rated tenants, we have been able to reduce the exposure of our commercial property revenues to the cyclical nature of the real estate business. However, considering the severity of the global economic slowdown, there is still a risk that companies succumbing to financial pressures may no longer have a need for all of their space leading to increased supply. To date, we have had a small number of tenants declare bankruptcy but our results have not been materially impacted by this or by the softening market conditions. In addition, we continue to reduce our lease expiry profile for the upcoming years and continue to have in-place net rents below market rents across most of our portfolio, which will continue to add stability to our results going forward.

Revenue from commercial properties includes rental revenues earned from tenant leases, straight-line rent, percentage rent and additional rent from the recovery of operating costs and property taxes as well as recurring fee income, lease termination and other income. Revenue from commercial properties totaled \$296 million and \$587 million, respectively, during the three and six months ended June 30, 2010 compared with \$269 million and \$533 million during the same periods in 2009. The increase year over year is attributable to increased recurring fee income, lease termination income recognized in the current period, income from properties reclassified from development as well as revenue from continuing operations.

Our leases generally have clauses which provide for the collection of rental revenues in amounts that increase every five years, with these increases negotiated at the signing of the lease. The large number of high-credit quality tenants in our portfolio lowers the risk of not realizing these increases. IFRS requires that these increases be recorded on a straight-line basis over the life of the lease. For the three and six months ended June 30, 2010, we recognized losses of \$3 million and income of \$2 million, respectively, as compared with nil and a loss \$7 million during the same periods in 2009.

Commercial property operating costs, which include real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses, were \$116 million and \$236 million, respectively, during the three and six months ended June 30, 2010, as compared with \$107 million and \$218 million during the same periods in 2009, primarily driven by the reclassification of certain properties from development into commercial as well as the impact of foreign exchange.

Substantially all of our leases are net leases in which the lessee is required to pay their proportionate share of property operating expenses such as utilities, repairs, insurance and taxes. Consequently, leasing activity, which affects both occupancy and in-place rental rates, is the principal contributor to the change in same property net operating income. Since the beginning of 2010, occupancy has decreased slightly (10 basis points) due to lease expiries and lease terminations; however, we have managed to reduce our five-year rollover exposure by 60 basis points within our managed portfolio since the beginning of the year. At June 30, 2010, average in-place net rent throughout the portfolio was \$24.39 per square foot compared with \$23.27 per square foot at June 30, 2009.

The following table shows the average in-place rents and estimated current market rents for similar space in each of our markets as at June 30, 2010 and includes our equity accounted investments:

|                                    | Leasable Area <sup>(2)</sup><br>(000's Sq. Ft.) | Avg.<br>Lease Term<br>(Years) | Avg. In-Place<br>Net Rent<br>(\$ per Sq. Ft.) | Avg. Market<br>Net Rent<br>(\$ per Sq. Ft.) |
|------------------------------------|---|-------------------------------|---|---|
| New York, New York                 |   |                               |   |   |
| Midtown                            | 4,438   | 12.3                          | \$ 43.95                                      | \$ 52                                       |
| Downtown                           | 13,723  | 6.4                           | 27.69   | 28  |
| Boston, Massachusetts              | 1,990   | 5.0                           | 31.59   | 28  |
| Washington, D.C.                   | 6,192   | 6.4                           | 26.02   | 32  |
| Los Angeles, California            | 4,530   | 5.7                           | 21.36   | 22  |
| Houston, Texas                     | 8,280   | 7.7                           | 13.44   | 21  |
| Toronto, Ontario                   | 8,809   | 7.1                           | 25.05   | 23  |
| Calgary, Alberta                   | 5,943   | 9.0                           | 26.16   | 24  |
| Ottawa, Ontario                    | 1,747   | 3.7                           | 17.18   | 21  |
| Denver, Colorado                   | 1,329   | 5.6                           | 18.58   | 19  |
| Minneapolis, Minnesota             | 2,530   | 8.4                           | 9.03  | 15  |
| Other                              | 1,253   | 7.2                           | 14.94   | 22  |
| <b>Total Managed<sup>(1)</sup></b> | <b>60,764</b>                                   | <b>7.1</b>                    | <b>24.39</b>                                  | <b>27</b>                                   |

<sup>(1)</sup> Excludes developments

<sup>(2)</sup> Leasing data presented based on 100% of leasable area

Our total managed portfolio occupancy rate decreased by 20 basis points to 94.8% at June 30, 2010 compared with 95.0% at June 30, 2009 due to lease expiries offset by lease renewals amidst challenging market conditions.

A summary of our occupancy levels for the past two years including our equity accounted investments is as follows:

| (Square feet in 000's)             | Jun. 30, 2010                      |             | Jun. 30, 2009                      |             |
|------------------------------------|------------------------------------|-------------|------------------------------------|-------------|
|                                    | Leasable <sup>(2)</sup><br>Sq. Ft. | %<br>Leased | Leasable <sup>(2)</sup><br>Sq. Ft. | %<br>Leased |
| New York, New York                 |                                    |             |                                    |             |
| Midtown                            | <b>4,438</b>                       | <b>95.1</b> | 4,438                              | 95.2        |
| Downtown                           | <b>13,723</b>                      | <b>97.9</b> | 13,719                             | 98.2        |
| <b>Total New York, New York</b>    | <b>18,161</b>                      | <b>97.2</b> | 18,157                             | 97.5        |
| Boston, Massachusetts              | <b>1,990</b>                       | <b>87.2</b> | 1,990                              | 87.3        |
| Washington, D.C.                   | <b>6,192</b>                       | <b>91.7</b> | 5,619                              | 91.5        |
| Los Angeles, California            | <b>4,530</b>                       | <b>84.2</b> | 4,530                              | 84.0        |
| Houston, Texas                     | <b>8,280</b>                       | <b>95.5</b> | 8,280                              | 93.9        |
| Toronto, Ontario                   | <b>8,809</b>                       | <b>94.7</b> | 7,618                              | 96.9        |
| Calgary, Alberta                   | <b>5,943</b>                       | <b>99.8</b> | 5,681                              | 99.8        |
| Ottawa, Ontario                    | <b>1,747</b>                       | <b>99.7</b> | 1,747                              | 99.5        |
| Denver, Colorado                   | <b>1,329</b>                       | <b>94.4</b> | 1,327                              | 96.6        |
| Minneapolis, Minnesota             | <b>2,530</b>                       | <b>92.0</b> | 2,530                              | 92.2        |
| Other                              | <b>1,253</b>                       | <b>95.1</b> | 1,253                              | 97.7        |
| <b>Total Managed<sup>(1)</sup></b> | <b>60,764</b>                      | <b>94.8</b> | 58,732                             | 95.0        |

<sup>(1)</sup> Excludes developments

<sup>(2)</sup> Leasing data presented based on 100% of leasable area

During the six months ended June 30, 2010, we leased 3.6 million square feet of our managed space at an average leasing net rent of \$22.82 per square foot or a 17% premium over expiring net rents. This included 1.1 million square feet of new leases and 2.5 million square feet of renewals. Expiring net rent for our managed portfolio averaged \$19.54 per square foot.

The details of our leasing activity for the six months ended June 30, 2010 including our equity accounted investments are as follows:

|                         | Dec. 31, 2009                          |                                      | Activities during the six months ended Jun. 30, 2010 |   |                                     |   |  |  | Jun. 30, 2010                        |                                    |
|-------------------------|--|--------------------------------------|--|---|-------------------------------------|---|--|--|--------------------------------------|------------------------------------|
|                         | Leasable<br>Sq. Ft. <sup>(1,2,3)</sup> | Leased<br>Sq. Ft. <sup>(1,2,3)</sup> | Expiries<br>Sq. Ft. <sup>(1,2)</sup>                 | Average<br>Expiring<br>Net Rent<br>(\$ per sq. ft.) | Leasing<br>Sq. Ft. <sup>(1,2)</sup> | Year One<br>Leasing<br>Net Rent<br>(\$ per sq. ft.) | Average<br>Leasing<br>Net Rent<br>(\$ per sq. ft.) | Acq./<br>(Disp.)<br>Sq. Ft. <sup>(1,2,3,4)</sup> | Leasable<br>Sq. Ft. <sup>(1,2)</sup> | Leased<br>Sq. Ft. <sup>(1,2)</sup> |
| New York, New York      |  |                                      |  |   |                                     |   |  |  |                                      |                                    |
| Midtown                 | 4,438                                  | 4,235                                | (99)   | \$ 32.57  | 86                                  | \$ 47.77  | \$ 55.93   | —  | <b>4,438</b>                         | <b>4,222</b>                       |
| Downtown                | 13,723                                 | 13,487                               | (342)  | 20.05   | 291                                 | 25.97   | 27.58  | —  | <b>13,723</b>                        | <b>13,436</b>                      |
| Boston, Massachusetts   | 1,990                                  | 1,737                                | (44)   | 26.35   | 43                                  | 30.52   | 30.52  | —  | <b>1,990</b>                         | <b>1,736</b>                       |
| Washington, D.C.        | 5,951                                  | 5,380                                | (151)  | 23.54   | 209                                 | 25.40   | 26.46  | 241  | <b>6,192</b>                         | <b>5,679</b>                       |
| Los Angeles, California | 4,530                                  | 3,799                                | (321)  | 18.89   | 336                                 | 18.21   | 20.79  | —  | <b>4,530</b>                         | <b>3,814</b>                       |
| Houston, Texas          | 8,280                                  | 7,764                                | (1,221)  | 9.24  | 1,362                               | 9.91  | 13.35  | —  | <b>8,280</b>                         | <b>7,905</b>                       |
| Toronto, Ontario        | 7,616                                  | 7,446                                | (780)  | 29.37   | 786                                 | 33.56   | 33.00  | 890  | <b>8,809</b>                         | <b>8,342</b>                       |
| Calgary, Alberta        | 5,943                                  | 5,931                                | (426)  | 26.20   | 428                                 | 22.04   | 24.11  | —  | <b>5,943</b>                         | <b>5,933</b>                       |
| Ottawa, Ontario         | 1,747                                  | 1,746                                | (6)  | 31.70   | 1                                   | 32.90   | 33.84  | —  | <b>1,747</b>                         | <b>1,741</b>                       |
| Denver, Colorado        | 1,329                                  | 1,268                                | (39)   | 17.56   | 25                                  | 21.31   | 22.10  | —  | <b>1,329</b>                         | <b>1,254</b>                       |
| Minneapolis, Minnesota  | 2,530                                  | 2,331                                | (50)   | 17.02   | 45                                  | 15.06   | 15.76  | —  | <b>2,530</b>                         | <b>2,326</b>                       |
| Other                   | 1,253                                  | 1,208                                | (51)   | 20.29   | 34                                  | 24.45   | 24.97  | —  | <b>1,253</b>                         | <b>1,191</b>                       |
| <b>Total Managed</b>    | <b>59,330</b>                          | <b>56,332</b>                        | <b>(3,530)</b>                                       | <b>19.54</b>  | <b>3,646</b>                        | <b>20.78</b>  | <b>22.82</b>                                       | <b>1,131</b>                                     | <b>60,764</b>                        | <b>57,579</b>                      |

<sup>(1)</sup>Excludes developments

<sup>(2)</sup>Leasing data presented based on 100% of leasable area

<sup>(3)</sup>Restated for remeasurements performed during the first quarter of 2010

<sup>(4)</sup>Reclassified 1.4 million square feet from development properties to commercial properties in connection with 1225 Connecticut Avenue in Washington, D.C. in the first quarter of 2010 and Bay Adelaide Centre in Toronto in the third quarter of 2009

### Recurring fee income

Fee income includes property management fees, leasing fees and project management fees relating to certain co-owned properties. Fee income serves as a cashflow supplement to enhance returns from co-owned assets. We also earn fees through Brookfield Residential Services Ltd. Brookfield Residential Services Ltd. has been managing condominiums in the Greater Metropolitan Toronto area for the past 30 years and manages in excess of 56,000 units in over 283 condominium corporations.

The details of our fee income are as follows:

| (Millions)  | Three months ended Jun. 30 |              | Six months ended Jun. 30 |              |
|---|----------------------------|--------------|--------------------------|--------------|
|   | 2010                       | 2009         | 2010                     | 2009         |
| Property management, leasing, project management and other fees | \$ 8                       | \$ 8         | \$ 22                    | \$ 15        |
| Brookfield Residential Services Ltd. fees                       | 6                          | 5            | 11                       | 9            |
| <b>Total</b>  | <b>\$ 14</b>               | <b>\$ 13</b> | <b>\$ 33</b>             | <b>\$ 24</b> |

The generation of fee income is not viewed as a separate business segment; however, with the establishment of our office funds, the associated fees represent an important area of growth for us and are expected to increase as we expand our assets under management. These fees typically include a stable base fee for providing regular ongoing services as well as performance fees that are earned when the performance of the fund exceeds certain predetermined benchmarks. We will also earn transaction fees for investment and leasing activities conducted on behalf of these funds.

## RESIDENTIAL DEVELOPMENT OPERATIONS

Our residential development operations are located in five markets: Alberta, Ontario, Colorado, Texas and Missouri. Most of our land holdings were purchased in the mid-1990s, and as a result have an embedded cost advantage over many companies which acquired land at much higher prices.

Our residential development operations contributed \$33 million and \$48 million, respectively, of net operating income during the three and six months ended June 30, 2010, as compared with \$13 million and \$19 million during the same periods in 2009. The increase is due to increased home and lot sales, particularly single family units, and improved pricing compared with the same period in 2009.

The components of residential development net operating income are as follows:

| (Millions)      | Three months ended Jun. 30 |       | Six months ended Jun. 30 |        |
|-----------------|----------------------------|-------|--------------------------|--------|
|                 | 2010                       | 2009  | 2010                     | 2009   |
| Sales revenue   | \$ 136                     | \$ 70 | \$ 226                   | \$ 111 |
| Operating costs | (103)                      | (57)  | (178)                    | (92)   |
| Total           | \$ 33                      | \$ 13 | \$ 48                    | \$ 19  |

Lot sales for the three and six months ended June 30 over the past two years and the related revenue earned are as follows:

| Three months ended Jun. 30                           | Lot Sales<br>(Units/Acres) |      | Lot Sales Revenue<br>(Millions) |       | Average Lot Sales Revenue<br>(Thousands) |        |
|--|----------------------------|------|---------------------------------|-------|--|--------|
|  | 2010                       | 2009 | 2010                            | 2009  | 2010                                     | 2009   |
| Single Family (Lots)                                 |                            |      |                                 |       |  |        |
| Alberta  | 286                        | 307  | \$ 50                           | \$ 41 | \$ 147                                   | \$ 121 |
| Colorado   | 39                         | 1    | 3                               | —     | 95                                       | 110    |
| Texas  | 1                          | 1    | —                               | —     | 48                                       | 53     |
| Total Single Family (Lots)                           | 326                        | 309  | 53                              | 41    |  |        |
| Total Single Family (Acre Equivalent) <sup>(1)</sup> | 51                         | 44   |                                 |       |  |        |
| Multi-Family, Commercial and Industrial (Acres)      |                            |      |                                 |       |  |        |
| Alberta  | 4                          | —    | 3                               | —     | 635                                      | —      |
| Total Land Sales Revenue                             |                            |      | \$ 56                           | \$ 41 |  |        |

<sup>(1)</sup> Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

| Six months ended Jun. 30                             | Lot Sales<br>(Units/Acres) |      | Lot Sales Revenue<br>(Millions) |       | Average Lot Sales Revenue<br>(Thousands) |        |
|--|----------------------------|------|---------------------------------|-------|--|--------|
|  | 2010                       | 2009 | 2010                            | 2009  | 2010                                     | 2009   |
| Single Family (Lots)                                 |                            |      |                                 |       |  |        |
| Alberta  | 578                        | 481  | \$ 93                           | \$ 60 | \$ 159                                   | \$ 118 |
| Colorado   | 89                         | 1    | 6                               | —     | 73                                       | 110    |
| Texas  | 4                          | 1    | —                               | —     | 69                                       | 53     |
| Missouri   | 2                          | —    | —                               | —     | —  | —      |
| Total Single Family (Lots)                           | 673                        | 483  | 99                              | 60    |  |        |
| Total Single Family (Acre Equivalent) <sup>(1)</sup> | 106                        | 69   |                                 |       |  |        |
| Multi-Family, Commercial and Industrial (Acres)      |                            |      |                                 |       |  |        |
| Alberta  | 8                          | 3    | 5                               | 1     | 603                                      | 169    |
| Texas  | —                          | 5    | —                               | 1     | —  | 250    |
| Total Land Sales Revenue                             |                            |      | \$ 104                          | \$ 62 |  |        |

<sup>(1)</sup> Represents lots converted to acres based on a conversion factor of four to seven lots per acre depending on region

Home sales for the three and six months ended June 30 over the past two years and the related revenue earned are as follows:

|                            | Home Sales<br>(Units/Acres) |      | Home Sales Revenue<br>(Millions) |       | Average Home Sales Revenue<br>(Thousands) |        |
|----------------------------|-----------------------------|------|----------------------------------|-------|---|--------|
|                            | 2010                        | 2009 | 2010                             | 2009  | 2010                                      | 2009   |
| Three months ended Jun. 30 |                             |      |                                  |       |   |        |
| Single Family              |                             |      |                                  |       |   |        |
| Alberta                    | 120                         | 40   | \$ 35                            | \$ 10 | \$ 299                                    | \$ 247 |
| Ontario                    | 65                          | 21   | 22                               | 5     | 331                                       | 235    |
|                            | 185                         | 61   | 57                               | 15    |   |        |
| Multi-Family               |                             |      |                                  |       |   |        |
| Alberta                    | 85                          | 60   | 23                               | 14    | 280                                       | 226    |
| Total                      | 270                         | 121  | \$ 80                            | \$ 29 |   |        |

|                          | Home Sales<br>(Units/Acres) |      | Home Sales Revenue<br>(Millions) |       | Average Home Sales Revenue<br>(Thousands) |        |
|--------------------------|-----------------------------|------|----------------------------------|-------|---|--------|
|                          | 2010                        | 2009 | 2010                             | 2009  | 2010                                      | 2009   |
| Six months ended Jun. 30 |                             |      |                                  |       |   |        |
| Single Family            |                             |      |                                  |       |   |        |
| Alberta                  | 172                         | 64   | \$ 51                            | \$ 16 | \$ 299                                    | \$ 249 |
| Ontario                  | 84                          | 40   | 28                               | 9     | 333                                       | 227    |
|                          | 256                         | 104  | 79                               | 25    |   |        |
| Multi-Family             |                             |      |                                  |       |   |        |
| Alberta                  | 158                         | 102  | 43                               | 24    | 275                                       | 233    |
| Total                    | 414                         | 206  | \$ 122                           | \$ 49 |   |        |

Residential development operating costs, which include land costs, land servicing costs, housing development costs, property taxes and other related costs increased to \$103 million and \$178 during the three and six months ended June 30, 2010 compared to \$57 million and \$92 during the same period in 2009. These costs increased as a result of higher sales volume.

#### INTEREST AND OTHER INCOME

Interest and other income includes interest charged on real estate mortgages, residential receivables and other loans receivable, interest earned on cash balances, and transactional gains. Interest and other income was \$16 million and \$34 million, respectively, during the three and six months ended June 30, 2010 compared with \$17 million and \$24 million during the same periods in 2009. The increase year over year is attributable to additional interest income on certain of our investments during the first six months of 2010. Also included in interest and other income is a foreign exchange gain of \$2 million and \$9 million, respectively, related to our Canadian denominated net monetary assets for the three and six months ended June 30, 2010 (2009 – gains of \$9 million and \$11 million).

## INTEREST EXPENSE

### Commercial property debt

Interest expense relating to commercial property debt of \$76 million and \$147 million during the three and six months ended June 30, 2010 remained relatively consistent with \$74 million and \$146 million in 2009. Average LIBOR during the six months ended June 30, 2010 was approximately 0.7%, as compared to approximately 1.1% during the same period in 2009.

### Capital securities – corporate

Interest expense on capital securities – corporate relates to preferred share dividends recorded as interest expense under IFRS. This amount increased to \$15 million and \$29 million, respectively, during the three and six months ended June 30, 2010 from \$14 million and \$26 million during the same periods in 2009 due to foreign exchange fluctuations.

## GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs during the three and six months ended June 30, 2010 increased to \$31 million and \$59 million, respectively, from \$27 million and \$54 million during the same periods in 2009 primarily due to costs associated with the conversion of our Canadian operations outside of the Canadian Office Fund into a REIT. Included in general and administrative expenses is \$5 million and \$10 million (2009 - \$4 million and \$8 million, respectively) of expenses related to the operations of our subsidiary, Brookfield Residential Services Ltd.

## DEPRECIATION

Depreciation for the three and six months ended June 30, 2010 was \$4 million and \$7 million, respectively, slightly higher than \$3 million and \$6 million for the respective periods in 2009 due to the impact of foreign exchange.

## FAIR VALUE ADJUSTMENTS

As part of the adoption of IFRS in 2010, we elected an accounting policy whereby investment property is recorded at fair value. Any changes in fair value, period over period, are recognized as fair value gains/losses in the statement of income. During the three and six months ended June 30, 2010, we recognized a fair value loss of \$54 million and a gain of \$12 million, respectively (2009 – loss of \$233 million and \$619 million). Fair value adjustments are determined based on the movement of various parameters on a quarterly basis, including changes in projected cash flows as a result of leasing and timing, discount rates and terminal capitalization rates. In addition to fair value adjustments recorded on investment property during the three and six months ended June 30, 2010, we recorded a mark-to-market gain of nil and \$21 million, respectively (2009 – nil and nil) related to our investment in bank debt secured by the equity in a portfolio of commercial properties in Washington, D.C. Also included in fair value adjustments are losses related to the U.S. Office Fund option of \$32 million and \$29 million for the three and six months ended June 30, 2010, respectively (2009 - \$129 million and \$129 million).

## SHARE OF NET EARNINGS OF EQUITY ACCOUNTED INVESTMENTS

| (Millions)  | Funds from Operations |       | Fair Value Adjustments |          | Share of Earnings |          |
|---|-----------------------|-------|------------------------|----------|-------------------|----------|
|   | 2010                  | 2009  | 2010                   | 2009     | 2010              | 2009     |
| Three months ended Jun. 30                        |                       |       |                        |          |                   |          |
| U.S. Office Fund                                  | \$ 43                 | \$ 40 | \$ 51                  | \$ (417) | \$ 94             | \$ (377) |
| Other equity accounted investments <sup>(1)</sup> | 52                    | 17    | 2                      | (45)     | 54                | (28)     |
| Total   | 95                    | 57    | 53                     | (462)    | 148               | (405)    |
| Non-controlling interests – fund subsidiaries     | 9                     | 12    | 8                      | (30)     | 17                | (18)     |
| Total net to Brookfield Properties                | \$ 86                 | \$ 45 | \$ 45                  | \$ (432) | \$ 131            | \$ (387) |

<sup>(1)</sup> Includes other jointly controlled entities as well as associates

| (Millions)  | Funds from Operations |       | Fair Value Adjustments |          | Share of Earnings |          |
|---|-----------------------|-------|------------------------|----------|-------------------|----------|
|   | 2010                  | 2009  | 2010                   | 2009     | 2010              | 2009     |
| Six months ended Jun. 30                          |                       |       |                        |          |                   |          |
| U.S. Office Fund                                  | \$ 84                 | \$ 70 | \$ 113                 | \$ (671) | \$ 197            | \$ (601) |
| Other equity accounted investments <sup>(1)</sup> | 68                    | 36    | 33                     | (149)    | 101               | (113)    |
| Total   | 152                   | 106   | 146                    | (820)    | 298               | (714)    |
| Non-controlling interests – fund subsidiaries     | 21                    | 13    | 19                     | (31)     | 40                | (18)     |
| Total net to Brookfield Properties                | \$ 131                | \$ 93 | \$ 127                 | \$ (789) | \$ 258            | \$ (696) |

<sup>(1)</sup> Includes other jointly controlled entities as well as associates

Funds from operations of our equity accounted investments increased to \$95 million and \$152 million, respectively, for the three and six months ended June 30, 2010 from \$57 million and \$106 million during the same periods in 2009 largely as a result of same store growth of 4% due to increased rents. Net of our Fund partners' share of funds from operations, which is included in non-controlling interest – fund subsidiaries, our share of funds from operations was \$86 million and \$131 million, respectively, for the three and six months ended June 30, 2010 (2009 - \$45 million and \$93 million). Including fair value adjustments, the share of net earnings of equity accounted investments increased to \$148 million and \$298 million, respectively, for the three and six months ended June 30, 2010 from a loss of \$405 million and \$714 million during the same periods in 2009. Fair value adjustments were positively impacted by changes in projected cash flows as a result of leasing and timing adjustments, as well as a repricing of risk associated with commercial real estate which lowered discount and terminal capitalization rates. Net of our Fund partners' share of net earnings of equity accounted investments, which is included in non-controlling interest – fund subsidiaries, our share of net earnings of equity accounted investments was \$131 million and \$258 million, respectively, for the three and six months ended June 30, 2010 (2009 – loss of \$387 million and \$696 million).

## INCOME TAXES

Income tax expense for the three and six months ended June 30, 2010 was \$29 million and \$60 million, respectively, as compared with an income tax expense of \$7 million and a benefit of \$27 million during the same periods in 2009, due primarily to realized gains recognized through its investment in Brookfield TBird Holdings LP during the second quarter of 2010 and overall fair value gains in the six month period, in both our consolidated operations and our equity accounted joint ventures, compared with fair value losses in the same period last year.

The major components of income tax expense include the following:

| (Millions)                         | Three months ended Jun. 30 |       | Six months ended Jun. 30 |         |
|------------------------------------|----------------------------|-------|--------------------------|---------|
|                                    | 2010                       | 2009  | 2010                     | 2009    |
| Current tax expense                | \$ 11                      | \$ 15 | \$ 24                    | \$ 24   |
| Deferred tax expense (benefit)     | 18                         | (8)   | 36                       | (51)    |
| Total income tax expense (benefit) | \$ 29                      | \$ 7  | \$ 60                    | \$ (27) |

## NON-CONTROLLING INTERESTS

The following table outlines our non-controlling interests:

| (Millions)                                     | Three months ended Jun. 30 |         | Six months ended Jun. 30 |         |
|--|----------------------------|---------|--------------------------|---------|
|  | 2010                       | 2009    | 2010                     | 2009    |
| Preferred shares – subsidiaries                | \$ 2                       | \$ 1    | \$ 3                     | \$ 3    |
| Non-controlling interests – fund subsidiaries  | 17                         | (18)    | 40                       | (18)    |
| Non-controlling interests – other subsidiaries | 1                          | (4)     | 2                        | (7)     |
| Total non-controlling interests                | \$ 20                      | \$ (21) | \$ 45                    | \$ (22) |

### Preferred shares – subsidiaries

Preferred shares – subsidiaries consists of dividends on preferred shares issued by BPO Properties. For the three and six months ended June 30, 2010, dividends paid on shares issued by BPO Properties was \$2 million and \$3 million, respectively, compared to \$1 million and \$3 million during the same periods in 2009.

### Fund subsidiaries

Non-controlling interests in our U.S. Office Fund are as follows:

| (Millions)  | Three months ended Jun. 30 |         | Six months ended Jun. 30 |         |
|---|----------------------------|---------|--------------------------|---------|
|   | 2010                       | 2009    | 2010                     | 2009    |
| Non-controlling interests                           | \$ 8                       | \$ 8    | \$ 16                    | \$ 8    |
| Non-cash component <sup>(1)</sup>                   | 9                          | (26)    | 24                       | (26)    |
| Total non-controlling interests – fund subsidiaries | \$ 17                      | \$ (18) | \$ 40                    | \$ (18) |

<sup>(1)</sup> Represents co-investors share of non-cash items, such as fair value adjustments

Non-controlling interests – fund subsidiaries increased quarter over quarter principally due to increased earnings from the U.S. Office Fund compared to the prior period.

### Other subsidiaries

Non-controlling interests – other subsidiaries consists of earnings attributable to interests not owned by Brookfield Properties in BOX and Brookfield Financial Properties.

Non-controlling interest expense in subsidiary earnings were \$1 million and \$2 million, respectively, during the three and six months ended June 30, 2010 as compared with a loss of \$4 million and \$7 million during the same periods in 2009.

