

Management's Discussion and Analysis of Financial Results

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FORWARD-LOOKING STATEMENTS

This annual report to shareholders, particularly the “Business Environment and Outlook” section, 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 information currently available to the 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,” “potential,” “continue,” or the negative of these terms or other comparable terminology. Although Brookfield Properties believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or 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 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.

Management's Discussion and Analysis of Financial Results

March 7, 2007

PART I – OBJECTIVES AND FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Financial data included in Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2006 includes material information up to March 7, 2007. Financial data provided has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with non-GAAP measures such as net operating income and funds from operations being reconciled to appropriate Canadian GAAP measures. All dollar references, unless otherwise stated, are in millions of US dollars except per share amounts. Amounts in Canadian dollars are identified as "C\$."

The following discussion and analysis is intended to provide readers with an assessment of the performance of Brookfield Properties Corporation ("Brookfield Properties") over the past two years as well as our financial position and future prospects. It should be read in conjunction with the audited consolidated financial statements and appended notes which begin on page 69 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. Net operating income is defined as income from property operations after operating expenses have been deducted, but prior to deducting financing, administration and income tax expenses. Funds from operations is defined as net income prior to extraordinary items, non-cash items and depreciation and amortization. We use net operating income and funds from operations to assess the operating results of the company. Net operating income is an important measure in assessing operating performance and funds from operations is a relevant measure in analyzing real estate, as commercial properties generally appreciate rather than depreciate. We provide the components of net operating income on page 42 and a full reconciliation from net income to funds from operations on page 41. Net operating income and funds from operations are both non-GAAP measures that do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other companies.

Additional information, including our Annual Information Form, is available on our Web site at www.brookfieldproperties.com, or on www.sedar.com or 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. In the past two years, 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 (a single-purpose fund established to acquire the Trizec portfolio) and the Canadian Office Fund (a single-purpose fund established to acquire the O&Y portfolio) are discussed in further detail in Part III and Part IV, respectively, of this MD&A. The term "Brookfield Properties Direct" ("Direct") refers to those properties that are wholly-owned or owned through property-level joint ventures. When referring to ownership of properties by the U.S. or Canadian Office Fund, such ownership percentage refers to that of the applicable fund and not the proportionate percentage ownership of Brookfield Properties.

At December 31, 2006, the book value of Brookfield Properties' assets was \$19.3 billion. During 2006 we generated \$135 million of net income (\$0.56 per diluted share) and \$443 million of funds from operations (\$1.87 per diluted share).

FINANCIAL HIGHLIGHTS

Brookfield Properties' financial results are as follows:

(Millions, except per share amounts)	2006	2005	2004
Results of operations			
Net income	\$ 135	\$ 164	\$ 138
Net income per share - diluted	0.56	0.69	0.58
Common share dividends paid per share	0.75	0.65	0.42
Funds from operations	\$ 443	\$ 435	\$ 403
Funds from operations per share - diluted	1.87	1.85	1.70
Balance sheet data			
Total assets	\$ 19,314	\$ 9,513	\$ 8,800
Commercial properties	15,287	7,430	6,555
Commercial property debt	11,185	5,216	4,754
Shareholders' equity	3,112	1,943	1,992

COMMERCIAL PROPERTY OPERATIONS

Our strategy of owning, pro-actively managing and developing premier properties in supply-constrained, high-growth markets with high barriers to entry has created one of North America's most distinguished portfolios of office properties. Our commercial property portfolio consists of 116 properties totaling 76 million square feet, including 10 million square feet of parking. Our development portfolio comprises 15 development sites totaling over 17 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 concentrating operations within a select number of gateway cities with attractive tenant bases in order to maintain a meaningful presence and build on the strength of our tenant relationships within these markets.

We remain focused on the following strategic priorities:

- Surfacing value from our properties through proactive leasing and select redevelopment initiatives;
- Prudent capital management including the refinancing of mature properties and investing in joint venture opportunities through the expansion of our asset-management platform;
- Monetizing development assets as the economy rebounds and continued supply constraints create opportunities; and
- Expanding our asset management platform through the growth of our existing Office Funds or through the establishment of new funds.

The following table summarizes our investment by market:

Region	Number of Properties	Leasable Area (000's Sq. Ft.)	Brookfield Properties' Owned Interest (000's Sq. Ft.) ⁽¹⁾	Book Value (Millions)	Debt (Millions)	Net Book Equity (Millions)
Direct						
New York, New York ⁽²⁾	7	12,447	10,735	\$ 3,914	\$ 2,886	\$ 1,028
Boston, Massachusetts	2	2,163	1,103	350	228	122
Washington, D.C.	6	2,266	2,266	693	503	190
Toronto, Ontario	9	6,646	5,253	1,179	625	554
Calgary, Alberta	7	6,326	3,164	438	324	114
Denver, Colorado	1	1,795	1,795	264	169	95
Minneapolis, Minnesota	4	3,008	3,008	423	177	246
Other	2	926	926	92	42	50
	38	35,577	28,250	7,353	4,954	2,399
U.S. Fund						
New York, New York	6	7,069	5,617	2,581	715	1,866
Washington, D.C.	23	4,505	4,328	1,287	208	1,079
Houston, Texas	7	6,958	6,307	941	—	941
Los Angeles, California	22	10,672	10,438	2,689	431	2,258
Corporate U.S. Fund debt	—	—	—	—	4,175	(4,175)
	58	29,204	26,690	7,498	5,529	1,969
Canadian Fund						
Toronto, Ontario	6	4,396	1,099	255	95	160
Calgary, Alberta	2	1,519	380	75	48	27
Ottawa, Ontario	6	2,780	695	88	46	42
Other	3	919	229	18	9	9
	17	9,614	2,403	436	198	238
Continuing operations	113	74,395	57,343	15,287	10,681	4,606
Discontinued operations ⁽³⁾	3	1,400	661	61	34	27
	116	75,795	58,004	15,348	10,715	4,633
Office development sites	15	17,219	15,456	735	504	231
Total	131	93,014	73,460	\$ 16,083	\$ 11,219	\$ 4,864

⁽¹⁾ Represents consolidated interest before non-controlling interests

⁽²⁾ Includes \$300 million of corporate debt

⁽³⁾ Atrium on Bay in Toronto and 2200 Walkley and 2204 Walkley in Ottawa are currently classified as discontinued operations

We have historically explored property level joint venture opportunities with strategic institutional partners. Although we plan to continue with this endeavor, 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 Trizec Properties Inc. and Trizec Canada Inc. (collectively, "Trizec"). Of our 116 commercial office properties, 23 are wholly owned, 16 are held in property-level joint ventures or co-tenancies, and 77 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 related to the operation of the properties. We proportionately consolidate our interest in this Fund. Our U.S. Office Fund consists of a consortium of institutional investors, led and managed by us investing through direct and indirect investment vehicles and have also entered into several agreements relating to property management, fees, transfer rights and other material issues related to the operation of the properties. We fully consolidate this Fund.

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, on-going services.
- Transaction Development, redevelopment and leasing activities conducted on behalf of these funds.
- Performance Earned when certain pre-determined 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 in order to ensure the long-term sustainability of rental revenues through economic cycles. Major tenants with over 600,000 square feet of space in the portfolio include Merrill Lynch, CIBC, Government of Canada, Chevron U.S.A., Wachovia, RBC Financial Group, Bank of Montreal, JPMorgan Chase, Petro-Canada, Target Corporation, Goldman Sachs, Continental Airlines and Imperial Oil. A detailed list of major tenants is included in Part V of this MD&A, which deals with "Risks and Uncertainties" commencing on page 56.

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 while each market is different, the majority of our leases, when signed, extend between 10 and 20-year terms. As a result of this strategy, approximately 5% of our leases mature annually.

The following is a breakdown of lease maturities by region with associated in-place rental rates:

Total Portfolio				New York			Boston			Washington, D.C.		
Year of Expiry	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$
Currently available	3,215	4.9		665	3.5		142	7.5		139	2.4	
2007	3,150	4.8	\$ 19	288	1.5	\$ 28	61	3.2	\$ 22	719	12.5	\$ 23
2008	3,669	5.6	22	541	2.8	28	399	21.1	24	458	8.0	26
2009	4,077	6.2	19	1,023	5.3	20	40	2.1	31	582	10.1	26
2010	5,670	8.6	23	1,038	5.4	34	172	9.1	33	268	4.7	26
2011	5,150	7.8	23	360	1.9	38	394	20.9	45	199	3.5	30
2012	5,446	8.3	24	860	4.5	24	31	1.6	23	531	9.2	31
2013	11,156	16.9	28	5,128	26.7	38	30	1.6	29	189	3.3	29
2014 & beyond	24,347	36.9	28	9,296	48.4	36	618	32.9	28	2,664	46.3	37
Parking	9,915	—	—	317	—	—	276	—	—	1,022	—	—
	75,795	100.0	\$ 26	19,516	100.0	\$ 35	2,163	100.0	\$ 31	6,771	100.0	\$ 31
Weighted average market net rent			\$ 29			\$ 43			\$ 32			\$ 35

Houston				Los Angeles				Denver				Minneapolis			
Year of Expiry	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$
Currently available	336	5.4		1,075	12.6		56	4.3		267	10.7				
2007	575	9.3	\$ 13	668	7.8	\$ 19	55	4.3	\$ 17	36	1.4	\$ 9			
2008	454	7.4	16	766	9.0	25	48	3.7	18	32	1.3	14			
2009	155	2.5	20	558	6.5	21	9	0.7	20	221	8.9	5			
2010	941	15.3	14	981	11.5	24	100	7.7	22	55	2.2	10			
2011	581	9.4	16	1,004	11.8	22	89	6.9	20	35	1.4	11			
2012	1,232	20.0	16	1,125	13.2	31	77	6.0	20	126	5.1	17			
2013	522	8.5	16	587	6.