The following table outlines the dividends and earnings paid or attributable to other shareholders of subsidiaries of Brookfield Properties:

| (Millions)   | Type                    | Three months ended Jun. 30 |        | Six months ended Jun. 30 |        |
|--|-------------------------|----------------------------|--------|--------------------------|--------|
|  |                         | 2010                       | 2009   | 2010                     | 2009   |
| Brookfield Office Properties Canada <sup>(1)</sup> | Participating interests | \$ 1                       | \$ (4) | \$ 1                     | \$ (5) |
| Brookfield Financial Properties                    | Participating interests | —                          | —      | 1                        | (2)    |
| Total  |                         | \$ 1                       | \$ (4) | \$ 2                     | \$ (7) |

<sup>(1)</sup> During the second quarter of 2010, our principal Canadian commercial subsidiary, BPO Properties Ltd. ("BPO Properties"), reorganized its directly owned assets under a new Canadian real estate investment trust named Brookfield Office Properties Canada ("BOX"). Non-controlling interest of BOX includes the non-controlling interest in BPO Properties net income prior to the reorganization

## SEGMENTED INFORMATION

Brookfield Properties and its subsidiaries operate in the U.S. and Canada within the commercial property and the residential development businesses. The commercial markets in which we operate are primarily New York, Boston, Washington, D.C., Houston, Los Angeles, Denver and Minneapolis in the U.S., and Toronto, Calgary and Ottawa in Canada. Approximately 61% of our commercial property net operating income is derived from the U.S. (2009 – 67%) and approximately 68% of our assets are invested in the U.S. (2009 – 68%). In the first quarter of 2010, we also established a holding company in the United Kingdom and made investments in that market. Our United Kingdom investment is currently managed out of our U.S. platform and has been included as such until a platform is established in the United Kingdom. Our residential development operations are focused in five markets: Alberta and Ontario in Canada and Colorado, Texas and Missouri in the U.S. Details of segmented financial information for our principal areas of business are as follows:

| (Millions)                                  | Commercial       |                 |                 |                 | Residential Development |                 | Total            |                  |
|---|------------------|-----------------|-----------------|-----------------|-------------------------|-----------------|------------------|------------------|
|   | United States    |                 | Canada          |                 | Jun. 30, 2010           | Dec. 31, 2009   | Jun. 30, 2010    | Dec. 31, 2009    |
|   | Jun. 30, 2010    | Dec. 31, 2009   | Jun. 30, 2010   | Dec. 31, 2009   |                         |                 |                  |                  |
| <b>Assets</b>                               |                  |                 |                 |                 |                         |                 |                  |                  |
| <b>Non-current assets</b>                   |                  |                 |                 |                 |                         |                 |                  |                  |
| Investment properties                       |                  |                 |                 |                 |                         |                 |                  |                  |
| Commercial properties                       | \$ 5,933         | \$ 5,777        | \$ 3,726        | \$ 3,736        | \$ —                    | \$ —            | \$ 9,659         | \$ 9,513         |
| Development properties                      | 322              | 322             | 121             | 147             | —                       | —               | 443              | 469              |
| Equity accounted investments                |                  |                 |                 |                 |                         |                 |                  |                  |
| U.S. Office Fund                            | 1,124            | 945             | —               | —               | —                       | —               | 1,124            | 945              |
| Other jointly controlled entities           | 1,016            | 888             | 3               | 3               | —                       | —               | 1,019            | 891              |
| Associates                                  | —                | —               | 17              | 15              | —                       | —               | 17               | 15               |
| Residential development inventories         | —                | —               | —               | —               | 755                     | 797             | 755              | 797              |
| Non-current financial assets                | 1,135            | 583             | —               | —               | —                       | —               | 1,135            | 583              |
|   | <b>9,530</b>     | <b>8,515</b>    | <b>3,867</b>    | <b>3,901</b>    | <b>755</b>              | <b>797</b>      | <b>14,152</b>    | <b>13,213</b>    |
| <b>Current assets</b>                       |                  |                 |                 |                 |                         |                 |                  |                  |
| Residential development inventories         | —                | —               | —               | —               | 465                     | 438             | 465              | 438              |
| Receivables and other                       | 456              | 778             | 218             | 221             | 307                     | 342             | 981              | 1,341            |
| Restricted cash and deposits                | 33               | 37              | 2               | 1               | 2                       | 1               | 37               | 39               |
| Cash and cash equivalents                   | 68               | 33              | 59              | 62              | —                       | 9               | 127              | 104              |
|   | <b>557</b>       | <b>848</b>      | <b>279</b>      | <b>284</b>      | <b>774</b>              | <b>790</b>      | <b>1,610</b>     | <b>1,922</b>     |
| Assets related to assets held for sale      | 315              | 311             | —               | —               | —                       | —               | 315              | 311              |
| <b>Total Assets</b>                         | <b>\$ 10,402</b> | <b>\$ 9,674</b> | <b>\$ 4,146</b> | <b>\$ 4,185</b> | <b>\$ 1,529</b>         | <b>\$ 1,587</b> | <b>\$ 16,077</b> | <b>\$ 15,446</b> |
| <b>Liabilities</b>                          |                  |                 |                 |                 |                         |                 |                  |                  |
| <b>Non-current liabilities</b>              |                  |                 |                 |                 |                         |                 |                  |                  |
| Commercial property debt                    | 3,418            | 2,909           | 1,536           | 1,616           | —                       | —               | 4,954            | 4,525            |
| Residential development debt                | —                | —               | —               | —               | 84                      | 46              | 84               | 46               |
| Capital securities – corporate              | 108              | 107             | 893             | 902             | —                       | —               | 1,001            | 1,009            |
| Other non-current financial liabilities     | 113              | 117             | —               | —               | —                       | —               | 113              | 117              |
| Other non-current liabilities               | 172              | 172             | —               | —               | —                       | —               | 172              | 172              |
| Deferred tax liability                      | 251              | 212             | 346             | 396             | (84)                    | (92)            | 513              | 516              |
|   | <b>4,062</b>     | <b>3,517</b>    | <b>2,775</b>    | <b>2,914</b>    | <b>—</b>                | <b>(46)</b>     | <b>6,837</b>     | <b>6,385</b>     |
| <b>Current liabilities</b>                  |                  |                 |                 |                 |                         |                 |                  |                  |
| Commercial property debt                    | 143              | 626             | 54              | —               | —                       | —               | 197              | 626              |
| Residential development debt                | —                | —               | —               | —               | 244                     | 131             | 244              | 131              |
| Accounts payable and other liabilities      | 199              | 226             | 97              | 101             | 112                     | 148             | 408              | 475              |
|   | <b>342</b>       | <b>852</b>      | <b>151</b>      | <b>101</b>      | <b>356</b>              | <b>279</b>      | <b>849</b>       | <b>1,232</b>     |
| Liabilities related to assets held for sale | 158              | 174             | —               | —               | —                       | —               | 158              | 174              |
| <b>Total Liabilities</b>                    | <b>\$ 4,562</b>  | <b>\$ 4,543</b> | <b>\$ 2,926</b> | <b>\$ 3,015</b> | <b>\$ 356</b>           | <b>\$ 233</b>   | <b>\$ 7,844</b>  | <b>\$ 7,791</b>  |

| Three months ended<br>(Millions)  | Commercial       |                  |                  |                  | Residential<br>Development |                  | Total            |                  |
|---|------------------|------------------|------------------|------------------|----------------------------|------------------|------------------|------------------|
|   | United States    |                  | Canada           |                  | Jun. 30,<br>2010           | Jun. 30,<br>2009 | Jun. 30,<br>2010 | Jun. 30,<br>2009 |
|   | Jun. 30,<br>2010 | Jun. 30,<br>2009 | Jun. 30,<br>2010 | Jun. 30,<br>2009 |                            |                  |                  |                  |
| Revenue   | \$ 174           | \$ 176           | \$ 122           | \$ 92            | \$ 136                     | \$ 71            | \$ 432           | \$ 339           |
| Expenses  | 67               | 69               | 49               | 38               | 103                        | 57               | 219              | 164              |
|   | 107              | 107              | 73               | 54               | 33                         | 14               | 213              | 175              |
| Interest and other income   | 11               | 13               | 1                | 3                | 4                          | 1                | 16               | 17               |
| Net operating income from continuing operations   | 118              | 120              | 74               | 57               | 37                         | 15               | 229              | 192              |
| Interest expense  |                  |                  |                  |                  |                            |                  |                  |                  |
| Commercial property debt  | 56               | 58               | 20               | 16               | —                          | —                | 76               | 74               |
| Capital securities - corporate  | 2                | 2                | 13               | 12               | —                          | —                | 15               | 14               |
| General and administrative expense  | 14               | 17               | 17               | 10               | —                          | —                | 31               | 27               |
| Depreciation  | 2                | 2                | 2                | 1                | —                          | —                | 4                | 3                |
| Income before gains and other items, fair value gains (losses), share of net earnings (losses) of equity accounted investments and income tax expense (benefit) | 44               | 41               | 22               | 18               | 37                         | 15               | 103              | 74               |
| Gains and other items   | —                | 151              | —                | —                | —                          | —                | —                | 151              |
| Fair value gains (losses)   | (35)             | (156)            | (19)             | (77)             | —                          | —                | (54)             | (233)            |
| Share of net earnings (losses) from equity accounted investments  | 150              | (402)            | (2)              | (3)              | —                          | —                | 148              | (405)            |
| Income (loss) before income tax expense   | 159              | (366)            | 1                | (62)             | 37                         | 15               | 197              | (413)            |
| Income tax expense (benefit)  | 6                | 15               | 23               | (8)              | —                          | —                | 29               | 7                |
| Income (loss) from continuing operations  | 153              | (381)            | (22)             | (54)             | 37                         | 15               | 168              | (420)            |
| Income from discontinued operations   | 6                | 3                | —                | —                | —                          | —                | 6                | 3                |
| <b>Net income</b>   | <b>159</b>       | <b>(378)</b>     | <b>(22)</b>      | <b>(54)</b>      | <b>37</b>                  | <b>15</b>        | <b>174</b>       | <b>(417)</b>     |
| Net income attributable to non-controlling interests – fund subsidiaries  | 17               | (18)             | —                | —                | —                          | —                | 17               | (18)             |
| Net income attributable to non-controlling interests – other subsidiaries   | 1                | (1)              | 2                | (2)              | —                          | —                | 3                | (3)              |
| <b>Net income attributable to shareholders</b>  | <b>141</b>       | <b>(359)</b>     | <b>(24)</b>      | <b>(52)</b>      | <b>37</b>                  | <b>15</b>        | <b>\$ 154</b>    | <b>\$ (396)</b>  |
| Acquisition of real estate, net   | 2                | —                | —                | —                | —                          | —                | 2                | —                |
| Investment in real estate joint ventures, net   | 26               | —                | —                | —                | —                          | —                | 26               | —                |
| Dispositions of real estate, net  | —                | —                | —                | —                | —                          | —                | —                | —                |
| Capital expenditures – commercial properties  | 7                | 10               | 5                | 3                | —                          | —                | 12               | 13               |
| Capital expenditures – development properties   | 8                | —                | 4                | 34               | —                          | —                | 12               | 34               |

| Six months ended<br>(Millions)  | Commercial    |              |             |             | Residential<br>Development |                  | Total            |                   |
|---|---------------|--------------|-------------|-------------|----------------------------|------------------|------------------|-------------------|
|   | United States |              | Canada      |             | Jun. 30,<br>2010           | Jun. 30,<br>2009 | Jun. 30,<br>2010 | Jun. 30,<br>2009  |
| Revenue   | \$ 346        | \$ 354       | \$ 241      | \$ 178      | \$ 226                     | \$ 112           | \$ 813           | \$ 644            |
| Expenses  | 134           | 143          | 102         | 75          | 178                        | 92               | 414              | 310               |
|   | 212           | 211          | 139         | 103         | 48                         | 20               | 399              | 334               |
| Interest and other income   | 26            | 19           | 2           | 4           | 6                          | 1                | 34               | 24                |
| Net operating income from continuing operations   | 238           | 230          | 141         | 107         | 54                         | 21               | 433              | 358               |
| Interest expense  |               |              |             |             |                            |                  |                  |                   |
| Commercial property debt  | 108           | 125          | 39          | 21          | —                          | —                | 147              | 146               |
| Capital securities - corporate  | 4             | 4            | 25          | 22          | —                          | —                | 29               | 26                |
| General and administrative expense  | 30            | 34           | 29          | 20          | —                          | —                | 59               | 54                |
| Depreciation  | 4             | 3            | 3           | 3           | —                          | —                | 7                | 6                 |
| Income before gains and other items, fair value gains (losses), share of net earnings (losses) of equity accounted investments and income tax expense (benefit) | 92            | 64           | 45          | 41          | 54                         | 21               | 191              | 126               |
| Gains and other items   | —             | 151          | —           | —           | —                          | —                | —                | 151               |
| Fair value gains (losses)   | 43            | (510)        | (31)        | (109)       | —                          | —                | 12               | (619)             |
| Share of net earnings (losses) from equity accounted investments  | 301           | (710)        | (3)         | (4)         | —                          | —                | 298              | (714)             |
| Income (loss) before income tax expense   | 436           | (1,005)      | 11          | (72)        | 54                         | 21               | 501              | (1,056)           |
| Income tax expense (benefit)  | 20            | (28)         | 40          | 1           | —                          | —                | 60               | (27)              |
| Income (loss) from continuing operations  | 416           | (977)        | (29)        | (73)        | 54                         | 21               | 441              | (1,029)           |
| Income from discontinued operations   | 10            | 6            | —           | —           | —                          | —                | 10               | 6                 |
| <b>Net income</b>   | <b>426</b>    | <b>(971)</b> | <b>(29)</b> | <b>(73)</b> | <b>54</b>                  | <b>21</b>        | <b>451</b>       | <b>(1,023)</b>    |
| Net income attributable to non-controlling interests – fund subsidiaries  | 40            | (18)         | —           | —           | —                          | —                | 40               | (18)              |
| Net income attributable to non-controlling interests – other subsidiaries   | 1             | (4)          | 4           | —           | —                          | —                | 5                | (4)               |
| <b>Net income attributable to shareholders</b>  | <b>385</b>    | <b>(949)</b> | <b>(33)</b> | <b>(73)</b> | <b>54</b>                  | <b>21</b>        | <b>\$ 406</b>    | <b>\$ (1,001)</b> |
| Acquisition of real estate, net   | 2             | —            | —           | —           | —                          | —                | 2                | —                 |
| Investment in real estate joint ventures  | 94            | —            | —           | —           | —                          | —                | 94               | —                 |
| Dispositions of real estate, net  | —             | —            | —           | —           | —                          | —                | —                | —                 |
| Capital expenditures – commercial properties  | 23            | 25           | 13          | 11          | —                          | —                | 36               | 36                |
| Capital expenditures – development properties   | 8             | —            | 6           | 69          | —                          | —                | 14               | 69                |

## QUARTERLY RESULTS

The 2010 and 2009 results in accordance with IFRS by quarter as well as 2008 results in accordance with Canadian GAAP by quarter are as follows:

| (Millions, except per share amounts)   | 2010    |         | 2009    |           |           |           | 2008 <sup>(1)</sup> |         |         |         |
|--|---------|---------|---------|-----------|-----------|-----------|---------------------|---------|---------|---------|
|  | Q2      | Q1      | Q4      | Q3        | Q2        | Q1        | Q4                  | Q3      | Q2      | Q1      |
| Revenue  | \$ 446  | \$ 392  | \$ 584  | \$ 403    | \$ 347    | \$ 310    | \$ 715              | \$ 707  | \$ 708  | \$ 643  |
| Income (loss) from continuing operations attributable to common shareholders     | 148     | 248     | 1,053   | (289)     | (399)     | (608)     | 597                 | 45      | 42      | 21      |
| Net income (loss) attributable to common shareholders                            | 154     | 252     | 1,066   | (293)     | (396)     | (605)     | 458                 | 174     | 45      | 23      |
| <b>Net income (loss) per share attributable to common shareholders – basic</b>   |         |         |         |           |           |           |                     |         |         |         |
| Continuing operations  | \$ 0.28 | \$ 0.47 | \$ 2.10 | \$ (0.66) | \$ (1.02) | \$ (1.56) | \$ 1.50             | \$ 0.11 | \$ 0.11 | \$ 0.05 |
| Discontinued operations <sup>(2)</sup>   | 0.01    | 0.01    | 0.03    | (0.01)    | 0.01      | 0.01      | (0.34)              | 0.33    | —       | 0.01    |
|  | \$ 0.29 | \$ 0.48 | \$ 2.13 | \$ (0.67) | \$ (1.01) | \$ (1.55) | \$ 1.16             | \$ 0.44 | \$ 0.11 | \$ 0.06 |
| <b>Net income (loss) per share attributable to common shareholders – diluted</b> |         |         |         |           |           |           |                     |         |         |         |
| Continuing operations  | \$ 0.27 | \$ 0.43 | \$ 2.09 | \$ (0.37) | \$ (1.02) | \$ (1.56) | \$ 1.50             | \$ 0.11 | \$ 0.11 | \$ 0.05 |
| Discontinued operations <sup>(2)</sup>   | 0.01    | 0.01    | 0.03    | (0.01)    | 0.01      | 0.01      | (0.34)              | 0.33    | —       | 0.01    |
|  | \$ 0.28 | \$ 0.44 | \$ 2.12 | \$ (0.38) | \$ (1.01) | \$ (1.55) | \$ 1.16             | \$ 0.44 | \$ 0.11 | \$ 0.06 |

<sup>(1)</sup> Results reported under Canadian GAAP

<sup>(2)</sup> All quarters presented are net of non-controlling interests

## **PART IV – RISKS AND UNCERTAINTIES**

Brookfield Properties' financial results are impacted by the performance 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.

Our strategy is to invest in premier assets which generate sustainable streams of cashflow. While high-quality assets may initially generate lower returns on capital, we believe that the sustainability and future growth of their cashflows is more assured over the long term, and as a result, warrant higher valuation levels. We also believe that the high quality of our asset base protects us against future uncertainty and enables us to invest with confidence when opportunities arise.

The following is a review of the material factors and the potential impact these factors may have on our business operations. A more detailed description of our business environment and risks is contained in our Annual Information Form which is posted on our website at [www.brookfieldproperties.com](http://www.brookfieldproperties.com), or on [www.sedar.com](http://www.sedar.com) or [www.sec.gov](http://www.sec.gov).

### **PROPERTY RELATED RISKS**

#### **Commercial properties**

Our strategy is to invest in high-quality core office properties as defined by the physical characteristic of the asset and, more importantly, the certainty of receiving rental payments from large corporate tenants (with investment grade credit ratings – see "Credit Risk" below) which these properties attract. Nonetheless, we remain exposed to certain risks inherent in the core office property business.

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

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. Our Direct office properties are subject to mortgages which require substantial debt service payments. If we become unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale. We believe the stability and long-term nature of our contractual revenues effectively mitigates these risks.

As owners and managers of premier office properties, lease roll-overs also present a risk factor, as continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. Refer below to "Lease Roll-Over Risk" for further details.

#### **Residential developments**

The markets within our residential development and home building operations have generally been favorable over the past five years with strong demand for well located building lots, particularly in Alberta. Our operations are concentrated in high growth areas which we believe have positive demographic and economic conditions. Nonetheless, the residential home building and development industry is cyclical and may be affected by changes in general and local economic conditions such as consumer confidence, job stability, availability of financing for home buyers and interest rates due to their impact on home buyers' decisions. These conditions can affect the outlook of consumers and, in particular, the price and volume of home purchases. Furthermore, we are subject to risks related to the availability and cost of materials and labor, supply and cost of building lots, and adverse weather conditions that can cause delays in construction schedules and cost overruns.

### **INTEREST RATE AND FINANCING RISK**

We attempt to stagger the maturities of our mortgage portfolio, to the extent possible, evenly over a 10-year time horizon. We believe that this strategy will allow us to most effectively manage interest rate risk.

As outlined under "Capital Resources and Liquidity," beginning on page 30 of this MD&A, we have an on-going obligation to access debt markets to refinance maturing debt as it comes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to us or on any terms at all. Our strategy to stagger the maturities of our mortgage portfolio attempts to mitigate our exposure to excessive amounts of debt maturing in any one year.

At June 30, 2010, we had a floating rate bank credit facility of \$488 million which matures in June 2011. Additionally, we have a floating rate term facility with BAM of \$300 million, the terms of which extend to December 2010. At June 30, 2010, the balances drawn on these facilities were nil and nil, respectively. We also have a floating rate term loan facility established at the time of the Trizec acquisition, the terms of which extend to September 2010. The balance drawn on this facility as at June 30, 2010 was \$100 million. There is a risk that bank lenders will not refinance these facilities on terms and conditions acceptable to us or on any terms at all. As a mitigating factor, we have been successful in negotiating extension options. Approximately 20% of our outstanding commercial property debt at June 30, 2010 is floating rate debt (December 31, 2009 – 22%) and subject to fluctuations in interest rates. The effect of a 100 basis point increase in interest rates on interest expense relating to our corporate and commercial floating rate debt, up to 5% LIBOR, is an increase in interest expense of \$5 million or \$0.01 per share on an annualized basis. Taking into account our floating rate residential development debt and preferred shares issued by BPO Properties, a 100 basis point increase in rates would increase interest expense by an additional \$4 million on an annualized basis. In addition,

we have exposure to interest rates within our equity accounted investments. As discussed in the Derivative Financial Instruments section beginning on page 49, we have mitigated, to some extent, the exposure to interest rate fluctuations through interest rate derivative contracts.

We currently have a level of indebtedness of 51% of fair value of our commercial properties (December 31, 2009 - 52%). It is our view that such level of indebtedness is conservative given the lending parameters currently existing in the real estate marketplace and the fair value of our assets, and based on this, we believe that all debts will be financed or refinanced as they come due in the foreseeable future.

### CREDIT RISK

Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. We mitigate this risk by ensuring that our tenant mix is diversified and by limiting our exposure to any one tenant. We also maintain a portfolio that is diversified by property type so that exposure to a business sector is lessened. Currently, no one tenant represents more than 7.8% of total leasable area.

We attempt to mitigate our credit risk by signing long-term leases with tenants who have investment grade credit ratings. Additional discussion of this strategy is included on page 8 of this MD&A.

The following list shows the largest tenants by leasable area in our portfolio and their respective lease commitments:

|    | Tenant  | Primary Location     | Credit Rating <sup>(1)</sup> | Year of Expiry <sup>(2)</sup> | 000's Sq. Ft. <sup>(3)</sup> |      |      |       |      |       |        | Total  | % <sup>(3)</sup> |
|----|---|----------------------|------------------------------|-------------------------------|------------------------------|------|------|-------|------|-------|--------|--------|------------------|
|    |   |                      |                              |                               | 2010                         | 2011 | 2012 | 2013  | 2014 | 2015  | Beyond |        |                  |
| 1  | Bank of America/Merrill Lynch <sup>(4)</sup>      | NY/Toronto/Denver/LA | A                            | 2013                          |                              |      |      | 4,923 |      |       |        | 4,923  | 7.8%             |
| 2  | Government and Government Agencies                | All Markets          | AAA                          | Various                       |                              |      |      |       |      |       | 3,468  | 3,468  | 5.7%             |
| 3  | Chevron   | Houston              | AA                           | 2017                          |                              |      |      |       |      |       | 1,742  | 1,742  | 2.9%             |
| 4  | Wells Fargo/Wachovia <sup>(5)</sup>               | New York             | AA                           | 2015                          |                              |      |      |       |      | 1,439 |        | 1,439  | 2.4%             |
| 5  | CIBC <sup>(6)</sup>                               | NY/Toronto/Calgary   | A+                           | 2033                          |                              |      |      |       |      |       | 1,420  | 1,420  | 2.3%             |
| 6  | RBC Financial Group                               | Five Markets         | AA-<br>Not Rated             | 2020                          |                              |      |      |       |      |       | 1,316  | 1,316  | 2.2%             |
| 7  | Kellogg, Brown & Root, LLC                        | Houston              | Rated                        | 2030                          |                              |      |      |       |      |       | 1,214  | 1,214  | 2.0%             |
| 8  | Bank of Montreal                                  | Calgary/Toronto      | A+                           | 2018                          |                              |      |      |       |      |       | 1,147  | 1,147  | 1.9%             |
| 9  | Suncor Energy                                     | Calgary              | BBB+                         | 2028                          |                              |      |      |       |      |       | 1,015  | 1,015  | 1.7%             |
| 10 | JP Morgan Chase Bank                              | NY/Denver/Houston/LA | A+                           | 2021                          |                              |      |      |       |      |       | 952    | 952    | 1.6%             |
| 11 | Goldman Sachs                                     | New York             | A                            | 2012                          |                              |      | 896  |       |      |       |        | 896    | 1.5%             |
| 12 | Target Corporation                                | Minneapolis          | A+                           | 2023                          |                              |      |      |       |      |       | 886    | 886    | 1.5%             |
| 13 | Devon Energy                                      | Houston              | BBB+                         | 2020                          |                              |      |      |       |      |       | 862    | 862    | 1.4%             |
| 14 | Imperial Oil                                      | Calgary              | AAA                          | 2016                          |                              |      |      |       |      |       | 717    | 717    | 1.2%             |
| 15 | EnCana Corporation                                | Calgary/Denver       | BBB+                         | 2018                          |                              |      |      |       |      |       | 708    | 708    | 1.2%             |
| 16 | Continental Airlines<br>Cleary, Gottlieb, Steen & | Houston              | B                            | 2015                          |                              |      |      |       |      | 654   |        | 654    | 1.1%             |
| 17 | Hamilton<br>Cadwalader, Wickersham &              | New York             | Not Rated<br>Not             | 2028                          |                              |      |      |       |      |       | 559    | 559    | 0.9%             |
| 18 | Taft  | New York             | Rated                        | 2024                          |                              |      |      |       |      |       | 549    | 549    | 0.9%             |
| 19 | Talisman Energy                                   | Houston              | BBB                          | 2015                          |                              |      |      |       |      | 539   |        | 539    | 0.9%             |
| 20 | Amerada Hess Corporation                          | Houston              | BBB-                         | 2011                          |                              | 478  |      |       |      |       |        | 478    | 0.8%             |
|    | <b>Total</b>                                      |                      |                              |                               | —                            | 478  | 896  | 4,923 | —    | 2,632 | 16,555 | 25,484 | 41.9%            |
|    | <b>Total %</b>                                    |                      |                              |                               | —                            | 1.9% | 3.5% | 19.3% | 0.0% | 10.3% | 65.0%  | 100.0% |                  |

<sup>(1)</sup> From Standard & Poor's, Moody's or DBRS

<sup>(2)</sup> Weighted average based on square feet

<sup>(3)</sup> Prior to considering partnership interests in partially-owned properties

<sup>(4)</sup> Bank of America/Merrill Lynch leases 4.6 million square feet in the World Financial Center ("WFC"), of which they occupy 2.7 million square feet with the balance being leased to various subtenants ranging in size up to 500,000 square feet. Of this 2.7 million square feet, 1.9 million is in 4 WFC, in which Bank of America/Merrill Lynch has a 49% interest, and 0.8 million square feet is in 2 WFC, in which Bank of America/Merrill Lynch has an effective 25% interest through zero-coupon participating notes

<sup>(5)</sup> Wells Fargo/Wachovia leases 1.4 million square feet at One New York Plaza, of which they occupy 148,000 square feet with the balance being leased to five subtenants ranging in size up to 756,000 square feet

<sup>(6)</sup> CIBC leases 1,094,000 square feet at 300 Madison Avenue in New York, of which they sublease 925,000 square feet to PriceWaterhouseCoopers

Credit risk related to residential receivables is mitigated by the fact that, for the majority of sales, we retain title to the lots that are sold until the receivable balance is collected. Additionally, we maintain security over the lots that are sold, which can ultimately be taken back if receivables are not paid.

When we make loans or enter into other financial arrangements with related parties, we manage credit risk by entering into such transactions under normal commercial terms.

## LEASE ROLL-OVER RISK

Lease roll-over risk arises from the possibility that we may experience difficulty renewing leases as they expire or in releasing space vacated by tenants upon early lease expiry. We attempt to stagger the lease expiry profile so that we are not faced with disproportionate amounts of space expiring in any one year; approximately 9% of our leases mature annually over the next five years. Excluding Bank of America/Merrill Lynch, our largest tenant, less than 8% of our leases mature annually over the next five years. We further mitigate this risk by maintaining a diversified portfolio mix by geographic location and by proactively leasing space in advance of its contractual expiry. Additional discussion of our strategy to manage lease roll-over risk can be found on page 8 of this MD&A.

The following table sets out lease expiries, by square footage, for our portfolio at June 30, 2010 including our equity accounted investments:

| (000's Sq. Ft.)    | Currently Available | 2010  | 2011  | 2012  | 2013   | 2014  | 2015  | 2016  | 2017 & Beyond | Total  |
|--------------------|---------------------|-------|-------|-------|--------|-------|-------|-------|---------------|--------|
| Midtown, New York  | 216                 | 85    | 66    | 15    | 611    | 148   | 110   | 98    | 3,089         | 4,438  |
| Downtown, New York | 287                 | 36    | 957   | 419   | 4,772  | 298   | 2,193 | 494   | 4,267         | 13,723 |
| Boston             | 254                 | 149   | 411   | 48    | 32     | 46    | 3     | 507   | 540           | 1,990  |
| Washington, D.C.   | 513                 | 156   | 191   | 630   | 420    | 1,346 | 393   | 104   | 2,439         | 6,192  |
| Los Angeles        | 716                 | 90    | 316   | 835   | 190    | 261   | 269   | 380   | 1,473         | 4,530  |
| Houston            | 375                 | 207   | 709   | 1,000 | 505    | 381   | 951   | 57    | 4,095         | 8,280  |
| Toronto            | 467                 | 383   | 328   | 604   | 1,533  | 302   | 596   | 659   | 3,937         | 8,809  |
| Calgary            | 10                  | 126   | 319   | 446   | 505    | 161   | 1,204 | 791   | 2,381         | 5,943  |
| Ottawa             | 6                   | 3     | 14    | 13    | 1,151  | 9     | 543   | 4     | 4             | 1,747  |
| Denver             | 75                  | 80    | 97    | 86    | 151    | 128   | 65    | 154   | 493           | 1,329  |
| Minneapolis        | 204                 | 33    | 53    | 129   | 189    | 202   | 178   | 345   | 1,197         | 2,530  |
| Other              | 62                  | 22    | 126   | 63    | 98     | 33    | 218   | 45    | 586           | 1,253  |
| Total Managed      | 3,185               | 1,370 | 3,587 | 4,288 | 10,157 | 3,315 | 6,723 | 3,638 | 24,501        | 60,764 |

## ENVIRONMENTAL RISKS

As an owner of real property, we are subject to various federal, provincial, state and municipal laws relating to environmental matters. Such laws provide that we could be liable for the costs of removing certain hazardous substances and remediating certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect our ability to sell such real estate or to borrow using such real estate as collateral and could potentially result in claims against us. We are not aware of any material non-compliance with environmental laws at any of our properties nor are we aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of our properties or any pending or threatened claims relating to environmental conditions at our properties.

We will continue to make the necessary capital and operating expenditures to ensure that we are compliant with environmental laws and regulations. Although there can be no assurances, we do not believe that costs relating to environmental matters will have a materially adverse effect on our business, financial condition or results of operations. However, environmental laws and regulations can change and we may become subject to more stringent environmental laws and regulations in the future, which could have an adverse effect on our business, financial condition or results of operations.

## OTHER RISKS AND UNCERTAINTIES

Real estate is relatively illiquid. Such illiquidity may limit our ability to vary our portfolio promptly in response to changing economic or investment conditions. Also, financial difficulties of other property owners resulting in distressed sales could depress real estate values in the markets in which we operate.

Our commercial properties generate a relatively stable source of income from contractual tenant rent payments. Continued growth of rental income is dependent on strong leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies.

Taking into account the current state of the economy, 2010 likely will not provide the same level of increases in rental rates on renewal as compared to previous years. We are, however, substantially protected against short-term market conditions, as most of our leases are long-term in nature with an average term of seven years. As we continue to face the possibility of a prolonged recession, it is possible we will see downward pressure on overall occupancy levels and net effective rents.

We maintain insurance on our properties in amounts and with deductibles that we believe are in line with what owners of similar properties carry. We maintain all risk property insurance and rental value coverage (including coverage for the perils of flood, earthquake and named windstorm). Our all risk policy limit is \$1.5 billion per occurrence. Our earthquake limit is \$300 million per occurrence and in the annual aggregate for our California properties and a separate \$300 million per occurrence and annual aggregate limit for all other properties. This coverage is subject to a deductible of 5% of the value of the affected property for California locations and \$100,000 for all other locations. The named windstorm limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of 5% of the value of the affected property. The flood limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of \$50,000 per occurrence.

The Terrorism Risk Insurance Act ("TRIA") was enacted in November 2002 in response to the uncertainty surrounding the insurance market in the aftermath of the terrorist attacks of September 11, 2001 and provides protection for "certified acts" as defined by the statute. TRIA mandates that insurance carriers offer insurance covering physical damage from terrorist incidents as certified by the U.S. Secretary of the

Treasury. On December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 (the "Extension Act") was enacted, which extended the duration of the Terrorism Risk Insurance Program until December 31, 2007. The Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") was signed into law on December 26, 2007. It extends the TRIA program through December 2014. TRIPRA effectively continues the Extension Act while removing the distinction between foreign and domestic acts of terrorism, among other provisions.

With respect to our U.S. properties (including our U.S. Office Fund), in October 2008, we formed a segregated cell captive facility, Liberty IC Casualty, LLC ("Liberty"). Liberty now provides \$2.5 billion of TRIA coverage for all U.S. properties and replaces what was provided by Realrisk Insurance Corporation, a wholly-owned captive insurance company. In 2009 we formed a second segregated cell captive facility, Liberty IC Casualty II, LLC ("Liberty II). Liberty II provides protection against losses due solely to biological, chemical or radioactive contamination arising out of a certified terrorist act. In the event of a covered loss in 2010, we expect Liberty IC Casualty II LLC to recover 85% of its losses, less certain deductibles, from the United States government with the remaining 15% to be funded by us.

Our Canadian properties are protected by a stand alone policy that covers all acts of terrorism for limits up to C\$1 billion.

#### **FOREIGN EXCHANGE FLUCTUATIONS**

Approximately 32% of our assets and 56% of our revenues originate in Canada and consequently are subject to foreign currency risk due to potential fluctuations in exchange rates between the Canadian dollar and the U.S. dollar. To mitigate this risk, we attempt to maintain a natural hedged position with respect to the carrying value of assets denominated in Canadian dollars through debt agreements denominated in Canadian dollars and from time to time, supplemented through the use of derivative contracts as discussed below. However, even if we do so, the carrying value may not equal the economic value, and any differences therein may not be hedged. Similarly, we attempt to mitigate the currency risk of revenues denominated in Canadian dollars by incurring associated operating costs and interest expense in Canadian dollars. At June 30, 2010, based on our net Canadian dollar funds from operations, a \$0.01 appreciation in the Canadian dollar relative to the U.S. dollar would result in an increase in our funds from operations of approximately \$2 million on an annual basis. In the first quarter of 2010, we established a holding company to hold investments in commercial properties and developments in London, United Kingdom. As a result of our investment in the United Kingdom, we are subject to foreign currency risk due to potential fluctuations in exchange rates between the British pound and the U.S. dollar. We attempt to mitigate this risk using similar methods discussed above.

#### **DERIVATIVE FINANCIAL INSTRUMENTS**

We use derivative and non-derivative instruments to manage financial risks, including interest rate, commodity, equity price and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. We do not use derivatives for speculative purposes. In 2010 and/or 2009, we used the following derivative instruments to manage these risks:

- Foreign currency forward contracts to hedge exposures to Canadian dollar and British pound denominated net investments in self-sustaining subsidiaries and foreign currency denominated financial assets;
- Interest rate swaps to manage interest rate risk associated with planned refinancings and existing variable rate debt;
- Interest rate caps to hedge interest rate risk on a portion of our variable rate debt; and
- Total return swap on the company's shares to economically hedge exposure to variability in share price under our Deferred Share Unit plan.

We also designate certain of our financial liabilities as hedges of our Canadian dollar net investments in self-sustaining subsidiaries.

### Interest rate hedging

The following table provides details on derivatives designated as cash flow hedges in interest rate hedging relationships outstanding as at June 30, 2010:

|               | Hedging Item       | Notional<br>(Millions) | Rate      | Maturity | Fair Value | Hedged Item                     |
|---------------|--------------------|------------------------|-----------|----------|------------|---------------------------------|
| Jun. 30, 2010 | Interest rate cap  | \$ 300                 | 5%        | 2011     | nil        | Interest payments on LIBOR debt |
|               | Interest rate swap | 25                     | Pay 3.49% | 2021     | nil        | Interest payments on LIBOR debt |
| Dec. 31, 2009 | Interest rate cap  | \$ 300                 | 5%        | 2011     | nil        | Interest payments on LIBOR debt |

The maximum term over which interest rate hedging gains and losses reflected in other comprehensive income will be recognized in income is 11 years (2009 – nine years) as the hedged interest payments occur.

At June 30, 2010 and 2009, the amount of hedge ineffectiveness recorded in interest expense in connection with our interest rate hedging activities was not significant.

The fair value of interest rate caps is determined based on generally accepted pricing models using quoted market interest rates for the appropriate term. Interest rate swaps are valued at the present value of estimated future cashflows and discounted based on applicable yield curves derived from market interest rates.

### Foreign currency hedging

The following table provides details on derivatives designated as net investment hedges in foreign currency hedging relationships outstanding as at June 30, 2010:

| (Millions)    | Hedging Item             | Hedged Currency | Notional | Rate          | Fair Value | Maturity  | Hedged Item                    |
|---------------|--------------------------|-----------------|----------|---------------|------------|-----------|--------------------------------|
| Jun. 30, 2010 | Foreign currency forward | British pounds  | GBP 184  | GBP 0.69/US\$ | \$17       | Sept 2010 | GBP denominated net investment |
|               | Foreign currency forward | Canadian dollar | C\$ 50   | C\$1.03/US\$  | \$2        | Nov 2010  | C\$ denominated net investment |
| Dec. 31, 2009 | —                        | —               | —        | —             | —          | —         | —                              |

In addition, as of June 30, 2010 we had designated C\$600 million of our Canadian dollar financial liabilities as hedges of the net investment in our Canadian operations.

### Other derivatives

At June 30, 2010, we had an interest rate swap to fix the interest rate on an initial notional \$1 billion of LIBOR based debt, which amortizes to \$500 million over the term of the swap, at 1.38% expiring in August 2011. The swap was not designated in a hedge relationship. The aggregate fair value of these contracts at June 30, 2010 was a loss \$6 million. For the three and six months ended June 30, 2010, losses of \$1 million and \$6 million, respectively, in connection with the swap have been recorded in fair value gains (losses) (June 30, 2009 – losses of nil and \$6 million).

As of June 30, 2010, we had forward starting swaps to fix the rate on a notional of \$300 million of refinancings at 3.01% starting in November 2010 for a period of seven years. These forward starting swaps are not designated in a hedge relationship. For the three and six months ended June 30, 2010, losses of \$5 million and \$5 million, respectively, in connection with the swap have been recorded in fair value gains (losses) (2009 – nil and nil).

At June 30, 2010, we had a total return swap under which we receive the returns on a notional 1,109,619 Brookfield Properties' common shares. The fair value of the total return swap was a loss of \$16 million at June 30, 2010 (December 31, 2009 - \$14 million loss) based on the market price of the underlying shares at that date. For the three and six months ended June 30, 2010, gains of nil and \$3 million, respectively, in connection with the swap have been recorded in general and administrative expense (June 30, 2009 – gains of \$2 million and nil).

The primary risks associated with our use of derivatives are credit risk and price risk. Credit risk is the risk that losses will be incurred from the default of the counterparty on its contractual obligations. The use of derivative contracts is governed by documented risk management policies and approved limits, which includes an evaluation of the creditworthiness of counterparties, as well as managing the size, diversification and maturity of the portfolio. Price risk is the risk that we will incur losses from derivatives from adverse changes in foreign exchange rates, interest rates or share prices. We mitigate price risk by entering only into derivative transactions where we have determined a significant offset exists between changes in the fair value of, or the cashflows attributable to, the hedged item and the hedging item.

## **PART V – CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

### **CHANGES IN ACCOUNTING POLICIES**

We adopted IFRS as our basis of financial reporting effective for the first quarter of 2010 with restatement of comparative periods, using a transition date of January 1, 2009. The impact of the adoption of IFRS on our financial position and results of operations is discussed beginning in Part II of this MD&A. The significant accounting policies followed on adoption of IFRS are included in Note 2 to the consolidated interim financial statements included in this report. Note 3 to the consolidated financial statements also includes a reconciliation of our equity, net income and comprehensive income as reported under Canadian GAAP and IFRS.

### **FUTURE ACCOUNTING POLICY CHANGES**

#### **Financial instruments**

IFRS 9, “Financial Instruments” (“IFRS 9”) was issued by the IASB on November 12, 2009 and will replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. We are currently evaluating the impact of IFRS 9 on our financial statements.

#### **Related Party Disclosures – revised definition of related parties**

On November 4, 2009 the IASB issued a revised version of IAS 24, “Related Party Disclosures” (“IAS 24”). IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. We are currently evaluating the impact of the change to IAS 24 on our financial statements.

### **CRITICAL ACCOUNTING POLICIES**

Our critical accounting policies are those that we believe are the most important in portraying our financial condition and results, and which require the most subjective judgment and estimates on the part of management.

#### **Investment Properties**

Investment properties include commercial properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Commercial properties and commercial developments are recorded at fair value, determined based on available market evidence, at the balance sheet date. We determine the fair value of each investment property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the balance sheet date, less future cash flows in respect of such leases. Fair values are primarily determined by discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Active developments are measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. Development sites in the planning phases are measured using comparable market values for similar assets. Valuations of investment properties are most sensitive to changes in the discount rate.

The cost of commercial developments includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on the purchase cost of a site or property acquired specifically for redevelopment in the short-term but only where activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. We consider practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where we have pre-leased space as of or prior to the start of the development and the lease requires us to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements. Initial direct leasing costs we incur in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

#### **U.S. Office Fund**

Our interest in the U.S. Office Fund is held through an indirect interest in TRZ Holdings LLC, an entity we established along with our joint venture partner, Blackstone, to acquire Trizec Properties Inc. We have determined that the Venture is a jointly controlled entity which is accounted for following the equity method of accounting as we have joint control, together with Blackstone, over the strategic financial and operating policy decisions relating to the activities of the Venture.

Under the terms of our joint venture agreement with Blackstone, Blackstone has the option to call its sub-managed properties in exchange for its equity interest in the venture commencing in 2011 for a period of nine months. If Blackstone does not exercise this option, we have the option to put these properties to Blackstone in redemption for its equity in the venture for a period of 14 month commencing in 2013. On exercise of either the put or call (collectively, the "U.S. Office Fund option"), we are subject to certain cash adjustment payments (the "true-up") to compensate for differences between the distributions paid and the actual cash flows of the respective sub-managed properties. Such cash adjustments also provide for cross participation in cash flows and changes in fair value of each party's sub-managed properties. We have determined that our put option is a derivative financial instrument that is carried at fair value. Also, we have determined that our rights and obligations under the true-up represent a financial instrument with an embedded derivative relating to the adjustment for changes in fair value of the properties. The true-up is measured at amortized cost using the effective interest method, except for that portion representing the embedded derivative that is measured at fair value.

The carrying amounts of the put option and true-up are determined based on estimates of the future values of the properties and debt underlying the equity interests in the Fund, and assumptions about the timing of settlement. The carrying amounts of these instruments are most sensitive to changes in the relative values of the underlying sub-managed portfolios of properties, which in turn are subject to the estimates and assumptions associated with valuing investment properties discussed above.

#### **Tax**

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the balance sheet date. Current income tax relating to items recognized directly in equity are also recognized directly in equity.

In accordance with IFRS, we use the liability method of accounting for deferred income taxes and provide for deferred income taxes for all significant differences between the tax bases and carrying amounts of assets and liabilities. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of deferred income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability settled, based on the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Deferred taxes related to temporary differences arising in our REIT subsidiaries, joint ventures and associates are measured based on the tax rates applicable to distributions received by the investor entity on the basis that REITs can deduct dividends or distributions paid such that their liability for income taxes is substantially reduced or eliminated for the year, and we intend that these entities will continue to distribute their taxable income and continue to qualify as REITs for the foreseeable future.

Judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any related valuation allowance. To the extent a valuation allowance is created or revised, current period earnings will be affected. Judgment is required to assess tax interpretations, regulations and legislation, which are continually changing to ensure liabilities are complete and to ensure assets net of valuation allowances are realizable. The impact of different interpretations and applications could potentially be material.

#### **Revenue Recognition**

We account for our leases with tenants as operating leases as we have retained substantially all of the risks and benefits of ownership of our investment properties. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the company is required to make additions to the property in the form of tenant improvements which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. An allowance for doubtful accounts is recorded, if necessary, for estimated losses resulting from the inability of tenants to make required rent payments. The computation of this allowance is based on the tenants' payment history and current credit status, as well as certain industry or geographic specific credit considerations.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including property and capital taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

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

Revenue from the sale of homes is recognized when title passes to the purchaser upon closing and at which time all proceeds are received or collectability is assured.

## **Financial Instruments**

We classify our financial instruments into categories based on the purpose for which the instrument was acquired or issued, its characteristics and our designation of the instrument. The category into which we classify financial instruments determines its measurement basis (e.g., fair value, amortized cost) subsequent to initial recognition. We hold financial instruments that represent secured debt and equity interests in commercial properties that are measured at fair value. Estimation of the fair value of these instruments is subject to the estimates and assumptions associated with valuation of investment properties.

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk.

## **Residential development inventories**

Residential development inventories are recorded at the lower of cost and estimated net realizable value. Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue. Residential developments are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may exceed net realizable value. An impairment loss is recognized in net income when carrying value of the land exceeds its net realizable value. We estimate the net realizable value of our residential development inventory using estimates and assumptions about future selling prices and future development costs which take into account the specific development plans for each project and our best estimate of the most probable set of economic conditions anticipated to prevail in the market.

## **Basis of consolidation**

We have determined that we control WFP Forest Products Limited ("WFPL"), an entity that owns the limited partnership interest in our residential development subsidiary, Carma Developers LP, as we have retained the majority of the residual ownership risk of the assets of WFPL.

## **USE OF ESTIMATES**

The preparation of our financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. The result of our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amounts of revenues and expenses that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions.

## **RELATED-PARTY TRANSACTIONS**

In the normal course of operations, we enter into various transactions on market terms with related parties which have been measured at exchange value and are recognized in the consolidated financial statements.

At June 30, 2010, we had approximately \$15 million (December 31, 2009 - \$15 million) of indebtedness outstanding to our parent company, BAM and its affiliates. Additionally, we have a \$300 million line from BAM in the form of a two-year revolving credit facility that matures in December 2010. The outstanding balance on this facility at June 30, 2010 was nil (December 31, 2009 – nil). Interest expense related to this indebtedness, totaled nil and nil, respectively, for the three and six months ended June 30, 2010 compared to \$0.5 million and \$1 million for the three and six months ended June 30, 2009. We also have a balance on deposit with BAM of \$277 million as of June 30, 2010, which is due on demand and earns interest at a rate of LIBOR plus 42.5 basis points (December 31, 2009 – \$648 million). Interest income related to this loan totaled \$1 million and \$2 million, respectively, for the three and six months ended June 30, 2010 (2009 – nil and nil). Included in rental revenues are amounts received from BAM and its affiliates for the rental of office premises of \$0.4 million and \$0.8 million, respectively, for the three and six months ended June 30, 2010 (2009 - \$0.4 million and \$0.8 million). These amounts have been recorded at the exchange amount. In addition, we have certain arrangements with BAM and its affiliates to acquire insurance in the normal course of business and at market rates or at cost. The expense for the three and six months ended June 30, 2010 was nil and nil.

In the first and second quarter of 2010, we entered into two total return swaps with BAM with a cash collateralized notional of \$505 million. The value of the swap references the change in value of securities of a portfolio of commercial properties. The term of the swap is the earlier of 5 years or repayment of underlying securities. For the three and six months ended June 30, 2010, a \$2 million and \$2 million gain has been recorded on this swap.

In 2010, we entered into a put arrangement with BAM under which our investment in certain equity securities may be sold to BAM for a price based on our cost at anytime. Under this put arrangement we have agreed that, in the event we dispose of our investment to a third party prior to expiration of the option, a portion of the resulting proceeds in excess of the put price specified in the contract will be paid to BAM. As at June 30, 2010, the fair value of this contract was nil.

The general partner of Brookfield TBird Holdings LP (the "LP"), which is responsible for the management and conduct of the LP, is a wholly-owned subsidiary of BAM. Under the terms of an agreement with the general partner, we were assigned \$2 million of the general partner's allocation of the return from the LP for management services.

We have a loan receivable of \$49 million from an entity controlled by BAM that is secured by commercial office property. The loan is due December 1, 2010. Interest income earned on this loan was nil for the three and six months ended June 30, 2010 (2009 – nil).

## DISTRIBUTIONS

Distributions paid by Brookfield Properties during the first and second quarters of 2010 and the year ended December 31, 2009 are as follows:

|                                     | Currency | Three months ended | Three months ended | Year ended    |
|-------------------------------------|----------|--------------------|--------------------|---------------|
|                                     |          | Jun. 30, 2010      | Mar. 31, 2010      | Dec. 31, 2009 |
| Common shares                       | US\$     | \$ 0.1400          | \$ 0.1400          | \$ 0.5600     |
| Class A preferred shares            | C\$      | 0.0208             | 0.0208             | 0.0833        |
| Class AA Series E preferred shares  | C\$      | 0.0984             | 0.0984             | 0.4480        |
| Class AAA Series E preferred shares | C\$      | 0.1016             | 0.0971             | 0.4267        |
| Class AAA Series F preferred shares | C\$      | 0.3750             | 0.3750             | 1.5000        |
| Class AAA Series G preferred shares | US\$     | 0.3281             | 0.3281             | 1.3125        |
| Class AAA Series H preferred shares | C\$      | 0.3594             | 0.3594             | 1.4375        |
| Class AAA Series I preferred shares | C\$      | 0.3250             | 0.3250             | 1.3000        |
| Class AAA Series J preferred shares | C\$      | 0.3125             | 0.3125             | 1.2500        |
| Class AAA Series K preferred shares | C\$      | 0.3250             | 0.3250             | 1.3000        |
| Class AAA Series L preferred shares | C\$      | 0.4219             | 0.4219             | 0.4531        |
| Class AAA Series N preferred shares | C\$      | 0.3844             | 0.2949             | —             |

# Consolidated Balance Sheets

| Unaudited<br>(US Millions)                       | Note | Jun. 30, 2010    | Dec. 31, 2009 <sup>(1)</sup> | Jan. 1, 2009 <sup>(1)</sup> |
|--|------|------------------|------------------------------|-----------------------------|
| <b>Assets</b>                                    |      |                  |                              |                             |
| <b>Non-current assets</b>                        |      |                  |                              |                             |
| Investment properties                            |      |                  |                              |                             |
| Commercial properties                            | 5    | \$ 9,659         | \$ 9,513                     | \$ 8,965                    |
| Commercial developments                          | 5    | 443              | 469                          | 1,039                       |
| Equity accounted investments                     |      |                  |                              |                             |
| Investment in U.S. Office Fund                   | 6    | 1,124            | 945                          | 2,078                       |
| Other jointly controlled entities                | 7    | 1,019            | 891                          | 887                         |
| Investments in associates                        | 9    | 17               | 15                           | 10                          |
| Residential development inventories              | 10   | 755              | 797                          | 718                         |
| Non-current financial assets                     | 11   | 1,135            | 583                          | —                           |
|  |      | <b>14,152</b>    | <b>13,213</b>                | <b>13,697</b>               |
| <b>Current assets</b>                            |      |                  |                              |                             |
| Residential development inventories              | 10   | 465              | 438                          | 478                         |
| Receivables and other assets                     | 12   | 981              | 1,341                        | 595                         |
| Restricted cash and deposits                     | 13   | 37               | 39                           | 64                          |
| Cash and cash equivalents                        | 32   | 127              | 104                          | 109                         |
|  |      | <b>1,610</b>     | <b>1,922</b>                 | <b>1,246</b>                |
| Assets held for sale                             | 14   | 315              | 311                          | 294                         |
| <b>Total assets</b>                              |      | <b>\$ 16,077</b> | <b>\$ 15,446</b>             | <b>\$ 15,237</b>            |
| <b>Liabilities</b>                               |      |                  |                              |                             |
| <b>Non-current liabilities</b>                   |      |                  |                              |                             |
| Commercial property debt                         | 15   | \$ 4,954         | \$ 4,525                     | \$ 5,368                    |
| Residential development debt                     | 16   | 84               | 46                           | 55                          |
| Capital securities – corporate                   | 17   | 1,001            | 1,009                        | 882                         |
| Capital securities – fund subsidiaries           |      | —                | —                            | 265                         |
| Other non-current financial liabilities          | 18   | 113              | 117                          | —                           |
| Other non-current liabilities                    | 19   | 172              | 172                          | —                           |
| Deferred tax liabilities                         | 21   | 513              | 516                          | 560                         |
|  |      | <b>6,837</b>     | <b>6,385</b>                 | <b>7,130</b>                |
| <b>Current liabilities</b>                       |      |                  |                              |                             |
| Commercial property debt                         | 15   | 197              | 626                          | 661                         |
| Residential development debt                     | 16   | 244              | 131                          | 379                         |
| Accounts payable and accrued liabilities         | 20   | 408              | 475                          | 491                         |
|  |      | <b>849</b>       | <b>1,232</b>                 | <b>1,531</b>                |
| Liabilities associated with assets held for sale | 14   | 158              | 174                          | 217                         |
| <b>Total liabilities</b>                         |      | <b>7,844</b>     | <b>7,791</b>                 | <b>8,878</b>                |
| <b>Equity</b>                                    |      |                  |                              |                             |
| Preferred equity                                 | 22   | 561              | 304                          | 45                          |
| Common equity                                    | 22   | 6,713            | 6,514                        | 5,778                       |
| Total shareholders' equity                       |      | <b>7,274</b>     | <b>6,818</b>                 | <b>5,823</b>                |
| Non-controlling interests                        | 22   | 959              | 837                          | 536                         |
| <b>Total equity</b>                              |      | <b>8,233</b>     | <b>7,655</b>                 | <b>6,359</b>                |
| <b>Total liabilities and equity</b>              |      | <b>\$ 16,077</b> | <b>\$ 15,446</b>             | <b>\$ 15,237</b>            |

<sup>(1)</sup> Refer to Note 3 for effects of adoption of IFRS  
See accompanying notes to the consolidated financial statements

## Consolidated Statements of Income

| Unaudited<br>(US Millions, except per share amounts)   | Note | Three months ended Jun. 30 |                     | Six months ended Jun. 30 |                     |
|--|------|----------------------------|---------------------|--------------------------|---------------------|
|  |      | 2010                       | 2009 <sup>(1)</sup> | 2010                     | 2009 <sup>(1)</sup> |
| <b>Total revenue</b>   | 23   | \$ 446                     | \$ 347              | \$ 838                   | \$ 657              |
| <b>Net operating income</b>  |      |                            |                     |                          |                     |
| Commercial operations  | 23   | 180                        | 162                 | 351                      | 315                 |
| Residential operations   | 23   | 33                         | 13                  | 48                       | 19                  |
|  |      | 213                        | 175                 | 399                      | 334                 |
| Interest and other income  | 23   | 16                         | 17                  | 34                       | 24                  |
|  |      | 229                        | 192                 | 433                      | 358                 |
| <b>Expenses</b>  |      |                            |                     |                          |                     |
| Interest   |      |                            |                     |                          |                     |
| Commercial property debt   |      | 76                         | 74                  | 147                      | 146                 |
| Capital securities – corporate   |      | 15                         | 14                  | 29                       | 26                  |
| General and administrative   |      | 31                         | 27                  | 59                       | 54                  |
| Depreciation   |      | 4                          | 3                   | 7                        | 6                   |
| <b>Income before gains and other items, fair value gains (losses), share of net earnings (losses) from equity accounted investments and income tax expense (benefit)</b> |      | 103                        | 74                  | 191                      | 126                 |
| Gains and other items  | 24   | —                          | 151                 | —                        | 151                 |
| Fair value (losses) gains  | 25   | (54)                       | (233)               | 12                       | (619)               |
| Share of net earnings (losses) from equity accounted investments   | 26   | 148                        | (405)               | 298                      | (714)               |
| <b>Income (loss) before income taxes</b>   |      | 197                        | (413)               | 501                      | (1,056)             |
| Income tax expense (benefit)   | 21   | 29                         | 7                   | 60                       | (27)                |
| <b>Net income (loss) from continuing operations</b>  |      | 168                        | (420)               | 441                      | (1,029)             |
| Income from discontinued operations  | 14   | 6                          | 3                   | 10                       | 6                   |
| <b>Net income (loss)</b>   |      | \$ 174                     | \$ (417)            | \$ 451                   | \$ (1,023)          |
| <b>Net income (loss) attributable to</b>   |      |                            |                     |                          |                     |
| Common shareholders  |      | \$ 154                     | \$ (396)            | \$ 406                   | \$ (1,001)          |
| Non-controlling interests  |      | 20                         | (21)                | 45                       | (22)                |
|  |      | \$ 174                     | \$ (417)            | \$ 451                   | \$ (1,023)          |
| <b>Net income (loss) per share attributable to common shareholders - basic</b>   |      |                            |                     |                          |                     |
| Continuing operations  |      | \$ 0.28                    | \$ (1.02)           | \$ 0.75                  | \$ (2.58)           |
| Discontinued operations  |      | 0.01                       | 0.01                | 0.02                     | 0.02                |
|  |      | \$ 0.29                    | \$ (1.01)           | \$ 0.77                  | \$ (2.56)           |
| <b>Net income (loss) per share attributable to common shareholders - diluted</b>   |      |                            |                     |                          |                     |
| Continuing operations  |      | \$ 0.27                    | \$ (1.02)           | \$ 0.70                  | \$ (2.58)           |
| Discontinued operations  |      | 0.01                       | 0.01                | 0.02                     | 0.02                |
|  |      | \$ 0.28                    | \$ (1.01)           | \$ 0.72                  | \$ (2.56)           |

<sup>(1)</sup> Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Comprehensive Income

| Unaudited<br>(US Millions)  | Three months ended Jun. 30 |                     | Six months ended Jun. 30 |                     |
|---|----------------------------|---------------------|--------------------------|---------------------|
|   | 2010                       | 2009 <sup>(1)</sup> | 2010                     | 2009 <sup>(1)</sup> |
| <b>Net income (loss)</b>  | \$ 174                     | \$ (417)            | \$ 451                   | \$ (1,023)          |
| Foreign currency translation  |                            |                     |                          |                     |
| Unrealized foreign currency translation (losses) gains of foreign operations  | (113)                      | 155                 | (37)                     | 93                  |
| Net unrealized gains (losses) gains on hedges of investments in foreign operations, net of income taxes of \$7 million (2009 – nil) | 54                         | (63)                | 33                       | (44)                |
| Reclassification to earnings of foreign exchange gain   | —                          | 3                   | —                        | 3                   |
|   | (59)                       | 95                  | (4)                      | 52                  |
| Derivatives designated as cash flow hedges  |                            |                     |                          |                     |
| Unrealized gain (losses) on derivatives designated as cash flow hedges, net of income taxes of nil (2009 – nil)                     | —                          | —                   | 1                        | (2)                 |
| Recognition in profit of losses on derivatives designated as cash flow hedges, net of income taxes of nil (2009 – nil)              | —                          | 1                   | —                        | 1                   |
|   | —                          | 1                   | 1                        | (1)                 |
| <b>Other comprehensive income (loss)</b>  | (59)                       | 96                  | (3)                      | 51                  |
| <b>Comprehensive income (loss)</b>  | <b>115</b>                 | <b>(321)</b>        | <b>448</b>               | <b>(972)</b>        |
| <b>Comprehensive income (loss) attributable to</b>  |                            |                     |                          |                     |
| Common shareholders   | 95                         | (300)               | 403                      | (950)               |
| Non-controlling interests   | 20                         | (21)                | 45                       | (22)                |
|   | \$ 115                     | \$ (321)            | \$ 448                   | \$ (972)            |

<sup>(1)</sup> Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to the consolidated financial statements

## Consolidated Statements of Changes in Equity

| Unaudited<br>(US Millions)  | Note | Three months ended Jun. 30 |                     | Six months ended Jun. 30 |                     |
|---|------|----------------------------|---------------------|--------------------------|---------------------|
|   |      | 2010                       | 2009 <sup>(1)</sup> | 2010                     | 2009 <sup>(1)</sup> |
| <b>Preferred equity</b>   |      |                            |                     |                          |                     |
| Balance, beginning of period  |      | \$ 561                     | \$ 45               | \$ 304                   | \$ 45               |
| Proceeds from shares issued on share offering                         |      | —                          | —                   | 257                      | —                   |
| Balance, end of period  | 22   | \$ 561                     | \$ 45               | \$ 561                   | \$ 45               |
| <b>Common equity</b>  |      |                            |                     |                          |                     |
| Common shares   |      |                            |                     |                          |                     |
| Balance, beginning of period  |      | \$ 3,305                   | \$ 2,274            | \$ 3,303                 | \$ 2,274            |
| Dividend reinvestment   |      | —                          | 2                   | 1                        | 2                   |
| Proceeds from shares issued on exercise of options                    |      | —                          | —                   | 1                        | —                   |
| Balance, end of period  |      | 3,305                      | 2,276               | 3,305                    | 2,276               |
| Contributed surplus   |      |                            |                     |                          |                     |
| Balance, beginning of period  |      | 20                         | 5                   | 10                       | 4                   |
| Non-controlling interests repurchased                                 |      | —                          | —                   | 9                        | —                   |
| Non-controlling interests issued in excess of redemptions             |      | (22)                       | —                   | (22)                     | —                   |
| Stock-based compensation awards                                       |      | 2                          | 2                   | 3                        | 3                   |
| Balance, end of period  |      | —                          | 7                   | —                        | 7                   |
| Retained earnings   |      |                            |                     |                          |                     |
| Balance, beginning of period  |      | 3,197                      | 2,848               | 3,025                    | 3,509               |
| Net income (loss) attributable to common shareholders                 |      | 154                        | (396)               | 406                      | (1,001)             |
| Shareholder distributions   |      |                            |                     |                          |                     |
| Preferred share dividends   |      | (8)                        | —                   | (17)                     | (1)                 |
| Common share dividends  |      | (70)                       | (55)                | (141)                    | (110)               |
| Non-controlling interests issued in excess of redemptions             |      | (38)                       | —                   | (38)                     | —                   |
| Balance, end of period  |      | 3,235                      | 2,397               | 3,235                    | 2,397               |
| Accumulated other comprehensive income (loss)                         |      |                            |                     |                          |                     |
| Balance, beginning of period  |      | 232                        | (54)                | 176                      | (9)                 |
| Other comprehensive (loss) income attributable to common shareholders |      | (59)                       | 96                  | (3)                      | 51                  |
| Balance, end of period  | 22   | 173                        | 42                  | 173                      | 42                  |
| Total common equity   |      | \$ 6,713                   | \$ 4,722            | \$ 6,713                 | \$ 4,722            |
| <b>Total shareholders' equity</b>                                     |      | \$ 7,274                   | \$ 4,767            | \$ 7,274                 | \$ 4,767            |
| <b>Non-controlling interests</b>                                      |      |                            |                     |                          |                     |
| Balance, beginning of period  |      | \$ 869                     | \$ 527              | \$ 837                   | \$ 536              |
| Net income (loss) attributable to non-controlling interests           |      | 20                         | (21)                | 45                       | (22)                |
| Foreign currency translation  |      | (28)                       | 19                  | (12)                     | 7                   |
| Non-controlling interests issued                                      |      | 98                         | 260                 | 98                       | 264                 |
| Non-controlling interests repurchased                                 |      | —                          | —                   | (9)                      | —                   |
| Balance, end of period  | 22   | 959                        | 785                 | 959                      | 785                 |
| <b>Total equity</b>   |      | \$ 8,233                   | \$ 5,552            | \$ 8,233                 | \$ 5,552            |

<sup>(1)</sup> Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to the consolidated financial statements

# Consolidated Statements of Cashflow

| Unaudited<br>(US Millions)   | Note | Three months ended Jun. 30 |                     | Six months ended Jun. 30 |                     |
|--|------|----------------------------|---------------------|--------------------------|---------------------|
|  |      | 2010                       | 2009 <sup>(1)</sup> | 2010                     | 2009 <sup>(1)</sup> |
| <b>Operating activities</b>  |      |                            |                     |                          |                     |
| Net income (loss)  |      | \$ 174                     | \$ (417)            | \$ 451                   | \$ (1,023)          |
| Share of undistributed net (earnings) losses from equity accounted investments |      | (116)                      | 405                 | (266)                    | 714                 |
| Fair value losses (gains)  |      | 57                         | 233                 | (8)                      | 619                 |
| Deferred income tax expense (benefit)  |      | 18                         | (8)                 | 36                       | (51)                |
| Gains and other items  | 24   | —                          | (151)               | —                        | (151)               |
| Depreciation   |      | 4                          | 3                   | 7                        | 6                   |
| Accretion of debt discount and transaction costs                               |      | —                          | 3                   | 2                        | 5                   |
| Stock option and deferred share units grant expense                            | 27   | 2                          | 2                   | 3                        | 3                   |
| Initial direct leasing costs   |      | (6)                        | (6)                 | (7)                      | (13)                |
| Increase/(decrease) in housing and land inventory                              |      | (6)                        | 16                  | (2)                      | (4)                 |
| Working capital and other  |      | 7                          | 24                  | (36)                     | (30)                |
|  |      | <b>134</b>                 | <b>104</b>          | <b>180</b>               | <b>75</b>           |
| <b>Financing activities and capital distributions</b>                          |      |                            |                     |                          |                     |
| Commercial property debt arranged  |      | 28                         | 221                 | 30                       | 242                 |
| Commercial property debt repayments  |      | (47)                       | (204)               | (76)                     | (222)               |
| Corporate credit facilities arranged   |      | —                          | 73                  | —                        | 212                 |
| Corporate credit facilities repayments   |      | —                          | (109)               | —                        | (109)               |
| Land development debt arranged   |      | 9                          | 10                  | 197                      | 54                  |
| Land development debt repayments   |      | (29)                       | (18)                | (39)                     | (30)                |
| Non-controlling interest contributions arranged – fund subsidiaries            |      | —                          | —                   | —                        | 4                   |
| Distributions to non-controlling interests                                     |      | —                          | (14)                | (1)                      | (16)                |
| Preferred shares issued  |      | —                          | —                   | 257                      | —                   |
| Preferred share dividends  |      | (8)                        | —                   | (17)                     | (1)                 |
| Common share dividends   |      | (70)                       | (53)                | (141)                    | (108)               |
|  |      | <b>(117)</b>               | <b>(94)</b>         | <b>210</b>               | <b>26</b>           |
| <b>Investing activities</b>  |      |                            |                     |                          |                     |
| Purchase of financial assets   |      | —                          | —                   | (436)                    | —                   |
| Proceeds from sale of financial assets   |      | 5                          | —                   | 100                      | —                   |
| Distributions from associates  |      | 137                        | —                   | 137                      | —                   |
| Investment in real estate joint ventures                                       |      | —                          | —                   | (68)                     | —                   |
| Loans receivable from affiliate  |      | (124)                      | —                   | (50)                     | —                   |
| Loans receivable - other   |      | —                          | 20                  | —                        | 20                  |
| Acquisitions of real estate  |      | (2)                        | —                   | (2)                      | —                   |
| Restricted cash and deposits   |      | 2                          | 4                   | 2                        | 24                  |
| Capital expenditures – development and redevelopment                           |      | (12)                       | (35)                | (14)                     | (69)                |
| Capital expenditures – commercial properties                                   |      | (12)                       | (18)                | (36)                     | (36)                |
|  |      | <b>(6)</b>                 | <b>(29)</b>         | <b>(367)</b>             | <b>(61)</b>         |
| Increase (decrease) in cash resources  |      | 11                         | (19)                | 23                       | 40                  |
| Opening cash and cash equivalents  |      | 116                        | 168                 | 104                      | 109                 |
| Closing cash and cash equivalents  |      | \$ 127                     | \$ 149              | \$ 127                   | \$ 149              |

<sup>(1)</sup> Refer to Note 3 for effects of adoption of IFRS

See accompanying notes to the consolidated financial statements

# Notes to the Consolidated Financial Statements

## NOTE 1: NATURE AND DESCRIPTION OF THE COMPANY

Brookfield Properties Corporation ("Brookfield" or "the company") is incorporated under the laws of Canada. The company owns, develops and operates commercial office properties in select cities in North America and develops residential land. The company is a subsidiary of Brookfield Asset Management Inc. ("BAM") which owns 51% of the company's voting common shares. The common shares are listed on the Toronto Stock Exchange and the New York Stock Exchange under the symbol "BPO". The registered office of the company is Brookfield Place, 181 Bay Street, Suite 300, Toronto, Ontario, M5J 2T3 and it operates head offices at Three World Financial Center in New York, New York and Brookfield Place in Toronto, Ontario.

## NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

International Financial Reporting Standards ("IFRS") requires an entity to adopt IFRS in its first annual financial statements under IFRS by making an explicit and unreserved statement in those financial statements of compliance with IFRS. The company will make this statement when it issues its 2010 annual financial statements. These financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the company expects to adopt in its consolidated financial statements for the year ending December 31, 2010.

### (b) Basis of presentation

The financial statements are prepared on a going concern basis and have been presented in U.S. dollars rounded to the nearest million. The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 4.

### (c) Basis of consolidation

The consolidated financial statements include the accounts of the company and its consolidated subsidiaries, which are the entities over which the company has control. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefit from its activities. Non-controlling interests in the equity and results of the company's subsidiaries are shown separately in equity in the consolidated balance sheet.

### (d) Investments in joint ventures and associates

#### (i) Interests in joint ventures

A joint venture is a contractual arrangement pursuant to which the company and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The company reports its interests in jointly controlled entities using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for the company's proportionate share of post-acquisition changes in the net assets of the joint ventures, or for post-acquisition changes in any excess of the company's carrying amount over the net assets of the joint ventures, less any identified impairment loss. When the company's share of losses of a joint venture equals or exceeds its interest in that joint venture, the company discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the company has incurred legal or constructive obligations to fund the entity or made payments on behalf of that entity.

Where the company undertakes its activities under joint venture arrangements through a direct interest in the joint venture's assets, rather than through the establishment of a separate entity, the company's proportionate share of joint venture assets, liabilities, revenues and expenses are recognized in the financial statements and classified according to their nature.

Where the company transacts with its jointly controlled entities, unrealized profits and losses are eliminated to the extent of the company's interest in the joint venture. Balances outstanding between the company and jointly controlled entities in which it has an interest are not eliminated in the consolidated balance sheet.

#### (ii) Investments in associates

An associate is an entity over which the investor has significant influence but not control and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the company's financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for

the company's proportionate share of post-acquisition changes in the net assets of the associates, or for post-acquisition changes in any excess of the company's carrying amount over the net assets of the associates, less any identified impairment loss. When the company's share of losses of an associate equals or exceeds its interest in that associate, the company discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized only to the extent that the company has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the company, profits and losses are eliminated to the extent of the company's interest in the relevant associate. Balances outstanding between the company and associates are not eliminated in the consolidated balance sheet.

**(e) Investment properties**

Investment properties include commercial properties held to earn rental income and properties that are being constructed or developed for future use as investment properties. Commercial properties and commercial developments are recorded at fair value, determined based on available market evidence, at the balance sheet date. Related fair value gains and losses are recorded in net income in the period in which they arise.

The cost of commercial developments includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Borrowing costs associated with direct expenditures on properties under development or redevelopment are capitalized. Borrowing costs are also capitalized on the purchase cost of a site or property acquired specifically for redevelopment in the short-term but only where activities necessary to prepare the asset for development or redevelopment are in progress. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average cost of borrowings to eligible expenditures after adjusting for borrowings associated with other specific developments. Where borrowings are associated with specific developments, the amount capitalized is the gross cost incurred on those borrowings less any investment income arising on their temporary investment. Borrowing costs are capitalized from the commencement of the development until the date of practical completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. The company considers practical completion to have occurred when the property is capable of operating in the manner intended by management. Generally this occurs upon completion of construction and receipt of all necessary occupancy and other material permits. Where the company has pre-leased space as of or prior to the start of the development and the lease requires the company to construct tenant improvements which enhance the value of the property, practical completion is considered to occur on completion of such improvements.

Initial direct leasing costs incurred by the company in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

Investment properties are reclassified to Assets held for sale when criteria set out in IFRS 5, "Non-current assets held for sale and discontinued operations" are met.

**(f) Assets held for sale**

Non-current assets and groups of assets and liabilities which comprise disposal groups are categorized as assets held for sale where the asset or disposal group is available for sale in its present condition, and the sale is highly probable. For this purpose, a sale is highly probable if management is committed to a plan to achieve the sale; there is an active program to find a buyer; the non-current asset or disposal group is being actively marketed at a reasonable price; the sale is anticipated to be completed within one year from the date of classification, and; it is unlikely there will be changes to the plan. Where an asset or disposal group is acquired with a view to resale, it is classified as a non-current asset held for sale if the disposal is expected to take place within one year of the acquisition, and it is highly likely that the other conditions referred to above will be met within a short period following the acquisition. The profit or loss arising on sale of a disposal group will be recognized as discontinued operations.

**(g) Residential development inventories**

Residential development inventories are recorded at the lower of cost and estimated net realizable value. Costs are allocated to the saleable acreage of each project or subdivision in proportion to the anticipated revenue. Residential developments are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may exceed net realizable value. An impairment loss is recognized in net income when carrying value of the land exceeds its net realizable value. Net realizable value is based on projections of future cash flows which take into account the specific development plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

The cost of residential development inventories includes borrowing costs directly attributable to projects under active development. The amount of borrowing costs capitalized is determined first by reference to borrowings specific to the project, where relevant, and otherwise by applying a weighted average capitalization rate for the company's other borrowings to eligible expenditures. Borrowing costs are not capitalized on residential developments where no development activity is taking place. Residential development inventories are considered

current assets when active development begins at which time they are classified as land under development or housing inventory; land held for development is considered non-current.

**(h) Taxation**

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

**(i) Provisions**

A provision is a liability of uncertain timing or amount. Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Provisions are re-measured at each balance sheet date using the current discount rate. The increase in the provision due to passage of time is recognized as interest expense.

**(j) Foreign currencies**

The financial statements are presented in U.S. dollars, which is the functional currency of the company and the presentation currency for the consolidated financial statements.

Assets and liabilities of subsidiaries or equity accounted investees having a functional currency other than the U.S. dollar are translated at the rate of exchange at the balance sheet date. Revenues and expenses are translated at average rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transaction are used. The resulting foreign currency translation adjustments are recognized in other comprehensive income ("OCI").

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated to the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the income statement in interest and other, except for those related to monetary liabilities qualifying as hedges of the company's investment in foreign operations or certain intercompany loans to or from a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are included in other comprehensive income.

**(k) Share-based payments**

The company and its subsidiaries issue share-based awards to certain employees and non-employee directors. The cost of equity-settled share-based transactions is determined as the fair value of the options on the grant date using a fair value model. The cost of the stock-options is recognized on a proportionate basis consistent with the vesting features of each tranche of the grant. The cost of cash-settled share-based transactions is measured as the fair value at the grant date, and expensed over the vesting period with the recognition of a corresponding liability. The liability is measured at each reporting date at fair value with changes in fair value recognized in income.

**(l) Revenue recognition**

**(i) Commercial operations**

The company has retained substantially all of the risks and benefits of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the company is required to make additions to the property in the form of tenant improvements which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including property and capital taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

**(ii) Residential operations**

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

Revenue from the sale of homes is recognized when title passes to the purchaser upon closing and at which time all proceeds are received or collectability is assured.

**(iii) Performance and management fee revenue**

The company is entitled to management fees and performance fees on the management of properties for third parties. The company recognizes management fees as earned. The company recognizes performance fees in revenue when the amount receivable from its fund partners is determinable at the end of a contractually specified term.

**(m) Financial instruments and derivatives**

Derivative instruments are recorded in the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract.

The following summarizes the company's classification and measurement of financial assets and liabilities:

|   | Classification        | Measurement                   |
|---|-----------------------|-------------------------------|
| <b>Financial assets</b>   |                       |                               |
| Non-current financial assets  |                       |                               |
| Equity securities designated as available-for-sale ("AFS")                  | AFS                   | Fair value                    |
| Equity securities designated as fair value through profit or loss ("FVTPL") | FVTPL                 | Fair value                    |
| Derivative assets   | FVTPL                 | Fair value                    |
| Loans receivable  | Loans and receivables | Amortized cost                |
| Receivables and other assets  |                       |                               |
| Accounts receivable   | Loans and receivables | Amortized cost                |
| Loan receivable from affiliate  | Loans and receivables | Amortized cost                |
| Residential receivables   | Loans and receivables | Amortized cost                |
| Restricted cash and deposits  | Loans and receivables | Amortized cost                |
| Cash and cash equivalents   | Loans and receivables | Amortized cost                |
| <b>Financial liabilities</b>  |                       |                               |
| Commercial property debt  | Other liabilities     | Amortized cost <sup>(1)</sup> |
| Residential development debt  | Other liabilities     | Amortized cost                |
| Capital securities – corporate  | Other liabilities     | Amortized cost                |
| Capital securities – fund subsidiaries                                      | Other liabilities     | Amortized cost                |
| Other non-current financial liabilities                                     |                       |                               |
| Loan payable  | Other liabilities     | Amortized cost                |
| U.S. Office Fund true-up obligation   | Other liabilities     | Amortized cost <sup>(1)</sup> |
| Accounts payable and accrued liabilities                                    | Other liabilities     | Amortized cost                |

<sup>(1)</sup> Except for derivatives embedded in the related financial instruments that are classified as FVTPL and measured at fair value

The company applies hedge accounting to derivative financial instruments in cashflow hedging relationships, and to derivative and non-derivative financial instruments designated as hedges of net investments in subsidiaries. Hedge accounting is discontinued prospectively when the hedge relationship is terminated or no longer qualifies as a hedge, or when the hedging item is sold or terminated.

In cashflow hedging relationships, the effective portion of the change in the fair value of the hedging derivative is recognized in OCI while the ineffective portion is recognized in net income. Hedging gains and losses recognized in accumulated other comprehensive income ("AOCI") are reclassified to net income in the periods when the hedged item affects net income. Gains and losses on derivatives are immediately reclassified to net income when the hedged item is sold or terminated or when it is determined a hedged forecasted transaction is no longer probable.

In a net investment hedging relationship, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in OCI and the ineffective portion is recognized in net income. The amounts recorded in AOCI are recognized in net income when there is a disposition of the foreign subsidiary.

Changes in the fair value of derivative instruments, including embedded derivatives, that are not designated as hedges for accounting purposes, are recognized in fair value gains (losses) or general and administrative expense consistent with the underlying nature and purpose of the derivative instrument.

**(n) Cash and cash equivalents**

Cash and cash equivalents include cash and short-term investments with original maturities of three months or less.

**(o) Critical judgments in applying accounting policies**

The following are the critical judgments that have been made in applying the company's accounting policies and that have the most significant effect on the amounts in the financial statements:

**(i) Investment in U.S. Office Fund**

The company's investment in the U.S. Office Fund (the "Fund") is described in Note 6. The critical judgments made in accounting for the Fund relate to the company's determination that the venture is subject to joint control based on the rights assigned to the company and its joint venture partners under the joint venture agreement, the classification of certain of the investments in the venture as liabilities or equity, the identification of contractual provisions in the joint venture agreement that are accounted for separately as financial instruments under IAS 39, "Financial Instruments – Recognition and Measurement" ("IAS 39"), the measurement of the transactions related to the reorganization of the Fund which was completed in the second quarter of 2009 (the "reorganization"), and the classification of gains or losses resulting from reorganization in earnings or equity, as well as the period in which such amounts are recognized.

**(ii) Income taxes**

The company applies judgment in determining the tax rate applicable to its Real Estate Investment Trust ("REIT") subsidiaries and identifying the temporary differences related to such subsidiaries in respect of which deferred income taxes are recognized. Deferred taxes related to temporary differences arising in the company's REIT subsidiaries, joint ventures and associates are measured based on the tax rates applicable to distributions received by the investor entity on the basis that REITs can deduct dividends or distributions paid such that their liability for income taxes is substantially reduced or eliminated for the year, and the company intends that these entities will continue to distribute their taxable income and continue to qualify as REITs for the foreseeable future.

**(iii) Leases**

The company's policy for revenue recognition on commercial properties is described in Note 2(l)(i). In applying this policy, the company makes judgments with respect to whether tenant improvements provided in connection with a lease enhance the value of the leased property which determines whether such amounts are treated as additions to commercial property as well as the point in time at which revenue recognition under the lease commences.

The company also makes judgments in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the company is lessor, are operating or finance leases. The company has determined that all of its leases are operating leases.

**(iv) Investment property**

The company's accounting policies relating to investment property are described in Note 2(e). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Judgment is also applied in determining the extent and frequency of independent appraisals.

**(v) Financial instruments**

The company's accounting policies relating to financial instruments are described in Note 2(m). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as FVTPL, assessment of the effectiveness of hedging relationships, determining whether the company has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds and identification of embedded derivatives subject to fair value measurement in certain hybrid instruments.

**(vi) Basis of consolidation**

The company owns 100% of the non-voting common shares of WFP Forest Products Limited ("WFPL"), a joint venture which principally owns the limited partnership interest in a residential development subsidiary, Carma Developers LP, and has determined that WFPL is a special purpose entity. Judgment is involved in determining that WFPL is a special purpose entity that is within the scope of SIC Interpretation 12, "Consolidation – Special Purpose Entities", and in determining that, in substance, the company retains the majority of the residual ownership risk of the net assets of WFPL.

**(p) Critical Accounting Estimates and Assumptions**

The company makes estimates and assumptions that affect carried amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Actual results could differ from estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

**(i) Investment property**

The critical estimates and assumptions underlying the valuation of commercial properties and commercial developments are set out in Note 5.

**(ii) Financial instruments**

As discussed in Note 6, in accounting for its interest in the Fund the company recognizes the value of its option and the cash adjustment payments under the put and call arrangement and related true up payment as financial instruments. The carrying amounts of these financial instruments are determined based on estimates of the future values of the properties and debt underlying the equity interests in the Fund, and assumptions about the timing of settlement. The carrying amounts of these

instruments are most sensitive to changes in the relative values of the underlying sub-managed portfolios of properties, which in turn are subject to the estimates and assumptions associated with valuing investment properties discussed in Note 5.

The company holds other financial instruments that represent secured debt and equity interests in commercial properties that are measured at FVTPL. Estimation of the fair value of these instruments is also subject to the estimates and assumptions associated with investment properties.

**(ii) Residential developments**

The company estimates the net realizable value of its residential development inventory using estimates and assumptions about future selling prices and future development costs. Also, estimates of future development costs are used to allocate current development costs across phases and communities.

**NOTE 3: TRANSITION TO IFRS**

The company has adopted IFRS effective January 1, 2009 (“the transition date”) and has prepared its opening IFRS balance sheet as at that date. Prior to the adoption of IFRS the company prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The company’s consolidated financial statements for the year ending December 31, 2010 will be the first annual financial statements that comply with IFRS. The company will ultimately prepare its opening IFRS balance sheet by applying existing IFRS with an effective date of December 31, 2010 or prior. Accordingly, the opening IFRS balance sheet and the December 31, 2009 comparative balance sheet presented in the consolidated financial statements for the year ending December 31, 2010 may differ from those presented at this time.

**(a) Elected exemptions from full retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1, “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”), the company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

**(i) Business combinations**

The company has applied the business combinations exemption in IFRS 1 to not apply IFRS 3, “Business Combinations” retrospectively to past business combinations. Accordingly, the company has not restated business combinations that took place prior to the transition date.

**(ii) Fair value or revaluation as deemed cost**

The company has elected to measure owner-occupied property at fair value as at the transition date and use that amount as its deemed cost in the opening IFRS balance sheet.

**(iii) Cumulative translation differences**

The company has elected to set the previously accumulated cumulative translation account, which is included in accumulated other comprehensive income, to zero at January 1, 2009. This exemption has been applied to all subsidiaries.

**(iv) Share-based payment transactions**

The company has elected to apply IFRS 2, “Share-based Payments” (“IFRS 2”) to equity instruments granted after November 7, 2002 that have not vested by the transition date.

**(b) Mandatory exceptions to retrospective application**

In preparing these consolidated financial statements in accordance with IFRS 1 the company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below.

**(i) Hedge accounting**

Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in the company’s results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting were recorded as a non-hedging derivative financial instrument.

**(ii) Estimates**

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the company under Canadian GAAP are consistent with their application under IFRS.

**(c) Reconciliation of equity as reported under Canadian GAAP and IFRS**

The following is a reconciliation of the company's total equity reported in accordance with Canadian GAAP to its total equity in accordance with IFRS at the transition date:

| (Millions)  | Share Capital | Contributed Surplus | Retained Earnings | AOI    | Common Equity | Preferred Equity - Corporate | Non-Controlling Interests | Total Equity |
|---|---------------|---------------------|-------------------|--------|---------------|------------------------------|---------------------------|--------------|
| As reported under Canadian GAAP - Dec. 31, 2008                           | \$ 2,274      | \$ —                | \$ 1,098          | \$ (7) | \$ 3,365      | \$ 45                        | \$ —                      | \$ 3,410     |
| Reclassification of non-controlling interests to shareholders' equity (i) | —             | —                   | —                 | —      | —             | —                            | 593                       | 593          |
| Differences increasing (decreasing) reported amount:                      |               |                     |                   |        |               |                              |                           |              |
| Investment property (ii)  | —             | —                   | 2,795             | —      | 2,795         | —                            | 147                       | 2,942        |
| Basis of accounting (iii)   | —             | —                   | 18                | —      | 18            | —                            | (168)                     | (150)        |
| Financial instruments (iv)  | —             | —                   | (25)              | —      | (25)          | —                            | —                         | (25)         |
| Revenue recognition (v)   | —             | —                   | 3                 | —      | 3             | —                            | —                         | 3            |
| Deferred taxes (vi)   | —             | —                   | (378)             | —      | (378)         | —                            | (36)                      | (414)        |
| Cash flow hedges (vii)  | —             | —                   | (10)              | 10     | —             | —                            | —                         | —            |
| Cumulative translation differences (viii)                                 | —             | —                   | 12                | (12)   | —             | —                            | —                         | —            |
| Borrowing costs (ix)  | —             | —                   | —                 | —      | —             | —                            | —                         | —            |
| Other   | —             | 4                   | (4)               | —      | —             | —                            | —                         | —            |
| As reported under IFRS – Jan. 1, 2009                                     | \$ 2,274      | \$ 4                | \$ 3,509          | \$ (9) | \$ 5,778      | \$ 45                        | \$ 536                    | \$ 6,359     |

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at June 30, 2009:

| (Millions)  | Share Capital | Contributed Surplus | Retained Earnings | AOI    | Common Equity | Preferred Equity - Corporate | Non-Controlling Interests | Total Equity |
|---|---------------|---------------------|-------------------|--------|---------------|------------------------------|---------------------------|--------------|
| As reported under Canadian GAAP - Jun. 30, 2009                           | \$ 2,276      | \$ 3                | \$ 1,085          | \$ (8) | \$ 3,356      | \$ 45                        | \$ —                      | \$ 3,401     |
| Reclassification of non-controlling interests to shareholders' equity (i) | —             | —                   | —                 | —      | —             | —                            | 896                       | 896          |
| Differences increasing (decreasing) reported amount:                      |               |                     |                   |        |               |                              |                           |              |
| Investment property (ii)  | —             | —                   | 1,481             | —      | 1,481         | —                            | 136                       | 1,617        |
| Basis of accounting (iii)   | —             | —                   | 60                | —      | 60            | —                            | (212)                     | (152)        |
| Financial instruments (iv)  | —             | —                   | 71                | —      | 71            | —                            | —                         | 71           |
| Revenue recognition (v)   | —             | —                   | —                 | —      | —             | —                            | —                         | —            |
| Deferred taxes (vi)   | —             | —                   | (296)             | —      | (296)         | —                            | (35)                      | (331)        |
| Cash flow hedges (vii)  | —             | —                   | (10)              | 10     | —             | —                            | —                         | —            |
| Cumulative translation differences (viii)                                 | —             | —                   | 12                | 40     | 52            | —                            | —                         | 52           |
| Borrowing costs (ix)  | —             | —                   | (2)               | —      | (2)           | —                            | —                         | (2)          |
| Other   | —             | 4                   | (4)               | —      | —             | —                            | —                         | —            |
| As reported under IFRS – Jun. 30, 2009                                    | \$ 2,276      | \$ 7                | \$ 2,397          | \$ 42  | \$ 4,722      | \$ 45                        | \$ 785                    | \$ 5,552     |

The following is a reconciliation of the company's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2009:

| (Millions)  | Share Capital | Contributed Surplus | Retained Earnings | AOI    | Common Equity | Preferred Equity - Corporate | Non-Controlling Interests | Total Equity |
|---|---------------|---------------------|-------------------|--------|---------------|------------------------------|---------------------------|--------------|
| As reported under Canadian GAAP - Dec. 31, 2009                           | \$ 3,303      | \$ 6                | \$ 1,158          | \$ 55  | \$ 4,522      | \$ 304                       | \$ —                      | \$ 4,826     |
| Reclassification of non-controlling interests to shareholders' equity (i) | —             | —                   | —                 | —      | —             | —                            | 938                       | 938          |
| Differences increasing (decreasing) reported amount:                      |               |                     |                   |        |               |                              |                           |              |
| Investment property (ii)  | —             | —                   | 1,994             | —      | 1,994         | —                            | 146                       | 2,140        |
| Basis of accounting (iii)   | —             | —                   | 47                | —      | 47            | —                            | (220)                     | (173)        |
| Financial instruments (iv)  | —             | —                   | 74                | —      | 74            | —                            | —                         | 74           |
| Revenue recognition (v)   | —             | —                   | 23                | —      | 23            | —                            | —                         | 23           |
| Deferred taxes (vi)   | —             | —                   | (247)             | —      | (247)         | —                            | (27)                      | (274)        |
| Cash flow hedges (vii)  | —             | —                   | (12)              | 12     | —             | —                            | —                         | —            |
| Cumulative translation differences (viii)                                 | —             | —                   | 12                | 109    | 121           | —                            | —                         | 121          |
| Borrowing costs (ix)  | —             | —                   | (12)              | —      | (12)          | —                            | —                         | (12)         |
| Other   | —             | 4                   | (12)              | —      | (8)           | —                            | —                         | (8)          |
| As reported under IFRS – Dec. 31, 2009                                    | \$ 3,303      | \$ 10               | \$ 3,025          | \$ 176 | \$ 6,514      | \$ 304                       | \$ 837                    | \$ 7,655     |

**(i) Reclassification of non-controlling interests to shareholders equity**

IAS 1, "Presentation of Financial Statements" ("IAS 1") requires non-controlling interests to be classified as a component of equity. Under Canadian GAAP non-controlling interest was classified outside of equity.

**(ii) Investment property**

The company considers its commercial properties and commercial developments to be investment properties under IAS 40, "Investment Property" ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for investment property. The company has elected to use the fair value model. This adjustment to retained earnings represents the cumulative unrealized gain in respect of the company's investment property, net of the de-recognition of related intangible assets and liabilities which are inherently reflected in the fair value of commercial property, and the reclassification of straight-line rent receivable. This adjustment also includes fair value adjustments, determined in a similar manner as for commercial properties and commercial developments, related to the company's share of investment properties in the U.S. Office Fund and other jointly controlled entities. The company's investment in the U.S. Office Fund and other jointly controlled entities were either consolidated or proportionately consolidated under Canadian GAAP and are accounted for following the equity method under IFRS.

**(iii) Basis of accounting**

The company's interest in the U.S. Office Fund (the "Fund") is held through an indirect interest in TRZ Holdings LLC (the "venture"), an entity established by the company and its joint venture partner, The Blackstone Group ("Blackstone"). The venture owns a portfolio of commercial properties which are sub-managed by Brookfield and Blackstone. The company and Blackstone have joint control over the strategic financial and operating policy decisions relating to the activities of the venture and, accordingly, the company has determined it is a jointly controlled entity which is accounted for following the equity method of accounting. The company manages the Brookfield sub-managed portfolio on behalf of the venture, and manages the interest in the Fund on behalf of a consortium of investors which it leads.

Following a re-organization of the investors' interests in the Fund (the "reorganization") which was completed in the second quarter of 2009 (refer to Note 6 for a description of the reorganization), the company's interest in the Fund is principally held through a 76% equity interest in a subsidiary, BPOP Holdings (U.S.) LLC, which in turn holds a 60% equity interest in the venture. Prior to the re-organization, the company's interest in the Fund was principally held through a wholly-owned subsidiary, BPOP (Canada) Inc., which indirectly owned a 39% equity interest in a subsidiary of the venture, TRZ Holdings II Inc. (formerly Trizec Properties Inc.).

Under Canadian GAAP, the company consolidated the venture as, through its subsidiaries, it was the most closely associated member of a related party group that absorbed the majority of the variability of the venture. Blackstone's interest in the venture was considered a liability and was included in capital securities – fund subsidiaries at redemption value, which was measured as the carrying amount of the net assets of the Blackstone sub-managed portfolio. The results of operations of the Blackstone sub-managed portfolio were allocated to Blackstone through interest expense on capital securities – fund subsidiaries. As a result, the company's net income effectively reflected the results of the Brookfield sub-managed portfolio and the non-controlling interests therein attributed to its partners. Under IFRS, the company accounts for its investment in the Fund principally based on its legal ownership of the venture and its subsidiaries. The venturers' exit rights under the put and call arrangement, which effectively results in the allocation of cumulative cash flows to the venturers based on their respective sub-managed portfolios, are accounted for as financial instruments (discussed further in Note 3(c)(iv)). As a result, on transition to IFRS an adjustment is required to record the company's share of earnings of the Fund to date based on legal ownership and to establish the related financial instruments at fair value.

In connection with the reorganization, the company recognized a \$39 million gain under Canadian GAAP, principally relating to the settlement of debt securities with consideration in the form of non-controlling equity interest in the Fund. Under IFRS no such gain was recognized in connection with the settlement of the aforementioned debt securities as the non-controlling interest was initially recorded at its estimated fair value which approximated the carrying amount of the debenture. The company did, however, recognize a bargain purchase gain of approximately \$159 million under IFRS in connection with the reorganization, representing the excess of the fair value of the interest in the venture that the company received in the reorganization over the deemed cost, which was the carrying amount of the company's pre-existing investment in a subsidiary of the venture. The adjustment to December 31, 2009 retained earnings also reflects the cumulative amortization of the excess of the carrying amount of the company's investment in the venture over the inside basis carrying amount of its net assets.

**(iv) Financial instruments**

IAS 39 outlines recognition and measurement principles in respect of financial assets and liabilities which differ from Canadian GAAP in respect of the following instruments:

*Secured loans*

Under IFRS the company designated its secured loans as FVTPL on the basis that these financial assets are managed and performance evaluated on a fair value basis. Under Canadian GAAP, these loans were carried at amortized cost. The secured loans were acquired in the fourth quarter of 2009.

*Commercial property debt*

Under Canadian GAAP certain participating commercial property debt was being accounted for as a single hybrid instrument at amortized cost using the effective interest rate method and the embedded participation feature was determined not to be an embedded derivative which was required to be accounted for separate from the host instrument. Under IFRS, the participation feature is an embedded derivative that would be accounted for separately as FVTPL.

*U.S. Office Fund put and call arrangement*

Under the terms of the joint venture agreement with Blackstone, commencing in 2011, for a period of nine months, Blackstone has the option to call the properties that are sub-managed by Blackstone in exchange for its equity interest in the venture. If Blackstone does not exercise this option, commencing in 2013, for a period of 14 months, the Brookfield led consortium has the option to put the Blackstone sub-managed properties to Blackstone in redemption of Blackstone's equity in the venture. On exercise of either the put or call (collectively, the "U.S. Office Fund option"), the parties are subject to certain cash adjustment payments (the "true-up") to compensate for differences between the distributions paid and the actual cash flows of the respective sub-managed properties. Such cash adjustments also provide for cross participation in cash flows and changes in fair value of each party's sub-managed properties. The company's put option is a derivative financial instrument classified as FVTPL and presented in non-current financial assets. The company's obligation under the true-up represents a financial instrument with an embedded derivative relating to the adjustment for changes in fair value of the properties. The true-up is measured at amortized cost using the effective interest method, except for that portion representing the embedded derivative that is measured at fair value, and is presented in non-current financial liabilities. The gains and losses associated with these instruments are recorded in earnings as fair value gains (losses).

Prior to the reorganization, the company did not hold a direct investment in the venture and therefore was not legally a party to the put and call arrangement. Accordingly, the company first recognized the effects of the U.S. Office Fund option and the true-up following the reorganization. The U.S. Office Fund option was not separately recognized under Canadian GAAP and the true-up was accounted for on an accrual basis. Under IFRS, the U.S. Office Fund option meets the definition of a derivative which is carried at FVTPL. Similarly, the true-up is a financial liability carried at amortized cost following the effective interest method with an embedded derivative for the property value portion thereof, which is also carried at FVTPL.

| (Millions)   | Dec. 31, 2009 | Jun. 30, 2009 | Jan. 1, 2009 |
|--|---------------|---------------|--------------|
| Secured loans                                      | \$ 7          | \$ —          | \$ —         |
| Commercial property debt                           | (29)          | (25)          | (25)         |
| U.S. Office Fund option and true-up                | 96            | 96            | —            |
| Total adjustments related to financial instruments | \$ 74         | \$ 71         | \$ (25)      |

**(v) Revenue recognition**

Under Canadian GAAP, when a tenant has agreed to a termination settlement in respect of a lease agreement any revenue in connection therewith is recognized when the tenant vacates the property. Under IFRS, an assessment is made using the criteria listed in IAS 18, "Revenue" ("IAS 18") in order to determine the appropriate period in which to recognize this income. This adjustment represents the recognition of termination income and related receivable in the period which had not yet been recognized for Canadian GAAP purposes.

**(vi) Deferred taxes**

The increase in deferred income tax liabilities under IFRS compared with Canadian GAAP primarily relates to the increased carrying values of the company's commercial properties and commercial developments, including those properties within unconsolidated tax transparent joint ventures. The deferred income tax liability under IFRS is determined by applying tax rates to temporary differences that are consistent with the company's expectation that the method of realization will be through owning and operating its properties rather than through sale.

**(vii) Cash flow hedges**

As a result of the change in the basis of accounting for the Fund discussed in item Note 3(c)(iii) above, certain derivatives designated as cash flow hedges under Canadian GAAP have been de-designated resulting in an adjustment to retained earnings.

**(viii) Cumulative translation differences**

The company elected to set the cumulative translation amount of \$12 million under Canadian GAAP to zero upon transition to IFRS. This has been reflected as a reclassification between AOCI and retained earnings and thus does not affect reported equity. The company has recognized cumulative translation adjustments of \$121 million and \$52 million at December 31, 2009 and June 30, 2009, respectively, from translating the assets and liabilities of foreign subsidiaries, as measured under IFRS, to U.S. dollars.

**(ix) Borrowing costs**

As a result of the adoption of IFRS and in accordance with IAS 23, "Borrowing Costs" ("IAS 23"), certain borrowing costs are no longer capitalized.

**(d) Reconciliation of Net Income As Reported Under Canadian GAAP and IFRS**

The following is a reconciliation of the company's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2009 and three and six months ended June 30, 2009.

| (Millions)  | Note   | Three months ended<br>Jun. 30, 2009 | Six months ended<br>Jun. 30, 2009 | Year ended<br>Dec. 31, 2009 |
|---|--------|-------------------------------------|-----------------------------------|-----------------------------|
| Net income as reported under Canadian GAAP                          |        | \$ 60                               | \$ 98                             | \$ 317                      |
| Differences increasing (decreasing) reported amount:                |        |                                     |                                   |                             |
| Investment property   | (i)    | (634)                               | (1,318)                           | (857)                       |
| Basis of accounting   | (ii)   | 43                                  | 42                                | 29                          |
| Revenue recognition   | (iii)  | —                                   | (3)                               | 21                          |
| Financial instruments   | (iv)   | 100                                 | 96                                | 99                          |
| Lease accounting  | (v)    | —                                   | (1)                               | 1                           |
| Deferred taxes  | (vi)   | 44                                  | 85                                | 131                         |
| Capitalized costs   | (vii)  | —                                   | (1)                               | (4)                         |
| Non-controlling interests   | (viii) | (1)                                 | 10                                | 58                          |
| Borrowing costs   | (ix)   | (1)                                 | (2)                               | (12)                        |
| Other   |        | (7)                                 | (7)                               | (10)                        |
| Net loss attributable to common shareholders as reported under IFRS |        | \$ (396)                            | \$ (1,001)                        | \$ (227)                    |

**(i) Investment property**

In accordance with IFRS and the company's policy choice, the company measures investment property at fair value and records changes in fair value in income during the period of change. Under Canadian GAAP commercial property was recorded at cost and depreciated over its estimated life. In addition, the amortization of intangible assets and liabilities recognized on the acquisition of investment property was amortized to revenue under Canadian GAAP, which will no longer be the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment property.

**(ii) Basis of accounting**

As described in Note 3(c)(iii) this adjustment relates to the recognition of the company's share of income from the Fund based on legal ownership interests rather than the Brookfield sub-managed portfolio.

**(iii) Revenue recognition**

As described in 3(c)(v) this adjustment relates to the recognition of lease termination income in accordance with IAS 18.

**(iv) Financial instruments**

As described in 3(c)(iv) this adjustment relates to the recognition and measurement of certain financial instruments which were not separately recognized under Canadian GAAP or are measured on a different basis under IFRS.

Also as described in 3(c)(vii) certain cash flow hedges previously meeting hedge accounting criteria under Canadian GAAP are designated under IFRS and included in interest expense.

**(v) Lease accounting**

Consistent with Canadian GAAP, IFRS requires rental revenue from operating leases to be recognized on a straight-line basis over the term of the lease. However, Canadian GAAP adopted this accounting on a prospective basis in 2004 and as a result this adjustment reflects the amounts that would be recognized as rental revenue under IFRS had the applicable leases been accounted for on a straight-line basis since their inception.

**(vi) Deferred taxes**

The adjustment related to deferred taxes reflects the change in temporary differences resulting from the impact of the above differences between IFRS and Canadian GAAP.

**(vii) Capitalized costs**

Under IFRS, the date on which a development property is reclassified to a commercial property is when the asset is in the condition and capable of operating in the manner intended by management. This date may be earlier as compared to Canadian GAAP and as a result there is an adjustment to recognize interest and other costs previously capitalized under Canadian GAAP into income under IFRS.

**(viii) Non-controlling interests**

This adjustment reflects the impact of the preceding adjustments to the extent they relate to interests of other equity holders.

**(ix) Borrowing costs**

As a result of the adoption of IFRS, and in accordance with IAS 23, certain borrowing costs related to residential operations are no longer capitalized.

**(e) Reconciliation of Comprehensive Income (loss) As Reported Under Canadian GAAP to IFRS**

The following is a reconciliation of the company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the year ended December 31, 2009 and three and six months ended June 30, 2009.

| (Millions)  | Note  | Three months ended | Six months ended | Year ended    |
|---|-------|--------------------|------------------|---------------|
|   |       | Jun. 30, 2009      | Jun. 30, 2009    | Dec. 31, 2009 |
| Comprehensive income as reported under Canadian GAAP                          |       | \$ 81              | \$ 97            | \$ 379        |
| Differences increasing (decreasing) reported comprehensive loss:              |       |                    |                  |               |
| Differences in net income   | (i)   | (456)              | (1,099)          | (544)         |
| Foreign currency translation  | (ii)  | 78                 | 52               | 121           |
| Cash flow hedge de-designation  | (iii) | (3)                | —                | 2             |
| Comprehensive loss attributable to common shareholders as reported under IFRS |       | \$ (300)           | \$ (950)         | \$ (42)       |

**(i) Differences in net income**

Reflects the differences in net income under Canadian GAAP and IFRS as described in Note 3(d) for the respective periods.

**(ii) Foreign currency translation**

Reflects the foreign currency exchange impact of IFRS adjustments during the respective periods.

**(iii) Cash flow hedge de-designation**

As described in Note 3(c)(iii), the change in basis of accounting for the Fund has resulted in the de-designation of certain cash flow hedges.

**(f) Financial assets and liabilities**

Upon the adoption of IFRS, all previously recognized financial assets and financial liabilities have been designated consistent with the designations under Canadian GAAP with the exception of the certain secured loans which have been designated as FVTPL under IFRS as compared with loans and receivables and measured at amortized cost under Canadian GAAP.

**(g) Changes to the cash flow statement**

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

**(h) Earnings per share**

The company has the option to settle the principal amount of its outstanding capital securities – corporate in cash or a variable number of its own common shares. Under IFRS, the calculation of diluted earnings per share must be based on the presumption that these securities will settle by the issuance of common shares whereas under Canadian GAAP such potential common shares were excluded from the calculation of diluted earnings per share on the basis that the company's past practice provided a reasonable basis that these securities would be settled in cash.

**NOTE 4: FUTURE ACCOUNTING POLICY CHANGES****Financial Instruments**

IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The company is currently evaluating the impact of IFRS 9 on its financial statements.

**Related Party Disclosures**

On November 4, 2009, the IASB issued a revised version of IAS 24, "Related Party Disclosures" ("IAS 24"). IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The company is currently evaluating the impact of the change to IAS 24 on its financial statements.

**NOTE 5: INVESTMENT PROPERTIES**

| (Millions)                                       | Jun. 30, 2010         |                         | Dec. 31, 2009         |                         |
|--|-----------------------|-------------------------|-----------------------|-------------------------|
|  | Commercial properties | Commercial developments | Commercial properties | Commercial developments |
| <b>Balance at beginning of period</b>            | \$ 9,513              | \$ 469                  | \$ 8,965              | \$ 1,039                |
| Additions  |                       |                         |                       |                         |
| Property acquisitions                            | 78                    | —                       | —                     | —                       |
| Capital expenditures                             | 23                    | 13                      | 41                    | 105                     |
| Initial direct leasing costs                     | 7                     | —                       | 34                    | —                       |
| Dispositions                                     | —                     | —                       | (294)                 | —                       |
| Reclassification of commercial developments, net | —                     | —                       | 697                   | (697)                   |
| Fair value gains (losses)                        | 67                    | (39)                    | (389)                 | (85)                    |
| Foreign currency translation                     | (41)                  | (2)                     | 446                   | 107                     |
| Other changes                                    | 12                    | 2                       | 13                    | —                       |
| <b>Balance at end of period</b>                  | \$ 9,659              | \$ 443                  | \$ 9,513              | \$ 469                  |

The company has determined fair values of commercial properties and commercial developments with an aggregate fair value of nil at June 30, 2010 (December 31, 2009 - \$4,617 million) using valuations prepared by qualified external valuation professionals. The company determined the fair value of each commercial property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the applicable balance sheet dates, less future cash outflow in respect of such leases. Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years including a terminal value based on the application of a capitalization rate to estimated year 11 cash flows. Commercial developments under active development are also measured using a discounted cash flow model, net of costs to complete, as of the balance sheet date. Development sites in the planning phases are measured using comparable market values for similar assets.

The key valuation metrics for commercial properties, including properties accounted for under the equity method, are set out in the following tables:

|                          | Jun. 30, 2010 |         |                  | Dec. 31, 2009 |         |                  | Jan. 1, 2009 |         |                  |
|--------------------------|---------------|---------|------------------|---------------|---------|------------------|--------------|---------|------------------|
|                          | Maximum       | Minimum | Weighted Average | Maximum       | Minimum | Weighted Average | Maximum      | Minimum | Weighted Average |
| <b>United States</b>     |               |         |                  |               |         |                  |              |         |                  |
| Discount rate            | 12.25%        | 7.25%   | 8.83%            | 12.25%        | 7.25%   | 8.80%            | 12.05%       | 7.00%   | 8.62%            |
| Terminal cap rate        | 10.00%        | 5.50%   | 6.87%            | 10.00%        | 5.50%   | 6.87%            | 9.25%        | 5.70%   | 6.96%            |
| Investment horizon (yrs) | 15            | 2       | 10               | 15            | 2       | 10               | 15           | 2       | 10               |
| <b>Canada</b>            |               |         |                  |               |         |                  |              |         |                  |
| Discount rate            | 8.75%         | 6.75%   | 7.37%            | 8.75%         | 6.75%   | 7.38%            | 8.50%        | 6.50%   | 7.26%            |
| Terminal cap rate        | 8.00%         | 6.25%   | 6.65%            | 8.00%         | 6.25%   | 6.65%            | 7.75%        | 6.13%   | 6.58%            |
| Investment horizon (yrs) | 15            | 10      | 10               | 15            | 10      | 10               | 20           | 10      | 11               |

Values are most sensitive to changes in discount rates.

Included in commercial properties is \$202 million (compared to \$195 million on December 31, 2009) of net straight line rent receivables arising from the recognition of rental revenue on a straight line basis over the lease term in accordance with IAS 17, "Leases".

Commercial properties with a fair value of approximately \$2,763 million (December 31, 2009 - \$2,758 million) are situated on land held under leases or other agreements largely expiring after the year 2065. Investment properties do not include any properties held under operating leases.

During the three and six months ended June 30, 2010, the company capitalized a total of \$7 million and \$13 million, respectively (2009 - \$46 million and \$80 million) of costs related to commercial developments. Included in this amount is nil and nil, respectively (2009 - \$27 million and \$50 million) of construction and related costs and \$6 million and \$12 million, respectively (2009 - \$11 million and \$21 million) of borrowing costs capitalized to the company's commercial development sites for the three and six months ended June 30, 2010. The weighted average capitalization rate used for capitalization of borrowing costs to commercial developments is 5.65% (2009 - 4.77%).

Investment properties with a fair value of \$9.4 billion (December 31, 2009 - \$9.5 billion) are pledged as security for commercial property debt.

#### NOTE 6: INVESTMENT IN U.S. OFFICE FUND

The company's investment in the Fund and proportionate ownership interest is as follows:

|   | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009       |
|---|---------------|---------------|--------------------|
| Investment in TRZ Holdings LLC                      | 61%           | 61%           | nil                |
| Investment in TRZ Holdings II Inc. and subsidiaries | nil           | nil           | 39% <sup>(2)</sup> |
| Economic interest in the Fund <sup>(1)</sup>        | 47%           | 47%           | 45%                |

<sup>(1)</sup> Net of non-controlling interests held by the company's co-investors in the Fund - refer to Note 22(e)

<sup>(2)</sup> Economic interest is greater than legal ownership as prior to the reorganization, the company's share of acquisition financing was only approximately 25% of the total

In connection with the reorganization of the ownership interests in the Fund, capital securities - fund subsidiaries, which consisted of partner contributions to the Fund by way of an unsecured debenture issued by BPOP (Canada) Inc., were redeemed for consideration in the form of a non-controlling equity interest in BPOP Holdings (U.S.) LLC. The non-controlling equity interest was initially recorded at its estimated fair value of \$260 million which approximated the carrying amount of the redeemed debenture. Also as part of the reorganization, the company, through BPOP Holdings (U.S.) LLC, caused its indirect equity interest in TRZ Holdings II Inc. and \$765 million of debt previously issued by BPOP (Canada) Inc. to be contributed to the venture in exchange for an approximate 60% indirect equity interest in the venture. The equity in the venture received, as well as the U.S. Office Fund option and true-up related to the put and call arrangement, were initially recognized at their estimated fair values. The excess of the initial carrying amount of the company's interest in the venture over the venture's underlying net assets of approximately \$190 million, principally relating to a discount in respect of certain debt in the venture, will be recognized as an adjustment to the company's share of the net earnings of the venture primarily over the remaining term of the aforementioned debt which matures in 2011.

The fair value of the U.S. Office Fund option to the company is estimated as the difference between the expected value of Blackstone's interest in the venture and the expected value of the equity in the Blackstone sub-managed properties to be transferred to Blackstone at the anticipated exercise date, discounted to the balance sheet date using the applicable risk-free discount rate. The fair value of the embedded derivative in the true-up is estimated by discounting the expected future cash flows under the true-up in respect of changes in fair values of the parties' sub-managed properties up to the anticipated settlement date using the applicable risk-free discount rate. The remainder of the true-up is measured at amortized cost using the effective interest method. Refer to Note 3(c)(iv) for a description of the U.S. Office Fund put and call arrangement, including the U.S. Office Fund option and the true-up.

Summarized financial information in respect of the venture is set out below:

| (Millions)                                   | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|--|---------------|---------------|--------------|
| Non-current assets                           |               |               |              |
| Commercial properties                        | \$ 7,405      | \$ 6,873      | \$ 7,979     |
| Commercial developments                      | 44            | 244           | 220          |
| Current assets                               | 150           | 177           | 161          |
| Total assets                                 | 7,599         | 7,294         | 8,360        |
| Non-current liabilities                      |               |               |              |
| Commercial property debt                     | 5,695         | 5,704         | 4,965        |
| Current liabilities                          | 246           | 287           | 324          |
| Total liabilities                            | 5,941         | 5,991         | 5,289        |
| Net assets                                   | \$ 1,658      | \$ 1,303      | \$ 3,071     |
| Company's share of net assets <sup>(1)</sup> | \$ 1,124      | \$ 945        | \$ 2,078     |

<sup>(1)</sup> Includes \$106 million at June 30, 2010 (December 31, 2009 - \$142 million; January 1, 2009 - nil) representing the excess of the company's carrying amount over its share of the net assets of the venture

| (Millions)  | Three months ended Jun. 30 |          | Six months ended Jun. 30 |            |
|---|----------------------------|----------|--------------------------|------------|
|   | 2010                       | 2009     | 2010                     | 2009       |
| Revenue   | \$ 219                     | \$ 207   | \$ 424                   | \$ 409     |
| Expenses  | (154)                      | (144)    | (296)                    | (283)      |
| Earnings before fair value gains (losses)               | 65                         | 63       | 128                      | 126        |
| Fair value gains (losses)                               | 133                        | (637)    | 258                      | (1,306)    |
| Net earnings (losses)                                   | \$ 198                     | \$ (574) | \$ 386                   | \$ (1,180) |
| Company's share of net earnings (losses) <sup>(1)</sup> | \$ 94                      | \$ (377) | \$ 197                   | \$ (601)   |

<sup>(1)</sup> Net of \$18 million and \$36 million for the three and six months ended June 30, 2010 (2009 - \$13 million and \$13 million, respectively) representing the amortization of the excess of the company's carrying amount over its share of the net assets of the venture

#### NOTE 7: INVESTMENT IN OTHER JOINTLY CONTROLLED ENTITIES

The company has investments in joint ventures that are jointly controlled entities. These joint ventures hold individual commercial properties and commercial developments that the company owns together with co-owners.

At June 30, 2010, the company had interests in the following jointly controlled entities, which have been accounted for following the equity method:

| Name Of Entity                       | Principal Purpose / Activity         | Proportionate Ownership Interest |               |              |
|--------------------------------------|--------------------------------------|----------------------------------|---------------|--------------|
|                                      |                                      | Jun. 30, 2010                    | Dec. 31, 2009 | Jan. 1, 2009 |
| BFP 245 Park Co. LLC                 | Property holding company             | 51%                              | 51%           | 51%          |
| WFP Tower D Co. LLP                  | Property holding company             | 51%                              | 51%           | 51%          |
| 2072790 Ontario Inc.                 | Property holding company             | 25%                              | 25%           | 25%          |
| 77 K Street Tower LLC <sup>(1)</sup> | Property holding company             | —                                | 50%           | 50%          |
| The 100 Bishopsgate Partnership      | Development property holding company | 50%                              | —             | —            |

<sup>(1)</sup> In the second quarter of 2010, the company acquired its co-owners interest in 77 K Street in Washington, D.C., and, accordingly, now consolidates its interest in the property

WFP Tower D Co. LP is a joint venture between the company and an affiliate of the principal tenant of the property known as Four World Financial Center, New York. The ground lease on which the building is situated expires on June 17, 2069. WFP Tower D Co. LP is required under the joint venture agreement to make annual preferred distributions of \$11 million to the company's joint venture partner through September 2013.

2072790 Ontario Inc. is a joint venture company that owns all of the outstanding shares of First Place Tower Brookfield Properties Inc, which holds the property known as First Canadian Place in Toronto. The office tower is subject to a land lease with respect to 50% of the land on which the property is situated. The land lease will expire on December 1, 2023 subject to extension under certain circumstances. At the expiry of the land lease, the other land owner will have the option to acquire, for a nominal amount, an undivided 50% beneficial interest in the office tower.

Summarized financial information in respect of the company's interests in jointly controlled entities is as follows:

| (Millions)                           | Jun. 30, 2010   | Dec. 31, 2009   | Jan. 1, 2009    |
|--------------------------------------|-----------------|-----------------|-----------------|
| Non-current assets                   |                 |                 |                 |
| Commercial properties                | \$ 3,103        | \$ 3,210        | \$ 3,223        |
| Commercial developments              | 138             | —               | —               |
| Current assets                       | 100             | 104             | 57              |
| <b>Total assets</b>                  | <b>3,341</b>    | <b>3,314</b>    | <b>3,280</b>    |
| Non-current liabilities              |                 |                 |                 |
| Commercial property debt             | 884             | 981             | 1,174           |
| Current liabilities                  | 424             | 375             | 137             |
| <b>Total liabilities</b>             | <b>1,308</b>    | <b>1,356</b>    | <b>1,311</b>    |
| <b>Net assets</b>                    | <b>\$ 2,033</b> | <b>\$ 1,958</b> | <b>\$ 1,969</b> |
| <b>Company's share of net assets</b> | <b>\$ 1,019</b> | <b>\$ 891</b>   | <b>\$ 887</b>   |

| (Millions)                                      | Three months ended Jun. 30 |                | Six months ended Jun. 30 |                 |
|---|----------------------------|----------------|--------------------------|-----------------|
|   | 2010                       | 2009           | 2010                     | 2009            |
| Revenue   | \$ 111                     | \$ 101         | \$ 221                   | \$ 206          |
| Expenses  | (79)                       | (67)           | (149)                    | (125)           |
| Earnings before fair value gains (losses)       | 32                         | 34             | 72                       | 81              |
| Fair value gains (losses)                       | 4                          | (92)           | 60                       | (306)           |
| <b>Net earnings (losses)</b>                    | <b>\$ 36</b>               | <b>\$ (58)</b> | <b>\$ 132</b>            | <b>\$ (225)</b> |
| <b>Company's share of net earnings (losses)</b> | <b>\$ 21</b>               | <b>\$ (29)</b> | <b>\$ 67</b>             | <b>\$ (115)</b> |

#### NOTE 8: OTHER JOINTLY CONTROLLED ASSETS

The company's interests in the following properties are subject to joint control and, accordingly, the company has recorded its proportionate share of the related assets, liabilities, revenue and expenses of the properties following the proportionate consolidation method:

| Jointly controlled assets           | Proportionate Ownership Interest |               |              |
|-------------------------------------|----------------------------------|---------------|--------------|
|                                     | Jun. 30, 2010                    | Dec. 31, 2009 | Jan. 1, 2009 |
| Exchange Tower                      | 50%                              | 50%           | 50%          |
| Fifth Avenue Place                  | 50%                              | 50%           | 50%          |
| Bankers Hall                        | 50%                              | 50%           | 50%          |
| Bankers Court                       | 50%                              | 50%           | 50%          |
| Bankers West Parkade (Development)  | 50%                              | 50%           | 50%          |
| Suncor Energy Centre                | 50%                              | 50%           | 50%          |
| 2 Queen Street East                 | 25%                              | 25%           | 25%          |
| 151 Yonge Street                    | 25%                              | 25%           | 25%          |
| Place de Ville I                    | 25%                              | 25%           | 25%          |
| Place de Ville II                   | 25%                              | 25%           | 25%          |
| 300 Queen Street (Development)      | 25%                              | 25%           | 25%          |
| Jean Edmonds Towers                 | 25%                              | 25%           | 25%          |
| Altius Centre                       | 25%                              | 25%           | 25%          |
| Canadian Western Bank               | 25%                              | 25%           | 25%          |
| Enbridge Tower                      | 25%                              | 25%           | 25%          |
| Brookfield Place – Retail & Parking | 56%                              | 56%           | 56%          |
| Brookfield Place III (Development)  | 54%                              | 54%           | 54%          |

Summarized financial information in respect of the company's interest in jointly controlled assets is set out below:

| (Millions)               | Jun. 30, 2010   | Dec. 31, 2009   | Jan. 1, 2009    |
|--------------------------|-----------------|-----------------|-----------------|
| Non-current assets       | \$ 1,760        | \$ 1,784        | \$ 1,720        |
| Current assets           | 20              | 24              | 27              |
| <b>Total assets</b>      | <b>1,780</b>    | <b>1,808</b>    | <b>1,747</b>    |
| Non-current liabilities  | 527             | 538             | 348             |
| Current liabilities      | 80              | 87              | 157             |
| <b>Total liabilities</b> | <b>607</b>      | <b>625</b>      | <b>505</b>      |
| <b>Net assets</b>        | <b>\$ 1,173</b> | <b>\$ 1,183</b> | <b>\$ 1,242</b> |

| (Millions)                        | Three months ended Jun. 30 |               | Six months ended Jun. 30 |             |
|-----------------------------------|----------------------------|---------------|--------------------------|-------------|
|                                   | 2010                       | 2009          | 2010                     | 2009        |
| Revenue                           | \$ 52                      | \$ 42         | \$ 104                   | \$ 83       |
| Expenses                          | (39)                       | (25)          | (70)                     | (51)        |
| Earnings before fair value losses | 13                         | 17            | 34                       | 32          |
| Fair value losses                 | (12)                       | (21)          | (9)                      | (28)        |
| <b>Net earnings (losses)</b>      | <b>\$ 1</b>                | <b>\$ (4)</b> | <b>\$ 25</b>             | <b>\$ 4</b> |

#### NOTE 9: INVESTMENTS IN ASSOCIATES

The company exercises significant influence over the following investments which have been accounted for using the equity method:

| Name Of Entity                     | Principal Purpose / Activity       | Proportionate Ownership Interest |               |              |
|------------------------------------|------------------------------------|----------------------------------|---------------|--------------|
|                                    |                                    | Jun. 30, 2010                    | Dec. 31, 2009 | Jan. 1, 2009 |
| Brookfield LePage Johnson Controls | Facilities management              | 40%                              | 40%           | 40%          |
| Oakridges                          | Residential development investment | 23.75%                           | 23.75%        | 23.75%       |
| Brookfield TBird Holdings LP       | Investment in secured loans        | —                                | —             | —            |

The company contributed its investment in bank debt that is secured by the equity in a portfolio of commercial properties in Washington, D.C. to Brookfield TBird Holdings LP (the "LP") in exchange for a 55% non-controlling interest in the entity and cash consideration of \$100 million. During the second quarter, the bank debt held by the LP was repaid and the LP realized a gain of approximately \$98 million, of which the company's share was \$53 million. The company previously recognized \$21 million of its share of the cumulative gains as fair value gains (losses) prior to contributing its investment in the debt to the LP as the debt was designated as FVTPL. The company's investment in the LP, including realized gains, was returned in the second quarter of 2010.

Summarized financial information in respect of the company's associates is set out below:

| (Millions)                           | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|--------------------------------------|---------------|---------------|--------------|
| Total assets                         | \$ 112        | \$ 115        | \$ 98        |
| Total liabilities                    | 60            | 68            | 62           |
| <b>Net assets</b>                    | <b>\$ 52</b>  | <b>\$ 47</b>  | <b>\$ 36</b> |
| <b>Company's share of net assets</b> | <b>\$ 17</b>  | <b>\$ 15</b>  | <b>\$ 10</b> |

| (Millions)                             | Three months ended Jun. 30 |             | Six months ended Jun. 30 |             |
|--|----------------------------|-------------|--------------------------|-------------|
|  | 2010                       | 2009        | 2010                     | 2009        |
| Revenue                                | \$ 96                      | \$ 63       | \$ 226                   | \$ 189      |
| Expenses                               | (94)                       | (61)        | (220)                    | (185)       |
| Earnings before fair value gains       | \$ 2                       | \$ 2        | \$ 6                     | \$ 4        |
| Fair value gains                       | 58                         | —           | 58                       | —           |
| <b>Net earnings</b>                    | <b>60</b>                  | <b>2</b>    | <b>64</b>                | <b>4</b>    |
| <b>Company's share of net earnings</b> | <b>\$ 33</b>               | <b>\$ 1</b> | <b>\$ 34</b>             | <b>\$ 2</b> |

**NOTE 10: RESIDENTIAL DEVELOPMENT INVENTORIES**

| (Millions)                              | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|---|---------------|---------------|--------------|
| Land under development                  | \$ 348        | \$ 337        | \$ 390       |
| Housing inventory                       | 117           | 101           | 88           |
| Total current                           | 465           | 438           | 478          |
| Land held for development – non-current | 755           | 797           | 718          |
| Total                                   | \$ 1,220      | \$ 1,235      | \$ 1,196     |

During the three and six months ended June 30, 2010, the company capitalized a total of \$2 million and \$3 million, respectively (2009 - \$3 million and \$6 million, respectively) of interest related to residential developments.

Residential developments of \$717 million (December 31, 2009 - \$686 million) are pledged as security for land development debt.

**NOTE 11: NON-CURRENT FINANCIAL ASSETS**

The components of non-current financial assets are as follows:

| (Millions)                            | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|---------------------------------------|---------------|---------------|--------------|
| Equity securities designated as AFS   | \$ 102        | \$ 102        | \$ —         |
| Equity securities designated as FVTPL | 209           | —             | —            |
| Derivative assets                     | 317           | 346           | —            |
| Loans receivable                      | 507           | 135           | —            |
| Total                                 | \$ 1,135      | \$ 583        | \$ —         |

**(a) Equity securities designated as AFS**

Following a transaction in the fourth quarter of 2009 that diluted the company's ownership interest in 1625 Eye Street in Washington, D.C. by 90%, the company retained a 10% common equity interest, initially recorded at \$10 million, and received preferred equity securities of \$92 million, bearing a fixed dividend of 6.25% and redeemable by the issuer at par in 2016, which are pledged as security for a loan payable to the issuer in the same amount. Following the transaction, the company neither controls nor exercises significant influence over 1625 Eye Street and classifies this interest as AFS.

**(b) Equity securities designated as FVTPL**

Equity securities designated as FVTPL represent a portfolio investment in a privately held property development and investment company that are designated as FVTPL.

**(c) Derivative assets**

Derivative assets includes the value of the company's U.S. Office Fund option to put the Blackstone sub-managed portfolio to Blackstone in settlement of their interest in the venture as discussed in Note 3(c)(iv).

**(d) Loans receivable**

Loans receivable includes a nil (2009 - \$135 million) investment in loans secured by commercial property bearing interest at LIBOR plus 1.75% and maturing between December 31, 2011 and December 31, 2012. In the first and second quarters of 2010, the company transferred loans with a principal value of \$291 million to an associate, Brookfield TBird Holdings LP (refer to Note 9). These loans were designated as FVTPL.

Loans receivable also includes the company's indirect interest, through cash collateralized total return swaps entered into with BAM, in debt securities secured by a portfolio of commercial properties. The company invested cash collateral of approximately \$505 million for its interest in these debt securities.

**NOTE 12: RECEIVABLES AND OTHER ASSETS**

The components of receivables and other assets are as follows:

| (Millions)                                    | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|---|---------------|---------------|--------------|
| Accounts receivable                           | \$ 194        | \$ 194        | \$ 209       |
| Loan receivable from affiliate <sup>(1)</sup> | 326           | 648           | —            |
| Residential receivables and other assets      | 308           | 343           | 241          |
| Prepaid expenses and other assets             | 153           | 156           | 145          |
| Total   | \$ 981        | \$ 1,341      | \$ 595       |

<sup>(1)</sup> See Note 31 for related party disclosures

**NOTE 13: RESTRICTED CASH AND DEPOSITS**

Cash and deposits are considered restricted when they are subject to contingent rights of third parties. Restricted cash and deposits totaled \$37 million at June 30, 2010 (December 31, 2009 – \$39 million and January 1, 2009 - \$64 million).

**NOTE 14: ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS**

As of January 1, 2009, the four properties that comprise the company's Minneapolis portfolio being RBC Plaza, 33 South Sixth Street, and Gaviidae I and II, were classified as held for sale as the company intends to exit this market through sale of the properties. These properties are part of the company's U.S. Commercial business segment.

| (Millions)                                       | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|--|---------------|---------------|--------------|
| Investment properties                            | \$ 313        | \$ 307        | \$ 290       |
| Other assets                                     | 2             | 4             | 4            |
| Assets held for sale                             | 315           | 311           | 294          |
| Commercial property debt                         | 149           | 156           | 199          |
| Other liabilities                                | 9             | 18            | 18           |
| Liabilities associated with assets held for sale | \$ 158        | \$ 174        | \$ 217       |

The following table summarizes the income and cash flows from discontinued operations:

| (Millions)  | Three months ended Jun. 30 |         | Six months ended Jun. 30 |         |
|---|----------------------------|---------|--------------------------|---------|
|   | 2010                       | 2009    | 2010                     | 2009    |
| Revenue   | \$ 14                      | \$ 13   | \$ 28                    | \$ 26   |
| Operating expenses  | (7)                        | (7)     | (14)                     | (14)    |
|   | 7                          | 6       | 14                       | 12      |
| Interest expense  | (3)                        | (3)     | (6)                      | (6)     |
| Income from discontinued operations before fair value gains       | 4                          | 3       | 8                        | 6       |
| Fair value gains  | 2                          | —       | 2                        | —       |
| Income from discontinued operations                               | \$ 6                       | \$ 3    | \$ 10                    | \$ 6    |
| Income from discontinued operations per share – basic and diluted | \$ 0.01                    | \$ 0.01 | \$ 0.02                  | \$ 0.02 |
| Cash flows from operating activities                              | \$ 3                       | \$ 3    | \$ 6                     | \$ 5    |
| Cash flows from investing activities                              | —                          | 1       | 1                        | 1       |
| Cash flows from financing activities                              | (3)                        | (4)     | (7)                      | (6)     |

**NOTE 15: COMMERCIAL PROPERTY DEBT**

| (Millions)                           | Jun. 30, 2010         |              | Dec. 31, 2009         |              | Jan. 1, 2009          |              |
|--------------------------------------|-----------------------|--------------|-----------------------|--------------|-----------------------|--------------|
|                                      | Weighted Average Rate | Debt Balance | Weighted Average Rate | Debt Balance | Weighted Average Rate | Debt Balance |
| Unsecured Corporate Facilities       | 5.75%                 | \$ 100       | 5.75%                 | \$ 100       | 1.99%                 | \$ 325       |
| Secured Commercial Property Debt     |                       |              |                       |              |                       |              |
| Fixed rate                           | 6.43%                 | 4,220        | 6.34%                 | 4,118        | 6.33%                 | 4,090        |
| Variable rate                        | 3.91%                 | 980          | 4.52%                 | 1,089        | 4.44%                 | 1,813        |
|                                      | 5.95%                 | \$ 5,300     | 5.94%                 | \$ 5,307     | 5.55%                 | \$ 6,228     |
| Current                              |                       | \$ 197       |                       | \$ 626       |                       | \$ 661       |
| Non-current                          |                       | 4,954        |                       | 4,525        |                       | 5,368        |
| Associated with assets held for sale |                       | 149          |                       | 156          |                       | 199          |
|                                      |                       | \$ 5,300     |                       | \$ 5,307     |                       | \$ 6,228     |

The company's secured commercial property debt is non-recourse to the company other than its term loan of \$100 million (2009 - \$100 million). Commercial property debt includes \$1,590 million (2009 - \$1,616 million) repayable in Canadian dollars of C\$1,692 million (2009 - C\$1,700 million), all of which is payable by self-sustaining foreign subsidiaries.

Included in commercial property debt is an embedded derivative representing a lender's right to participate in the appreciation in value of a notional 25% equity interest in the commercial property secured by its mortgage that can be settled, at the company's option, in cash or equity in the underlying property on maturity of the debt in 2014. The embedded derivative is measured at FVTPL with changes in fair value reported in earnings as fair value gains (losses). The carrying amount of the embedded derivative at June 30, 2010 is \$55 million (December 31, 2009 - \$54 million; January 1, 2009 - \$49 million).

**NOTE 16: RESIDENTIAL DEVELOPMENT DEBT**

| (Millions)                   | Jun. 30, 2010            |              | Dec. 31, 2009            |              | Jan. 1, 2009             |              |
|------------------------------|--------------------------|--------------|--------------------------|--------------|--------------------------|--------------|
|                              | Weighted<br>Average Rate | Debt Balance | Weighted<br>Average Rate | Debt Balance | Weighted<br>Average Rate | Debt Balance |
| Residential Development Debt |                          |              |                          |              |                          |              |
| Fixed rate                   | 5.59%                    | \$ 28        | 6.04%                    | \$ 28        | 5.76%                    | \$ 30        |
| Variable rate                | 4.11%                    | 300          | 3.82%                    | 149          | 3.92%                    | 404          |
|                              | 4.18%                    | \$ 328       | 4.01%                    | \$ 177       | 3.87%                    | \$ 434       |
| Current                      |                          | \$ 244       |                          | \$ 131       |                          | \$ 379       |
| Non-current                  |                          | 84           |                          | 46           |                          | 55           |
|                              |                          | \$ 328       |                          | \$ 177       |                          | \$ 434       |

Land development debt is secured by the underlying properties of the company's residential development business.

**NOTE 17: CAPITAL SECURITIES - CORPORATE**

The company has the following capital securities outstanding:

| (Millions, except share information) | Shares<br>Outstanding | Cumulative<br>Dividend Rate | Jun. 30, 2010 <sup>(1)</sup> | Dec. 31, 2009 <sup>(1)</sup> | Jan. 1, 2009 |
|--------------------------------------|-----------------------|-----------------------------|------------------------------|------------------------------|--------------|
| Class AAA Series E <sup>(2)</sup>    | 8,000,000             | 70% of bank prime           | \$ —                         | \$ —                         | \$ —         |
| Class AAA Series F                   | 8,000,000             | 6.00%                       | 188                          | 190                          | 163          |
| Class AAA Series G                   | 4,400,000             | 5.25%                       | 110                          | 109                          | 109          |
| Class AAA Series H                   | 8,000,000             | 5.75%                       | 187                          | 189                          | 162          |
| Class AAA Series I                   | 8,000,000             | 5.20%                       | 188                          | 190                          | 164          |
| Class AAA Series J                   | 8,000,000             | 5.00%                       | 188                          | 190                          | 163          |
| Class AAA Series K                   | 6,000,000             | 5.20%                       | 140                          | 141                          | 121          |
| Total                                |                       |                             | \$ 1,001                     | \$ 1,009                     | \$ 882       |

<sup>(1)</sup> Net of transaction costs of \$2 million at June 30, 2010 (December 31, 2009 - \$3 million) which are amortized to interest expense over the life of the securities following the effective interest method

<sup>(2)</sup> Owned by BAM; balance has been offset with a promissory note receivable from BAM – refer to Note 31

Capital securities – corporate includes \$891 million (2009 – \$900 million) repayable in Canadian dollars of C\$948 million (2009 – C\$947 million).

The redemption terms of the Class AAA Preferred Shares are as follows:

|          | Redemption Date <sup>(1)</sup> | Redemption Price <sup>(2)</sup> | Company's Option <sup>(3)</sup> | Holder's Option <sup>(4)</sup> |
|----------|--------------------------------|---------------------------------|---------------------------------|--------------------------------|
| Series E | Retractable at par             | —                               | —                               | —                              |
| Series F | September 30, 2009             | C \$25.75                       | September 30, 2009              | March 31, 2013                 |
| Series G | June 30, 2011                  | US \$26.00                      | June 30, 2011                   | September 30, 2015             |
| Series H | December 31, 2011              | C \$26.00                       | December 31, 2011               | December 31, 2015              |
| Series I | December 31, 2008              | C \$25.75                       | December 31, 2008               | December 31, 2010              |
| Series J | June 30, 2010                  | C \$26.00                       | June 30, 2010                   | December 31, 2014              |
| Series K | December 31, 2012              | C \$26.00                       | December 31, 2012               | December 31, 2016              |

<sup>(1)</sup> Subject to applicable law and rights of the company, the company may, on or after the dates specified above, redeem Class AAA preferred shares for cash as follows: the Series F at a price of C\$25.75, if redeemed during the 12 months commencing September 30, 2009 and decreasing by C\$0.25 each 12-month period thereafter to a price per share of C\$25.00 if redeemed on or after September 30, 2012; the Series G at a price of US\$26.00, if redeemed during the 12 months commencing June 30, 2011 and decreasing by US\$0.33 each 12-month period thereafter to a price per share of US\$25.00 if redeemed on or after June 30, 2014; the Series H at a price of C\$26.00, if redeemed during the 12 months commencing December 31, 2011 and decreasing by C\$0.33 each 12-month period thereafter to a price per share of C\$25.00 if redeemed on or after December 31, 2014; the Series I at a price of C\$25.75, if redeemed during the 12 months commencing December 31, 2008 and decreasing by C\$0.25 each 12-month period thereafter to a price per share of C\$25.00 if redeemed on or after December 31, 2010; the Series J at a price of C\$26.00 if redeemed during the 12 months commencing June 30, 2010 and decreasing by C\$0.25 each 12-month period thereafter to a price per share of C\$25.00 if redeemed on or after June 30, 2014; the Series K at a price of C\$26.00 if redeemed during the 12-months commencing December 31, 2012 and decreasing by C\$0.33 each 12-month period thereafter to a price per share of C\$25.00 if redeemed on or after December 31, 2015.

<sup>(2)</sup> Subject to applicable law and rights of the company, the company may purchase Class AAA preferred shares for cancellation at the lowest price or prices at which, in the opinion of the Board of Directors of the company, such shares are obtainable.

<sup>(3)</sup> Subject to the approval of the Toronto Stock Exchange the company may, on or after the dates specified above, convert the Class AAA, Series F, G, H, I, J and K into common shares of the company. The Class AAA, Series F, G, H, I, J and K preferred shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of C\$2.00 (Series G - US\$2.00) or 95% of the weighted average trading price of common shares at such time.

<sup>(4)</sup> Subject to the company's right to redeem or find substitute purchasers, the holder may, on or after the dates specified above, convert Class AAA, Series F, G, H, I, J and K preferred shares into that number of common shares determined by dividing the then-applicable redemption price by the greater of C\$2.00 (Series G - US\$2.00) or 95% of the weighted average trading price of common shares at such time.

Cumulative preferred dividends are payable quarterly, when declared by the Board of Directors, on the last day of March, June, September and December.

**NOTE 18: OTHER NON-CURRENT FINANCIAL LIABILITIES**

The components of non-current financial liabilities are as follows:

| (Millions)                    | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|-------------------------------|---------------|---------------|--------------|
| Loan payable                  | \$ 92         | \$ 92         | \$ —         |
| Other non-current liabilities | 21            | 25            | —            |
| Total                         | \$ 113        | \$ 117        | \$ —         |

**(a) Loan payable**

The loan payable of \$92 million (December 31, 2009 - \$92 million) matures in 2019, bears interest at 7% and is secured by the company's preferred equity interest in 1625 Eye Street in Washington, D.C. (Refer to Note 11(a)).

**(b) Other non-current financial liabilities**

Other non-current financial liabilities represent the company's obligation in connection with the true-up under the U.S. Office Fund put and call arrangement (refer to Note 3(c)(iv)). The carrying value of the true up includes an embedded derivative liability of \$46 million (December 31, 2009 - \$50 million) relating to cross participation in changes in the relative fair values of the properties in the venturers' respective sub-managed portfolios.

**NOTE 19: OTHER NON-CURRENT LIABILITIES**

A deferred gain of \$172 million was recorded in connection with the reorganization of the U.S. Office Fund in the second quarter of 2009 and relates to the initial value of the U.S. Office Fund option assumed by the company at the date of the reorganization, as such value was determined pursuant to a valuation methodology using unobservable inputs.

**NOTE 20: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

The components of the company's accounts payable and accrued liabilities are as follows:

| (Millions)                                   | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|--|---------------|---------------|--------------|
| Accounts payable and accrued liabilities     | \$ 296        | \$ 327        | \$ 352       |
| Residential payables and accrued liabilities | 112           | 148           | 139          |
| Total  | \$ 408        | \$ 475        | \$ 491       |

**NOTE 21: INCOME TAXES**

The sources of deferred tax balances and movements are as follows:

| (Millions)  | Dec. 31, 2009 | Recognized in |        |        | Jun. 30, 2010 |
|---|---------------|---------------|--------|--------|---------------|
|   |               | Income        | Equity | OCI    |               |
| Deferred tax assets related to non-capital losses and capital losses      | \$ 190        | \$ (3)        | \$ —   | \$ (2) | \$ 185        |
| Deferred tax liabilities related to difference in tax and book basis, net | (706)         | (33)          | 43     | (2)    | (698)         |
| Net deferred tax liabilities  | \$ (516)      | (36)          | \$ 43  | (4)    | \$ (513)      |

The company and its Canadian subsidiaries have deferred tax assets of \$46 million (December 31, 2009 - \$50 million) that relate to non-capital losses which expire over the next 20 years and \$70 million (December 31, 2009 - \$76 million) that relate to capital losses which have no expiry. The company's U.S. subsidiaries have deferred tax assets of \$69 million (December 31, 2009 - \$64 million) that relate to net operating losses which expire over the next 20 years.

In the second quarter of 2010, the company released approximately \$41 million of deferred tax liabilities in connection with the reorganization of certain of its Canadian commercial operations, together with non-controlling interests therein, under a newly formed Canadian REIT. The amount of deferred income tax liabilities released was determined in reference to the non-controlling interests' share of taxable temporary differences giving rise to such deferred income tax liabilities as the earnings of the Canadian REIT are expected to be taxed at the investor level rather than in the REIT. Accordingly, the release of the deferred income taxes has been credited directly to non-controlling interests in equity. The company continues to recognize a deferred income tax in respect of its share of the REIT's net assets. Refer to Note 22(e) for further details.

The major components of income tax expense include the following:

| (Millions)                         | Three months ended Jun. 30 |       | Six months ended Jun. 30 |         |
|------------------------------------|----------------------------|-------|--------------------------|---------|
|                                    | 2010                       | 2009  | 2010                     | 2009    |
| Current tax expense                | \$ 11                      | \$ 15 | \$ 24                    | \$ 24   |
| Deferred tax expense (benefit)     | 18                         | (8)   | 36                       | (51)    |
| Total income tax expense (benefit) | \$ 29                      | \$ 7  | \$ 60                    | \$ (27) |

| (Millions)  | Three months ended Jun. 30 |          | Six months ended Jun. 30 |          |
|---|----------------------------|----------|--------------------------|----------|
|   | 2010                       | 2009     | 2010                     | 2009     |
| Income tax expense (benefit) at the Canadian federal and provincial income tax rate of 31.0% (2009 – 33.0%) | \$ 61                      | \$ (136) | \$ 155                   | \$ (348) |
| Increase (decrease) in income tax expense due to the following:   |                            |          |                          |          |
| Non-deductible preferred share dividends  | 4                          | 4        | 9                        | 8        |
| Lower income tax rates in other jurisdictions   | (32)                       | 130      | (86)                     | 301      |
| Foreign exchange gains and losses   | 1                          | 2        | (2)                      | (3)      |
| Non-controlling interests in income of flow-through entities  | (5)                        | 7        | (13)                     | 7        |
| Other   | —                          | —        | (3)                      | 8        |
| Total net   | \$ 29                      | \$ 7     | \$ 60                    | \$ (27)  |

The applicable tax rate is the aggregate of the Canadian Federal income tax rate of 18% (2009 – 19%) and the Provincial income tax rate of 13% (2009 – 14%).

## NOTE 22: EQUITY

### (a) Common shares

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

|  | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|--|---------------|---------------|--------------|
| Common shares outstanding, beginning of period   | 501,363,940   | 391,118,440   | 392,805,608  |
| Shares issued as a result of exercise of options | 163,243       | 523,950       | 581,432      |
| Shares issued as a result of equity offering     | —             | 109,250,000   | —            |
| Dividend reinvestment                            | 81,334        | 471,550       | —            |
| Shares repurchased for cancellation              | (65,000)      | —             | (2,268,600)  |
| Common shares outstanding, end of period         | 501,543,517   | 501,363,940   | 391,118,440  |

Total dividends in the period were \$70 million or \$0.14 per share. On July 29, 2010, the company declared common share dividends of \$0.14 per share to be paid in the third quarter of 2010.

### (b) Accumulated other comprehensive income (loss)

As of June 30, 2010 and 2009, accumulated other comprehensive income (loss) consists of the following amounts:

| (Millions)  | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|---|---------------|---------------|--------------|
| Unrealized foreign currency translation gains on investments in subsidiaries, net of related hedging activities, net of taxes of \$7 million (2009 – nil)         | \$ 183        | \$ 187        | \$ —         |
| Losses on derivatives designated as cash flow hedges, net of taxes of \$5 million (December 31, 2009 - \$5 million; January 1, 2009 - \$5 million) <sup>(1)</sup> | (10)          | (11)          | (9)          |
| Accumulated other comprehensive income (loss)   | \$ 173        | \$ 176        | \$ (9)       |

<sup>(1)</sup>Includes losses of \$1 million which will be reclassified to interest expense over the next 12 months

**(c) Earnings per share**

Net income per share and weighted average common shares outstanding are calculated as follows:

| (Millions)  | Three months ended Jun. 30 |          | Six months ended Jun. 30 |            |
|---|----------------------------|----------|--------------------------|------------|
|   | 2010                       | 2009     | 2010                     | 2009       |
| Net income (loss) from continuing operations  | \$ 168                     | \$ (420) | \$ 441                   | \$ (1,029) |
| Non-controlling interests   | (20)                       | 21       | (45)                     | 22         |
| Preferred share dividends   | (8)                        | —        | (17)                     | (1)        |
| Net income (loss) from continuing operations available to common shareholders - basic   | 140                        | (399)    | 379                      | (1,008)    |
| Dilutive effect of conversion of capital securities – corporate                         | 15                         | —        | 29                       | —          |
| Net income (loss) from continuing operations available to common shareholders – diluted | \$ 155                     | \$ (399) | \$ 408                   | \$ (1,008) |
| Net income (loss) attributable to common shareholders                                   | \$ 154                     | \$ (396) | \$ 406                   | \$ (1,001) |
| Preferred share dividends   | (8)                        | —        | (17)                     | (1)        |
| Net income (loss) available to common shareholders - basic                              | 146                        | (396)    | 389                      | (1,002)    |
| Dilutive effect of conversion of capital securities – corporate                         | 15                         | —        | 29                       | —          |
| Net income (loss) available to common shareholders – diluted                            | \$ 161                     | \$ (396) | \$ 418                   | \$ (1,002) |
| Weighted average shares outstanding – basic   | 501.6                      | 391.1    | 501.5                    | 391.1      |
| Unexercised dilutive options  | 5.0                        | 0.5      | 4.5                      | 0.3        |
| Conversion of capital securities – corporate  | 77.0                       | —        | 77.0                     | —          |
| Weighted average shares outstanding – diluted <sup>(1)</sup>                            | \$ 583.6                   | \$ 391.6 | \$ 583.0                 | \$ 391.4   |

<sup>(1)</sup> The calculation of diluted per share amounts in 2009 excludes options for 12 million shares and the effects of settling the company's capital securities – corporate in common shares as their inclusion would be anti-dilutive

**(d) Preferred equity**

The company has the following preferred shares authorized and outstanding included in equity:

| (Millions, except share information) | Shares Outstanding | Cumulative Dividend Rate |               |               |              |
|--------------------------------------|--------------------|--------------------------|---------------|---------------|--------------|
|                                      |                    |                          | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
| Class A redeemable voting            | 14,202,000         | 7.50%                    | \$ 11         | \$ 11         | \$ 11        |
| Class AA Series E                    | 2,000,000          | 70% of bank prime        | 34            | 34            | 34           |
| Class AAA Series L                   | 11,500,000         | 6.75%                    | 259           | 259           | —            |
| Class AAA Series N                   | 11,000,000         | 6.15%                    | 257           | —             | —            |
| Total                                |                    |                          | \$ 561        | \$ 304        | \$ 45        |

During the first quarter of 2010, the company issued 11 million Class AAA Series N preferred shares at C\$25 per share. The proceeds from the share issuance were approximately \$257 million, net of share issuance costs of \$5 million.

Cumulative preferred dividends are payable quarterly, as and when declared by the Board of Directors, on the last day of March, June, September and December.

**(e) Non-controlling interests**

Non-controlling interests consist of the following:

| (Millions)                      | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|---------------------------------|---------------|---------------|--------------|
| Preferred equity – subsidiaries | \$ 359        | \$ 363        | \$ 313       |
| Other non-controlling interests | 600           | 474           | 223          |
| Total                           | \$ 959        | \$ 837        | \$ 536       |

**Preferred equity - subsidiaries**

Subsidiaries' preferred shares outstanding total \$359 million (December 31, 2009 - \$363 million) as follows:

| (Millions, except share information) | Shares Outstanding | Preferred Shares Series | Cumulative Dividend Rate |               |               |              |
|--------------------------------------|--------------------|-------------------------|--------------------------|---------------|---------------|--------------|
|                                      |                    |                         |                          | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
| BPO Properties                       | 1,805,489          | Series G                | 70% of bank prime        | \$ 42         | \$ 43         | \$ 37        |
|                                      | 3,816,527          | Series J                | 70% of bank prime        | 90            | 91            | 78           |
|                                      | 300                | Series K                | 30-day BA + 0.4%         | 141           | 142           | 124          |
|                                      | 2,847,711          | Series M                | 70% of bank prime        | 67            | 68            | 58           |
|                                      | 800,000            | Series N                | 30-day BA + 0.4%         | 19            | 19            | 16           |
| Total                                |                    | Series N                | 30-day BA + 0.4%         | \$ 359        | \$ 363        | \$ 313       |

The redemption terms of the preferred shares issued by BPO Properties are as follows:

(i) Series G preferred shareholders are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate. The company may, at its option, redeem the shares at a price of C\$25 per share plus arrears on any accrued and unpaid dividends.

(ii) Series J and M preferred shareholders are entitled to cumulative dividends at an annual rate equal to 70% of the average bank prime rate for the previous quarter. The company may, at its option, redeem the shares at a price of C\$25 per share plus arrears on any accrued and unpaid dividends.

(iii) Series K preferred shareholders are entitled to cumulative dividends at the 30 day bankers' acceptance rate plus 0.4%. The company may, at its option, redeem the shares at a price of C\$500,000 per share plus an amount equal to all accrued and unpaid dividends.

(iv) Series N preferred shareholders are entitled to cumulative dividends at the 30 day bankers' acceptance rate plus 0.4%. The company may, at its option, redeem the shares at C\$25 per share plus arrears on any accrued and unpaid dividends.

#### Other non-controlling interests

Other non-controlling interests include the amounts of common and preferred equity related to other non-controlling shareholders' interests in property ownership entities and residential development operations which are consolidated in the company's accounts. The balances are as follows:

| (Millions)   | Others' Equity Ownership | Jun. 30, 2010 | Dec. 31, 2009 | Jan. 1, 2009 |
|--|--------------------------|---------------|---------------|--------------|
| Common shares of BPO Properties <sup>(1)</sup>               | —                        | \$ —          | \$ 133        | \$ 144       |
| Units of Brookfield Office Properties Canada <sup>(1)</sup>  | 9.4%                     | 226           | —             | —            |
| UCAR joint venture <sup>(2)</sup>                            | —                        | —             | 9             | 10           |
| Limited partnership units of Brookfield Financial Properties | 0.6%                     | 29            | 27            | 26           |
|  |                          | 255           | 169           | 180          |
| Non-controlling interests – fund subsidiaries <sup>(3)</sup> |                          | 345           | 305           | 43           |
| Total  |                          | \$ 600        | \$ 474        | \$ 223       |

<sup>(1)</sup> Canadian dollar denominated

<sup>(2)</sup> 50% joint venture with Carma Inc. to develop residential building lots in 2009 which was dissolved in the first quarter of 2010

<sup>(3)</sup> Represents equity contributions by investors in the Brookfield led consortium to subsidiaries of the company that hold the direct investment in the U.S. Office Fund

During the second quarter of 2010, the company's principal Canadian commercial subsidiary, BPO Properties Ltd. ("BPO Properties"), reorganized certain of its assets under a newly formed REIT, Brookfield Office Properties Canada ("BOX"). In addition, the company transferred its wholly owned interest in Brookfield Place in Toronto into BOX for cash consideration, the assumption of debt and the issuance of Class B units in Brookfield Office Properties Canada LP, a partnership that holds the direct interests in BOX's properties. In connection with this reorganization, the non-controlling interests in BPO Properties were exchanged for a non-controlling interest in BOX and the company's effective ownership interest in net assets of BPO Properties that were not transferred to BOX increased to 100%. As the transaction did not result in a loss of control of either the assets contributed to BOX or Brookfield Place, any differences between the consideration exchanged among the company, BPO Properties and the non-controlling interest holders in BPO Properties, and the carrying amount of the net assets transferred have been recorded directly in equity, including any related tax effects.

#### NOTE 23: COMMERCIAL PROPERTY AND RESIDENTIAL DEVELOPMENT OPERATIONS

##### (a) Revenue

The components of revenue are as follows:

| (Millions)                                      | Three months ended Jun. 30 |        | Six months ended Jun. 30 |        |
|---|----------------------------|--------|--------------------------|--------|
|   | 2010                       | 2009   | 2010                     | 2009   |
| Revenue from commercial property operations     | \$ 296                     | \$ 269 | \$ 587                   | \$ 533 |
| Revenue from residential development operations | 136                        | 70     | 226                      | 111    |
|   | 432                        | 339    | 813                      | 644    |
| Interest and other income <sup>(1)</sup>        | 14                         | 8      | 25                       | 13     |
| Total   | \$ 446                     | \$ 347 | \$ 838                   | \$ 657 |

<sup>(1)</sup> Excludes foreign exchange gains and losses associated with the company's net Canadian dollar denominated monetary assets

##### (b) Commercial property operations

The company's commercial property operations from continuing operations are as follows:

| (Millions)                               | Three months ended Jun. 30 |        | Six months ended Jun. 30 |        |
|--|----------------------------|--------|--------------------------|--------|
|  | 2010                       | 2009   | 2010                     | 2009   |
| Revenue                                  | \$ 296                     | \$ 269 | \$ 587                   | \$ 533 |
| Property operating costs                 | (116)                      | (107)  | (236)                    | (218)  |
| Commercial property net operating income | \$ 180                     | \$ 162 | \$ 351                   | \$ 315 |

The company leases commercial properties under operating leases generally with lease terms of between 1 and 15 years, with options to extend up to a further 5 years.

The company also earns fee revenue for property management, leasing and third party service fees. Fee revenue was \$14 million and \$33 million for the three and six months ended June 30, 2010 (2009 - \$13 million and \$24 million, respectively).

Minimum rental commitments on non-cancellable tenant operating leases are as follows:

| (Millions)                                    | Jun. 30, 2010 | Dec. 31, 2009 |
|---|---------------|---------------|
| Not later than 1 year                         | \$ 608        | \$ 740        |
| Later than 1 year and not longer than 5 years | 2,515         | 2,415         |
| Later than 5 years                            | 3,363         | 3,460         |
| Total   | \$ 6,486      | \$ 6,615      |

Property operating costs for the three months ended June 30, 2010 includes \$5 million (2009 - \$5 million) representing rent expense associated with operating leases for land on which certain of the company's commercial properties are situated. The company does not have an option to purchase the leased land at the expiry of the lease periods. Future minimum lease payments under these arrangements are as follows:

| (Millions)                                    | Jun. 30, 2010 | Dec. 31, 2009 |
|---|---------------|---------------|
| Not later than 1 year                         | \$ 11         | \$ 22         |
| Later than 1 year and not longer than 5 years | 86            | 85            |
| Later than 5 years                            | 1,107         | 1,110         |
| Total   | \$ 1,204      | \$ 1,217      |

#### (c) Residential development operations

Residential development net operating income fluctuates depending on the timing of closings. The results of the company's residential development operations are as follows:

| (Millions)                       | Three months ended Jun. 30 |       | Six months ended Jun. 30 |        |
|----------------------------------|----------------------------|-------|--------------------------|--------|
|                                  | 2010                       | 2009  | 2010                     | 2009   |
| Revenue                          | \$ 136                     | \$ 70 | \$ 226                   | \$ 111 |
| Expenses                         | (103)                      | (57)  | (178)                    | (92)   |
| Residential net operating income | \$ 33                      | \$ 13 | \$ 48                    | \$ 19  |

Residential expenses for the three and six months ended June 30, 2010 includes \$82 million and \$136 million, respectively (2009 - \$41 million and \$63 million), representing the carrying value of land under development and housing inventory sold in the period and \$21 million and \$42 million (2009 - \$16 million and \$29 million) of other expenses, including \$4 million and \$9 million (2009 - \$2 million and \$4 million) of capitalized interest included in the carrying amount of properties sold in the period.

#### (d) Interest and other income

Interest and other income was \$16 million and \$34 million, respectively, for the three and six months ended June 30, 2010 (2009 - \$17 million and \$24 million). Of this amount, \$8 million and \$15 million represents interest income (2009 - \$5 million and \$7 million) with the remainder related to other income, including foreign exchange gains of \$2 million and \$9 million (2009 - \$9 million and \$11 million) resulting from the translation of foreign currency denominated net monetary liabilities of subsidiaries that have the US dollar as their functional currency.

#### NOTE 24: GAINS AND OTHER ITEMS

In April 2009, the company recognized a \$154 million bargain purchase gain, net of transaction costs of \$5 million, in connection with the reorganization of investors' interests in the U.S. Office Fund, principally representing the excess of the fair value of the interest in the venture that the company received under the reorganization over the deemed cost, which was the carrying amount of the company's pre-existing investment in a subsidiary of the venture. Refer to Note 3(c)(iii) and Note 6 for further details.

Also during the second quarter of 2009, the company realized a \$3 million foreign exchange loss resulting from a partial return of its net investment in a subsidiary whose functional currency is the Canadian dollar.

**NOTE 25: FAIR VALUE GAINS (LOSSES)**

The components of fair value gains (losses) are as follows:

| (Millions)                                      | Three months ended Jun. 30 |          | Six months ended Jun. 30 |          |
|---|----------------------------|----------|--------------------------|----------|
|   | 2010                       | 2009     | 2010                     | 2009     |
| <b>Investment properties</b>                    |                            |          |                          |          |
| Commercial properties                           | \$ (13)                    | \$ (188) | \$ 67                    | \$ (550) |
| Development properties                          | (6)                        | (45)     | (39)                     | (69)     |
|   | (19)                       | (233)    | 28                       | (619)    |
| <b>Financial instruments</b>                    |                            |          |                          |          |
| Loans receivable                                | —                          | —        | 21                       | —        |
| U.S. Office Fund option                         | (32)                       | —        | (29)                     | —        |
| Other financial instruments designated as FVTPL | (3)                        | —        | (8)                      | —        |
|   | (35)                       | —        | (16)                     | —        |
| <b>Total</b>                                    | \$ (54)                    | \$ (233) | \$ 12                    | \$ (619) |

**NOTE 26: SHARE OF NET EARNINGS (LOSSES) OF EQUITY ACCOUNTED INVESTMENTS**

The components of net earnings (losses) of equity accounted investments are as follows:

| (Millions)                        | Three months ended Jun. 30 |          | Six months ended Jun. 30 |          |
|-----------------------------------|----------------------------|----------|--------------------------|----------|
|                                   | 2010                       | 2009     | 2010                     | 2009     |
| U.S. Office Fund                  | \$ 94                      | \$ (377) | \$ 197                   | \$ (601) |
| Other jointly controlled entities | 21                         | (29)     | 67                       | (115)    |
| Associates                        | 33                         | 1        | 34                       | 2        |
| <b>Total</b>                      | \$ 148                     | \$ (405) | \$ 298                   | \$ (714) |

**NOTE 27: STOCK-BASED COMPENSATION**

Options issued under the company's Share Option Plan vest proportionately over five years and expire ten years after the grant date.

During 2010, the company granted 3,282,000 stock options (2009 - 6,241,505), under the Share Option Plan with a weighted average exercise price of \$13.03 per share (2009 - \$6.49 per share), which was equal to the five-day volume weighted average price of a share on the Toronto Stock Exchange or the New York Stock Exchange, as applicable, for the five business days preceding the effective grant date of February 22, 2010. At the grant date, the options each had a weighted average fair value of \$1.68 (2009 - \$0.28) determined using the Black-Scholes model of valuation, assuming a 7.5-year term, 30% volatility (2009 - 30%), a weighted average dividend yield of 5.0% (2009 - 5.0%) and a risk free interest rate of 2.5% (2009 - 2.3%). The resulting total compensation of \$3 million is charged to expense over the vesting period of the options granted. A corresponding amount is initially recorded in contributed surplus and subsequently reclassified to share capital when options are exercised. Any consideration paid upon exercise of options is credited directly to common shares.

At June 30, 2010, the company had a total of 1,191,879 deferred share units outstanding (December 31, 2009 - 1,174,748) of which 1,191,879 were vested (December 31, 2009 - 1,171,951).

Employee compensation expense related to the stock option and the deferred share unit plans for the three and six months ended June 30, 2010 was \$2 million and \$3 million, respectively (2009 - \$2 million and \$3 million).

**NOTE 28: GUARANTEES, CONTINGENCIES AND OTHER**

In the normal course of operations, the company and its consolidated entities execute agreements that provide for indemnification and guarantees to third parties in transactions such as business dispositions, business acquisitions, sales of assets and sales of services.

**NOTE 29: CAPITAL MANAGEMENT AND LIQUIDITY**

The company employs a broad range of financing strategies to facilitate growth and manage financial risk. The company's objective is to reduce its weighted average cost of capital and improve common shareholders' equity returns through value enhancement initiatives and the consistent monitoring of the balance between debt and equity financing. As at June 30, 2010, the company's weighted average cost of capital, assuming a 12% return on common equity, was 8.11%.

The following schedule details the components of the company's capital as at June 30, 2010 and the related costs thereof:

| (Millions)  | Cost of Capital <sup>(1)</sup> |               | Underlying Value <sup>(2)</sup> |                  |
|---|--------------------------------|---------------|---------------------------------|------------------|
|   | Jun. 30, 2010                  | Dec. 31, 2009 | Jun. 30, 2010                   | Dec. 31, 2009    |
| <b>Liabilities</b>  |                                |               |                                 |                  |
| Commercial property debt                                      | 5.95%                          | 5.94%         | \$ 5,300                        | \$ 5,307         |
| Residential development debt                                  | 4.18%                          | 4.01%         | 328                             | 177              |
| Capital securities – corporate                                | 5.42%                          | 5.42%         | 1,001                           | 1,009            |
| <b>Shareholders' equity</b>                                   |                                |               |                                 |                  |
| Preferred equity - corporate                                  | 6.19%                          | 6.20%         | 561                             | 304              |
| Common equity <sup>(3)</sup>                                  | 12.00%                         | 12.00%        | 7,042                           | 6,077            |
| <b>Other equity</b>   |                                |               |                                 |                  |
| Preferred equity - subsidiaries                               | 5.39%                          | 4.83%         | 359                             | 363              |
| Non-controlling interests – fund subsidiaries <sup>(4)</sup>  | 10.00%                         | 10.00%        | 345                             | 305              |
| Non-controlling interests – other subsidiaries <sup>(5)</sup> | 12.00%                         | 12.00%        | 255                             | 169              |
| <b>Total<sup>(6)</sup></b>                                    | <b>8.11%</b>                   | <b>7.89%</b>  | <b>\$ 15,191</b>                | <b>\$ 13,711</b> |

<sup>(1)</sup>As a percentage of average book value unless otherwise noted

<sup>(2)</sup>Underlying value of liabilities represents the cost to retire on maturity. Underlying value of common equity is based on the closing stock price of Brookfield's common shares

<sup>(3)</sup>Underlying value determined on a market value basis

<sup>(4)</sup>Assuming 10% return on co-invested capital

<sup>(5)</sup>Assuming 12% return on co-invested capital

<sup>(6)</sup>In calculating the weighted average cost of capital, the cost of debt has been tax-effected

**Commercial property debt** – The company's commercial property debt is primarily fixed-rate and non-recourse to the company. These financings are typically structured on a loan-to-appraised value basis of between 55% and 65% when the market permits. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This reduces equity requirements to finance commercial property, and enhances equity returns. The company currently has a level of indebtedness of 51% of fair value of our commercial properties. This level of indebtedness is considered by the company to be within its target.

**Capital securities – corporate, Preferred equity – corporate and Preferred equity – subsidiaries.** These represent sources of low-cost capital to the company, without dilution to the common equity base.

**Non-controlling interest – fund subsidiaries** – The company invests its liquidity alongside capital from strategic institutional partners in fund formats to acquire individual assets and portfolios. Non-controlling interest – fund subsidiaries represents investments by partners in consolidated fund subsidiaries.

The company is subject to certain covenants on its credit facilities. The covenants include a total and secured leverage ratio, an interest and fixed charge ratio, as well as a dividend payout ratio and a recourse debt requirement. The company monitors the ratios on a quarterly basis and at June 30, 2010, the company was in compliance with all of its covenants.

The company's strategy is to satisfy its liquidity needs using cash on hand, cashflows generated from operating activities and provided by financing activities, as well as proceeds from asset sales. The company also generates liquidity by accessing capital markets on an opportunistic basis. Rental revenue, recoveries from tenants, lot and home sale proceeds, interest and other income, available cash balances, draws on corporate credit facilities and refinancing of maturing indebtedness are the company's principal sources of capital used to pay operating expenses, dividends, debt service and recurring capital and leasing costs in its commercial property portfolio and residential development business. The company finances its residential development operations and ongoing working capital requirements with residential development debt and accounts payable. Another source of cashflow includes third-party fees generated by the company's asset management, leasing and development businesses. Consequently, the company plans to meet its short-term liquidity needs with revenue along with proceeds from financing activities.

The principal liquidity needs for periods beyond the next twelve months are for scheduled debt maturities, recurring and non-recurring capital expenditures, development costs and potential property acquisitions. The company's strategy is to meet these needs with one or more of the following:

- cashflows from operations;
- construction loans;
- creation of new funds;
- proceeds from sales of assets; and
- credit facilities and refinancing opportunities.

The company attempts to match the maturity of its commercial property debt portfolio with the average lease terms of its properties. At June 30, 2010, the average term to maturity of the company's commercial property debt was six years, which approximates its average lease term of seven years.

The following table presents the contractual maturities of the company's financial liabilities:

| (Millions)                                    | Total    | Payments Due By Period |             |             |               |
|---|----------|------------------------|-------------|-------------|---------------|
|   |          | 1 year                 | 2 - 3 Years | 4 - 5 Years | After 5 Years |
| Commercial property debt <sup>(1)(2)</sup>    | \$ 6,921 | \$ 343                 | \$ 1,829    | \$ 1,923    | \$ 2,826      |
| Capital securities - corporate <sup>(2)</sup> | 1,216    | 215                    | 89          | 445         | 467           |
| Residential development debt                  | 328      | 244                    | 83          | 1           | —             |
| Other non-current financial liabilities       | 1,204    | 11                     | 44          | 42          | 1,107         |

<sup>(1)</sup>Includes \$149 million of debt associated with discontinued operations

<sup>(2)</sup>Includes repayment of principal and interest

## NOTE 30: FINANCIAL INSTRUMENTS

### (a) Derivatives and hedging activities

The company uses derivative and non-derivative instruments to manage financial risks, including interest rate, commodity, equity price and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. The company does not use derivatives for speculative purposes. The company uses the following derivative instruments to manage these risks:

- Foreign currency forward contracts to hedge exposures to Canadian dollar and British pound denominated net investments in self-sustaining subsidiaries and foreign currency denominated financial assets;
- Interest rate swaps to manage interest rate risk associated with planned refinancings and existing variable rate debt;
- Interest rate caps to hedge interest rate risk on a portion of its variable rate debt; and
- Total return swap on the company's shares to economically hedge exposure to variability in share price under the deferred share unit plan (refer to Note 27).

The company also designates certain of its financial liabilities as hedges of its Canadian dollar net investments in self-sustaining subsidiaries.

### Interest rate hedging

The following table provides details on derivatives designated as cash flow hedges in interest rate hedging relationships outstanding as at June 30, 2010 and December 31, 2009:

|                   | Hedging Item       | Notional<br>(Millions) | Rate      | Maturity | Fair Value | Hedged Item                     |
|-------------------|--------------------|------------------------|-----------|----------|------------|---------------------------------|
| June 30, 2010     | Interest rate cap  | \$300                  | 5%        | 2011     | nil        | Interest payments on LIBOR debt |
|                   | Interest rate swap | 25                     | Pay 3.49% | 2021     | nil        | Interest payments on LIBOR debt |
| December 31, 2009 | Interest rate cap  | \$300                  | 5%        | 2011     | nil        | Interest payments on LIBOR debt |

The maximum term over which interest rate hedging gains and losses reflected in other comprehensive income will be recognized in income is 11 years (2009 – nine years) as the hedged interest payments occur.

At June 30, 2010 and December 31, 2009, the amount of hedge ineffectiveness recorded in interest expense in connection with the company's interest rate hedging activities was not significant.

The fair value of interest rate caps is determined based on generally accepted pricing models using quoted market interest rates for the appropriate term. Interest rate swaps are valued at the present value of estimated future cashflows and discounted based on applicable yield curves derived from market interest rates.

**Foreign currency hedging**

The following table provides details on derivatives designated as net investment hedges in foreign currency hedging relationships outstanding as at June 30, 2010:

| (Millions)    | Hedging Item             | Hedged Currency | Notional | Rate          | Fair Value | Maturity  | Hedged Item                    |
|---------------|--------------------------|-----------------|----------|---------------|------------|-----------|--------------------------------|
| Jun. 30, 2010 | Foreign currency forward | British pounds  | GBP 184  | GBP 0.69/US\$ | \$17       | Sept 2010 | GBP denominated net investment |
| Jun. 30, 2010 | Foreign currency forward | Canadian dollar | C\$ 50   | C\$1.03/US\$  | \$2        | Nov 2010  | C\$ denominated net investment |
| Dec. 31, 2009 | —                        | —               | —        | —             | —          | —         | —                              |

In addition, as of June 30, 2010 the company had designated C\$600 million of its Canadian dollar financial liabilities as hedges of the net investment in its Canadian operations.

**Other derivatives**

At June 30, 2010, the company had an interest rate swap to fix the interest rate on an initial notional \$1 billion of LIBOR based debt, which amortizes to \$500 million over the term of the swap, at 1.38% expiring in August 2011. The swap is not designated in a hedge relationship. The aggregate fair value of this contract at June 30, 2010 was a loss of \$6 million. For the three and six months ended June 30, 2010, losses of \$1 million and \$6 million, respectively, in connection with the swap have been recorded in fair value gains (losses) (June 30, 2009 – losses of nil and \$6 million).

As of June 30, 2010, the company had forward starting swaps to fix the rate on a notional of \$300 million of refinancings at 3.01% starting in November 2010 for a period of seven years. These forward starting swaps are not designated in a hedge relationship. For the three and six months ended June 30, 2010, losses of \$5 million and \$5 million, respectively, in connection with these swaps have been recorded in fair value gains (losses) (2009 – nil and nil).

At June 30, 2010, the company had a total return swap under which it receives the returns on a notional 1,109,619 Brookfield Properties' common shares. The fair value of the total return swap was a loss of \$16 million at June 30, 2010 (December 31, 2009 - \$14 million loss) based on the market price of the underlying shares at that date. For the three and six months ended June 30, 2010, gains of nil and \$3 million, respectively, in connection with the swap have been recorded in general and administrative expense (June 30, 2009 – gains of \$2 million and nil).

In the first quarter of 2010, the company entered into a put arrangement with BAM under which its investment in equity securities designated as FVTPL may be sold to BAM for a price based on the company's cost at anytime. Under this put arrangement the company has agreed that, in the event it disposes of its investment to a third party prior to expiration of the option, a portion of the resulting proceeds in excess of the put price specified in the contract will be paid to BAM. As at June 30, 2010, the fair value of this contract was nil.

**(b) Fair value of financial instruments**

Fair value is the amount that willing parties would accept to exchange a financial instrument based on the current market for instruments with the same risk, principal and remaining maturity. The fair value of interest bearing financial assets and liabilities is determined by discounting the contractual principal and interest payments at estimated current market interest rates for the instrument. Current market rates are determined by reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risk.

The carrying value and fair values of the company's financial instruments are summarized in the following table:

| (Millions) Measurement Basis             | Jun. 30, 2010          |                      |                                    |                   |                   |               | Dec. 31, 2009     |               | Jan. 1, 2009      |               |
|--|------------------------|----------------------|------------------------------------|-------------------|-------------------|---------------|-------------------|---------------|-------------------|---------------|
|  | FVTPL<br>Fair<br>Value | AFS<br>Fair<br>Value | Loans & receivables                |                   | Total             |               | Total             |               | Total             |               |
|  |                        |                      | Other liabilities<br>Fair<br>Value | Amortized<br>Cost | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value | Carrying<br>Value | Fair<br>Value |
| <b>Financial assets</b>                  |                        |                      |                                    |                   |                   |               |                   |               |                   |               |
| Non-current financial assets             |                        |                      |                                    |                   |                   |               |                   |               |                   |               |
| Equity securities designated as AFS      | —                      | \$102                | —                                  | —                 | \$102             | \$102         | \$102             | \$102         | —                 | —             |
| Equity securities designated as FVTPL    | 209                    | —                    | —                                  | —                 | 209               | 209           | —                 | —             | —                 | —             |
| Derivative assets                        | 317                    | —                    | —                                  | —                 | 317               | 317           | 346               | 346           | —                 | —             |
| Loans receivable                         | —                      | —                    | 507                                | 507               | 507               | 507           | 135               | 135           | —                 | —             |
| Receivables and other assets             |                        |                      |                                    |                   |                   |               |                   |               |                   |               |
| Accounts receivable                      | —                      | —                    | 194                                | 194               | 194               | 194           | 194               | 194           | 209               | 209           |
| Loan receivable from affiliate           | —                      | —                    | 326                                | 326               | 326               | 326           | 648               | 648           | —                 | —             |
| Residential receivables                  | —                      | —                    | 308                                | 308               | 308               | 308           | 343               | 343           | 241               | 241           |
| Restricted cash and deposits             | —                      | —                    | 37                                 | 37                | 37                | 37            | 39                | 39            | 64                | 64            |
| Cash and equivalents                     | —                      | —                    | 127                                | 127               | 127               | 127           | 104               | 104           | 109               | 109           |
|  | 526                    | 102                  | 1,499                              | 1,499             | 2,127             | 2,127         | 1,911             | 1,911         | 623               | 623           |
| <b>Financial liabilities</b>             |                        |                      |                                    |                   |                   |               |                   |               |                   |               |
| Commercial property debt                 | 55                     | —                    | 5,359                              | 5,245             | 5,300             | 5,414         | 5,307             | 5,188         | 6,228             | 6,304         |
| Residential development debt             | —                      | —                    | 328                                | 328               | 328               | 328           | 177               | 177           | 434               | 434           |
| Capital securities – corporate           | —                      | —                    | 1,001                              | 1,001             | 1,001             | 1,001         | 1,009             | 1,009         | 882               | 882           |
| Capital securities – fund subsidiaries   | —                      | —                    | —                                  | —                 | —                 | —             | —                 | —             | 265               | 265           |
| Other non-current financial liabilities  |                        |                      |                                    |                   |                   |               |                   |               |                   |               |
| Loan payable                             | —                      | —                    | 92                                 | 92                | 92                | 92            | —                 | —             | —                 | —             |
| Other non-current financial liabilities  | 46                     | —                    | (25)                               | (25)              | 21                | 21            | 25                | 25            | —                 | —             |
| Accounts payable and accrued liabilities | —                      | —                    | 437                                | 437               | 437               | 437           | 475               | 475           | 491               | 491           |
|  | \$101                  | —                    | \$7,192                            | \$7,078           | \$7,179           | \$7,293       | \$6,993           | \$6,874       | \$8,300           | \$8,376       |

### (c) Fair value hierarchy

The company values instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

The following table outlines financial assets and liabilities measured at fair value in the consolidated financial statements and the level of the inputs used to determine those fair values in the context of the hierarchy as defined above:

| (Millions)                              | Jun. 30, 2010 |         |         | Dec. 31, 2009 |         |         | Jan. 1, 2009 |         |         |
|---|---------------|---------|---------|---------------|---------|---------|--------------|---------|---------|
|   | Level 1       | Level 2 | Level 3 | Level 1       | Level 2 | Level 3 | Level 1      | Level 2 | Level 3 |
| <b>Financial assets</b>                 |               |         |         |               |         |         |              |         |         |
| Non-current financial assets            |               |         |         |               |         |         |              |         |         |
| Equity securities designated as AFS     | —             | \$92    | \$10    | —             | \$ 92   | \$ 10   | —            | —       | —       |
| Equity securities designated as FVTPL   | —             | —       | 209     | —             | —       | —       | —            | —       | —       |
| Derivative assets                       | —             | —       | 317     | —             | —       | 346     | —            | —       | —       |
| Loans receivable                        | —             | —       | —       | —             | 135     | —       | —            | —       | —       |
| <b>Financial liabilities</b>            |               |         |         |               |         |         |              |         |         |
| Commercial property debt                | —             | —       | 55      | —             | —       | 54      | —            | —       | 49      |
| Other non-current financial liabilities | —             | —       | 46      | —             | —       | 50      | —            | —       | —       |

### (d) Market risk

#### Interest rate risk

The company faces interest rate risk on its variable rate financial assets and liabilities. In addition, there is interest rate risk associated with the company's fixed rate debt due to the expected requirement to refinance such debts in the year of maturity. The following table outlines the impact on interest expense of a 100 basis point increase or decrease in interest rates on the company's variable rate assets and liabilities and fixed rate debt maturing within one year:

| (Millions)  | Three months ended Jun. 30, 2010 |
|---|----------------------------------|
| Corporate revolver                                      | \$ —                             |
| Credit facility from BAM                                | —                                |
| Term facility   | 1                                |
| Variable rate commercial property debt                  | 10                               |
| Variable rate land development debt                     | 3                                |
| Fixed rate commercial property debt due within one year | —                                |
| Total   | \$ 14                            |

In addition, the company has variable rate debt included within its equity accounted investments which could result in a change in interest expense at ownership of \$11 million based on a 100 basis point change in rates.

The company manages interest rate risk by primarily entering into fixed rate commercial property debt and staggering the maturities of its mortgage portfolio over a 10-year horizon when the market permits. The company also makes use of interest rate derivatives to manage interest rate risk on specific variable rate debts and on refinancing of fixed rate debt.

#### Foreign currency risk

The company is structured such that its foreign operations are primarily self-sustaining. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the company is exposed to foreign currency risk on net Canadian dollar assets of approximately C\$890 million comprised of the company's investment in self-sustaining subsidiaries and non-monetary assets of C\$960 million and net monetary liabilities of C\$70 million. At June 30, 2010, a 10% change in the U.S. to Canadian dollar exchange rate on the company's investment in self-sustaining subsidiaries and non-monetary assets would have impacted other comprehensive income by approximately \$86 million and a similar change to the company's net monetary liabilities would have impacted net income by approximately \$9 million, on a pre-tax basis.

In the first quarter of 2010, the company established a holding company to hold investments in commercial and development properties in London, United Kingdom. As a result of its investment in the United Kingdom, the company is subject to foreign currency risk due to potential fluctuations in exchange rates between the British pound and the U.S. dollar. The currency risk on these British pound denominated investments has been hedged with foreign currency forward contracts. A 10% change in the U.S. dollar to British pound exchange rate would have impacted other comprehensive income by approximately \$28 million.

#### Equity price risk

The company faces equity price risk in connection with a total return swap under which it receives the returns on a notional 1,109,619 the company's common shares. A \$1 increase or decrease in the company's share price would result in a \$1 million gain or loss being recognized in general and administrative expense.

**(e) Credit risk**

The company's maximum exposure to credit risk is equivalent to the carrying value of each class of financial asset as separately presented in non-current financial assets, receivables and other, restricted cash and deposits and cash and cash equivalents. The company also has indirect exposure to credit risk within its equity accounted investments, including \$111 million of receivables and other through its investment in the U.S. Office Fund and other jointly controlled entities.

Credit risk related to accounts receivable arises from the possibility that tenants may be unable to fulfill their lease commitments. The company mitigates this risk by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The company maintains a portfolio that is diversified by property type so that exposure to a business sector is lessened. Currently no one tenant represents more than 10% of commercial property revenue. This risk is further mitigated by signing long-term leases with tenants who have investment grade credit ratings.

Credit risk arises on secured loans and other receivables in the event that borrowers default on the repayment to the company. The company mitigates this risk by attempting to ensure that adequate security has been provided in support of such mortgages.

The company manages credit risk on financial assets with related parties by entering into such transactions under normal commercial terms.

Residential receivables are typically collected within nine months. Credit risk related to residential receivables is mitigated by the fact that, for the majority of sales, the company retains title to the lots that are sold until the receivable balance is collected. Additionally, the company maintains security over the lots that are sold, which can ultimately be taken back if receivables are not paid.

The majority of the company's trade receivables are collected within 30 days. The balance of accounts receivable past due, including real estate mortgages and residential receivables, is not significant.

**NOTE 31: RELATED PARTIES**

Details of transactions and balances between the company and related parties are discussed below.

***Loans to/from related parties***

The company has a \$300 million credit facility with BAM, the company's parent. At June 30, 2010, the balance drawn on this facility was nil (December 31, 2009 – nil). Interest expense related to this indebtedness was nil and nil, respectively, for the three and six months ended June 30, 2010 (2009 – \$0.5 million and \$1 million). As at June 30, 2010, the company had approximately \$15 million (December 31, 2009 – \$15 million) of indebtedness outstanding to BAM and its affiliates. Interest expense related to this indebtedness was nil and nil, respectively, for the three and six months ended June 30, 2010 (2009 – nil and nil). The company also has an unsecured balance on deposit with BAM of \$277 million as of June 30, 2010 which is due on demand and earns interest at a rate of LIBOR plus 42.5 basis points (December 31, 2009 – \$648 million). Interest income related to this loan totaled \$1 million and \$2 million, respectively, for the three and six months ended June 30, 2010 (2009 – nil and nil).

The company has a loan receivable of \$49 million from an entity controlled by BAM that is secured by commercial office property. The loan is due December 1, 2010. Interest income earned on this loan was nil for the three and six months ended June 30, 2010 (2009 – nil).

BAM owns \$200 million of the company's Class AAA Series E capital securities with the company having an offsetting loan receivable against these securities earning a rate of 108% of bank prime.

***Derivative transactions***

In the first quarter of 2010, the company entered into an option agreement with its parent as described in Note 30(a). Also, the company entered into a total return swap arrangement with its parent as described in Note 11(d).

***Transactions with related parties***

Included in rental revenues are amounts received from BAM and its affiliates for the rental of office premises of \$0.4 million and \$0.8 million, respectively, for the three and six months ended June 30, 2010 (2009 - \$0.4 million and \$0.8 million). These amounts have been recorded at the exchange amount. In addition, the company has certain arrangements with BAM and its affiliates to arrange insurance in the normal course and at market rates or at cost. The fees are based on a percentage of the annual premiums paid.

The general partner of Brookfield TBird Holdings LP, which is responsible for the management and conduct of the LP, is a wholly-owned subsidiary of BAM. Under the terms of an agreement with the general partner, the company was assigned \$2 million of the general partner's return from the LP.

**NOTE 32: OTHER INFORMATION**

## (a) Supplemental cashflow information

| (Millions)   | Three months ended Jun. 30 |        | Six months ended Jun. 30 |        |
|--|----------------------------|--------|--------------------------|--------|
|  | 2010                       | 2009   | 2010                     | 2009   |
| Acquisitions of real estate                                    | \$ 39                      | \$ —   | \$ 39                    | \$ —   |
| Mortgages and other balances assumed on acquisition            | (37)                       | —      | (37)                     | —      |
| Net acquisitions   | \$ 2                       | \$ —   | \$ 2                     | \$ —   |
| Cash taxes paid  | \$ 6                       | \$ 9   | \$ 14                    | \$ 16  |
| Cash interest paid (excluding dividends on capital securities) | \$ 82                      | \$ 106 | \$ 166                   | \$ 183 |

(b) In the second quarter of 2010, the company acquired an interest in loan receivables of \$367 million through a cash collateralized total return swap (refer to Note 11(d)) in exchange for a reduction of loans receivable from affiliate of a corresponding amount.

(c) The assets and liabilities of certain of the company's subsidiaries are neither available to pay debts of, nor constitute legal obligations of, the parent or other subsidiaries, respectively.

(d) During the three and six months ended June 30, 2010, interest expense included \$1 million and \$3 million, respectively (2009 - \$3 million and \$5 million) relating to amortization of transaction costs included in the carrying amount of commercial property debt and capital securities – corporate which has been recognized in interest expense using the effective interest method.

(e) Included in cash and cash equivalents is nil of short-term deposits at June 30, 2010 (December 31, 2009 – \$3 million).

**NOTE 33: SUBSEQUENT EVENTS**

On July 30, 2010, the company announced that it has entered into an agreement with BAM to acquire an interest in 16 office properties located in Australia for a payment of A\$1.6 billion. Also, the company announced its intention to divest of its residential land and housing division.

**NOTE 34: SEGMENTED INFORMATION**

The company and its subsidiaries operate in the United States and Canada within the commercial property business and the residential development business. In the first quarter of 2010, Brookfield established a holding company in the United Kingdom and made investments in that market. The company's United Kingdom investment is currently managed out of its U.S. platform and has been included as such until a platform is established in the United Kingdom. The following summary presents segmented financial information for the company's principal areas of business:

|   | Commercial    |               |               |               | Residential Development |               | Total         |               |
|---|---------------|---------------|---------------|---------------|-------------------------|---------------|---------------|---------------|
|   | United States |               | Canada        |               | Jun. 30, 2010           | Dec. 31, 2009 | Jun. 30, 2010 | Dec. 31, 2009 |
| (Millions)                                  | Jun. 30, 2010 | Dec. 31, 2009 | Jun. 30, 2010 | Dec. 31, 2009 | Jun. 30, 2010           | Dec. 31, 2009 | Jun. 30, 2010 | Dec. 31, 2009 |
| <b>Assets</b>                               |               |               |               |               |                         |               |               |               |
| <b>Non-current assets</b>                   |               |               |               |               |                         |               |               |               |
| Investment properties                       |               |               |               |               |                         |               |               |               |
| Commercial properties                       | \$ 5,933      | \$ 5,777      | \$ 3,726      | \$ 3,736      | \$ —                    | \$ —          | \$ 9,659      | \$ 9,513      |
| Development properties                      | 322           | 322           | 121           | 147           | —                       | —             | 443           | 469           |
| Equity accounted investments                |               |               |               |               |                         |               |               |               |
| U.S. Office Fund                            | 1,124         | 945           | —             | —             | —                       | —             | 1,124         | 945           |
| Other jointly controlled entities           | 1,016         | 888           | 3             | 3             | —                       | —             | 1,019         | 891           |
| Associates                                  | —             | —             | 17            | 15            | —                       | —             | 17            | 15            |
| Residential development inventories         | —             | —             | —             | —             | 755                     | 797           | 755           | 797           |
| Non-current financial assets                | 1,135         | 583           | —             | —             | —                       | —             | 1,135         | 583           |
|   | 9,530         | 8,515         | 3,867         | 3,901         | 755                     | 797           | 14,152        | 13,213        |
| <b>Current assets</b>                       |               |               |               |               |                         |               |               |               |
| Residential development inventories         | —             | —             | —             | —             | 465                     | 438           | 465           | 438           |
| Receivables and other                       | 456           | 778           | 218           | 221           | 307                     | 342           | 981           | 1,341         |
| Restricted cash and deposits                | 33            | 37            | 2             | 1             | 2                       | 1             | 37            | 39            |
| Cash and cash equivalents                   | 68            | 33            | 59            | 62            | —                       | 9             | 127           | 104           |
|   | 557           | 848           | 279           | 284           | 774                     | 790           | 1,610         | 1,922         |
| Assets related to assets held for sale      | 315           | 311           | —             | —             | —                       | —             | 315           | 311           |
| <b>Total Assets</b>                         | \$ 10,402     | \$ 9,674      | \$ 4,146      | \$ 4,185      | \$ 1,529                | \$ 1,587      | \$ 16,077     | \$ 15,446     |
| <b>Liabilities</b>                          |               |               |               |               |                         |               |               |               |
| <b>Non-current liabilities</b>              |               |               |               |               |                         |               |               |               |
| Commercial property debt                    | 3,418         | 2,909         | 1,536         | 1,616         | —                       | —             | 4,954         | 4,525         |
| Residential development debt                | —             | —             | —             | —             | 84                      | 46            | 84            | 46            |
| Capital securities – corporate              | 108           | 107           | 893           | 902           | —                       | —             | 1,001         | 1,009         |
| Other non-current financial liabilities     | 113           | 117           | —             | —             | —                       | —             | 113           | 117           |
| Other non-current liabilities               | 172           | 172           | —             | —             | —                       | —             | 172           | 172           |
| Deferred tax liability                      | 251           | 212           | 346           | 396           | (84)                    | (92)          | 513           | 516           |
|   | 4,062         | 3,517         | 2,775         | 2,914         | —                       | (46)          | 6,837         | 6,385         |
| <b>Current liabilities</b>                  |               |               |               |               |                         |               |               |               |
| Commercial property debt                    | 143           | 626           | 54            | —             | —                       | —             | 197           | 626           |
| Residential development debt                | —             | —             | —             | —             | 244                     | 131           | 244           | 131           |
| Accounts payable and other liabilities      | 199           | 226           | 97            | 101           | 112                     | 148           | 408           | 475           |
|   | 342           | 852           | 151           | 101           | 356                     | 279           | 849           | 1,232         |
| Liabilities related to assets held for sale | 158           | 174           | —             | —             | —                       | —             | 158           | 174           |
| <b>Total Liabilities</b>                    | \$ 4,562      | \$ 4,543      | \$ 2,926      | \$ 3,015      | \$ 356                  | \$ 233        | \$ 7,844      | \$ 7,791      |

The investment property values in the United States and Canada at June 30, 2010 were \$6,255 million and \$3,847 million, respectively (2009 - \$6,099 million, \$3,883 million, respectively).

The following summary presents segmented financial information for the company's principal areas of business for the three months ended June 30:

| Three months ended<br>(Millions)  | Commercial    |              |             |             | Residential<br>Development |                  | Total            |                  |
|---|---------------|--------------|-------------|-------------|----------------------------|------------------|------------------|------------------|
|   | United States |              | Canada      |             | Jun. 30,<br>2010           | Jun. 30,<br>2009 | Jun. 30,<br>2010 | Jun. 30,<br>2009 |
| Revenue   | \$ 174        | \$ 176       | \$ 122      | \$ 92       | \$ 136                     | \$ 71            | \$ 432           | \$ 339           |
| Expenses  | 67            | 69           | 49          | 38          | 103                        | 57               | 219              | 164              |
|   | 107           | 107          | 73          | 54          | 33                         | 14               | 213              | 175              |
| Interest and other income   | 11            | 13           | 1           | 3           | 4                          | 1                | 16               | 17               |
| Net operating income from continuing operations   | 118           | 120          | 74          | 57          | 37                         | 15               | 229              | 192              |
| Interest expense  |               |              |             |             |                            |                  |                  |                  |
| Commercial property debt  | 56            | 58           | 20          | 16          | —                          | —                | 76               | 74               |
| Capital securities - corporate  | 2             | 2            | 13          | 12          | —                          | —                | 15               | 14               |
| General and administrative expense  | 14            | 17           | 17          | 10          | —                          | —                | 31               | 27               |
| Depreciation  | 2             | 2            | 2           | 1           | —                          | —                | 4                | 3                |
| Income before gains and other items, fair value gains (losses), share of net earnings (losses) of equity accounted investments and income tax expense (benefit) | 44            | 41           | 22          | 18          | 37                         | 15               | 103              | 74               |
| Gains and other items   | —             | 151          | —           | —           | —                          | —                | —                | 151              |
| Fair value gains (losses)   | (35)          | (156)        | (19)        | (77)        | —                          | —                | (54)             | (233)            |
| Share of net earnings (losses) from equity accounted investments  | 150           | (402)        | (2)         | (3)         | —                          | —                | 148              | (405)            |
| Income (loss) before income tax expense   | 159           | (366)        | 1           | (62)        | 37                         | 15               | 197              | (413)            |
| Income tax expense (benefit)  | 6             | 15           | 23          | (8)         | —                          | —                | 29               | 7                |
| Income (loss) from continuing operations  | 153           | (381)        | (22)        | (54)        | 37                         | 15               | 168              | (420)            |
| Income from discontinued operations   | 6             | 3            | —           | —           | —                          | —                | 6                | 3                |
| <b>Net income</b>   | <b>159</b>    | <b>(378)</b> | <b>(22)</b> | <b>(54)</b> | <b>37</b>                  | <b>15</b>        | <b>174</b>       | <b>(417)</b>     |
| Net income attributable to non-controlling interests  |               |              |             |             |                            |                  |                  |                  |
| – fund subsidiaries   | 17            | (18)         | —           | —           | —                          | —                | 17               | (18)             |
| Net income attributable to non-controlling interests – other subsidiaries   | 1             | (1)          | 2           | (2)         | —                          | —                | 3                | (3)              |
| <b>Net income attributable to shareholders</b>  | <b>141</b>    | <b>(359)</b> | <b>(24)</b> | <b>(52)</b> | <b>37</b>                  | <b>15</b>        | <b>\$ 154</b>    | <b>\$ (396)</b>  |
| Acquisition of real estate, net   | 2             | —            | —           | —           | —                          | —                | 2                | —                |
| Investment in real estate joint ventures, net   | 26            | —            | —           | —           | —                          | —                | 26               | —                |
| Dispositions of real estate, net  | —             | —            | —           | —           | —                          | —                | —                | —                |
| Capital expenditures – commercial properties  | 7             | 10           | 5           | 3           | —                          | —                | 12               | 13               |
| Capital expenditures – development properties   | 8             | —            | 4           | 34          | —                          | —                | 12               | 34               |

Total revenues earned in the United States and Canada for the three months ended June 30, 2010 were \$178 million and \$254 million, respectively (2009 - \$177 million and \$162 million, respectively).

The following summary presents segmented financial information for the company's principal areas of business for the six months ended June 30:

| Six months ended<br>(Millions)  | Commercial    |              |             |             | Residential<br>Development |                  | Total            |                   |
|---|---------------|--------------|-------------|-------------|----------------------------|------------------|------------------|-------------------|
|   | United States |              | Canada      |             | Jun. 30,<br>2010           | Jun. 30,<br>2009 | Jun. 30,<br>2010 | Jun. 30,<br>2009  |
| Revenue   | \$ 346        | \$ 354       | \$ 241      | \$ 178      | \$ 226                     | \$ 112           | \$ 813           | \$ 644            |
| Expenses  | 134           | 143          | 102         | 75          | 178                        | 92               | 414              | 310               |
|   | 212           | 211          | 139         | 103         | 48                         | 20               | 399              | 334               |
| Interest and other income   | 26            | 19           | 2           | 4           | 6                          | 1                | 34               | 24                |
| Net operating income from continuing operations   | 238           | 230          | 141         | 107         | 54                         | 21               | 433              | 358               |
| Interest expense  |               |              |             |             |                            |                  |                  |                   |
| Commercial property debt  | 108           | 125          | 39          | 21          | —                          | —                | 147              | 146               |
| Capital securities - corporate  | 4             | 4            | 25          | 22          | —                          | —                | 29               | 26                |
| General and administrative expense  | 30            | 34           | 29          | 20          | —                          | —                | 59               | 54                |
| Depreciation  | 4             | 3            | 3           | 3           | —                          | —                | 7                | 6                 |
| Income before gains and other items, fair value gains (losses), share of net earnings (losses) of equity accounted investments and income tax expense (benefit) | 92            | 64           | 45          | 41          | 54                         | 21               | 191              | 126               |
| Gains and other items   | —             | 151          | —           | —           | —                          | —                | —                | 151               |
| Fair value gains (losses)   | 43            | (510)        | (31)        | (109)       | —                          | —                | 12               | (619)             |
| Share of net earnings (losses) from equity accounted investments  | 301           | (710)        | (3)         | (4)         | —                          | —                | 298              | (714)             |
| Income (loss) before income tax expense   | 436           | (1,005)      | 11          | (72)        | 54                         | 21               | 501              | (1,056)           |
| Income tax expense (benefit)  | 20            | (28)         | 40          | 1           | —                          | —                | 60               | (27)              |
| Income (loss) from continuing operations  | 416           | (977)        | (29)        | (73)        | 54                         | 21               | 441              | (1,029)           |
| Income from discontinued operations   | 10            | 6            | —           | —           | —                          | —                | 10               | 6                 |
| <b>Net income</b>   | <b>426</b>    | <b>(971)</b> | <b>(29)</b> | <b>(73)</b> | <b>54</b>                  | <b>21</b>        | <b>451</b>       | <b>(1,023)</b>    |
| Net income attributable to non-controlling interests – fund subsidiaries  | 40            | (18)         | —           | —           | —                          | —                | 40               | (18)              |
| Net income attributable to non-controlling interests – other subsidiaries   | 1             | (4)          | 4           | —           | —                          | —                | 5                | (4)               |
| <b>Net income attributable to shareholders</b>  | <b>385</b>    | <b>(949)</b> | <b>(33)</b> | <b>(73)</b> | <b>54</b>                  | <b>21</b>        | <b>\$ 406</b>    | <b>\$ (1,001)</b> |
| Acquisition of real estate, net   | 2             | —            | —           | —           | —                          | —                | 2                | —                 |
| Investment in real estate joint ventures  | 94            | —            | —           | —           | —                          | —                | 94               | —                 |
| Dispositions of real estate, net  | —             | —            | —           | —           | —                          | —                | —                | —                 |
| Capital expenditures – commercial properties  | 23            | 25           | 13          | 11          | —                          | —                | 36               | 36                |
| Capital expenditures – development properties   | 8             | —            | 6           | 69          | —                          | —                | 14               | 69                |

Total revenues earned in the United States and Canada for the six months ended June 30, 2010 were \$353 million and \$460 million, respectively (2009 - \$356 million and \$288 million, respectively).

#### NOTE 35: APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on July 29, 2010.

# Shareholder Information

## STOCK EXCHANGE LISTINGS

|                                   | Outstanding at June 30, 2010 | Symbol     | Stock Exchange     |
|-----------------------------------|------------------------------|------------|--------------------|
| <b>Common Shares</b>              | 501,543,517                  | BPO        | New York / Toronto |
| <b>Class A Preferred Shares</b>   |                              |            |                    |
| Series A                          | 4,612,500                    | Not listed | —                  |
| Series B                          | 9,589,500                    | Not listed | —                  |
| <b>Class AA Preferred Shares</b>  |                              |            |                    |
| Series E                          | 2,000,000                    | Not listed | —                  |
| <b>Class AAA Preferred Shares</b> |                              |            |                    |
| Series E                          | 8,000,000                    | Not listed | —                  |
| Series F                          | 8,000,000                    | BPO.PR.F   | Toronto            |
| Series G                          | 4,400,000                    | BPO.PR.U   | Toronto            |
| Series H                          | 8,000,000                    | BPO.PR.H   | Toronto            |
| Series I                          | 8,000,000                    | BPO.PR.I   | Toronto            |
| Series J                          | 8,000,000                    | BPO.PR.J   | Toronto            |
| Series K                          | 6,000,000                    | BPO.PR.K   | Toronto            |
| Series L                          | 11,500,000                   | BPO.PR.L   | Toronto            |
| Series N                          | 11,000,000                   | BPO.PR.N   | Toronto            |

## DIVIDEND RECORD AND PAYMENT DATES<sup>(1)</sup>

|                                     | Record Date                                      | Payment Date   |
|-------------------------------------|--|--|
| <b>Common Shares<sup>(2)</sup></b>  | First day of March, June, September and December | Last business day of March, June, September and December |
| <b>Class A Preferred Shares</b>     | First day of March and September                 | 15th day of March and September                          |
| Series A, B                         |  |  |
| <b>Class AA Preferred Shares</b>    | 15th day of March, June, September and December  | Last business day of March, June, September and December |
| Series E                            |  |  |
| <b>Class AAA Preferred Shares</b>   | 15th day of March, June, September and December  | Last business day of March, June, September and December |
| Series E, F, G, H, I, J, K, L and N |  |  |

<sup>(1)</sup>All dividends are subject to declaration by the company's Board of Directors

<sup>(2)</sup>Common shareholders resident in the United States will receive payment in U.S. dollars and shareholders resident in Canada will receive their dividends in Canadian dollars at the exchange rate on the date of record, unless they elect otherwise

## FIVE-YEAR COMMON SHARE DIVIDEND HISTORY<sup>(1)</sup>

| (US Dollars) | 2006    | 2007    | 2008    | 2009    | 2010    |
|--------------|---------|---------|---------|---------|---------|
| March 31     | \$ 0.12 | \$ 0.13 | \$ 0.14 | \$ 0.14 | \$ 0.14 |
| June 30      | 0.13    | 0.14    | 0.14    | 0.14    | 0.14    |
| September 30 | 0.13    | 0.14    | 0.14    | 0.14    | 0.14    |
| December 31  | 0.13    | 0.14    | 0.14    | 0.14    |         |

<sup>(1)</sup>Adjusted to reflect the three-for-two stock split effective May 4, 2007

# Corporate Information

## CORPORATE PROFILE

Brookfield Properties owns, develops and manages premier office properties. Its current managed portfolio is comprised of interests in 93 properties totaling 70 million square feet in the downtown cores of New York, Boston, Washington, D.C., Los Angeles, Houston, Toronto, Calgary and Ottawa, making it one of the largest owners of commercial real estate in North America. Landmark assets include the World Financial Center in Manhattan, Brookfield Place in Toronto, Bank of America Plaza in Los Angeles and Bankers Hall in Calgary. The corporation also holds interests in over 15 million square feet of high-quality, centrally-located development properties in its major markets. The corporation's common shares trade on the NYSE and TSX under the symbol BPO.

## BROOKFIELD PROPERTIES CORPORATION

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New York, New York 10281-1021  
Tel: (212) 417-7000  
Fax: (212) 417-7214  
www.brookfieldproperties.com

Brookfield Place, Bay Wellington Tower  
181 Bay Street, Suite 330  
Toronto, Ontario M5J 2T3  
Tel: (416) 369-2300  
Fax: (416) 369-2301

## SHAREHOLDER INQUIRIES

Brookfield Properties welcomes inquiries from shareholders, analysts, media representatives and other interested parties. Questions relating to investor relations or media inquiries can be directed to Melissa Coley, Vice President, Investor Relations at (212) 417-7215 or via e-mail at [Melissa.Coley@brookfield.com](mailto:Melissa.Coley@brookfield.com). Inquiries regarding financial results should be directed to Bryan Davis, Senior Vice President and Chief Financial Officer at (212) 417-7166 or via e-mail at [Bryan.Davis@brookfield.com](mailto:Bryan.Davis@brookfield.com).

Shareholder questions relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent:

## CIBC MELLON TRUST COMPANY

By mail: P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario, M5C 2W9

By courier: 199 Bay Street  
Commerce Court West  
Securities Level  
Toronto, Ontario, M5L 1G9  
Attention: Courier Window

Tel: (800) 387-0825; (416) 643-5500  
Fax: (416) 643-5501  
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E-mail: [inquiries@cibcmellon.com](mailto:inquiries@cibcmellon.com)

## COMMUNICATIONS

We strive to keep our shareholders updated on our progress through a comprehensive annual report, quarterly interim reports, periodic press releases and quarterly conference calls.

Brookfield Properties maintains a Web site, [brookfieldproperties.com](http://brookfieldproperties.com), which provides access to our published reports, press releases, statutory filings, supplementary information and stock and dividend information as well as summary information on the company.

We maintain an investor relations program and respond to inquiries in a timely manner. Management meets on a regular basis with investment analysts and shareholders to ensure that accurate information is available to investors, and conducts quarterly conference calls and webcasts to discuss the company's financial results. We strive to disseminate material information about the company's activities to the media in a timely, factual and accurate manner.

# Brookfield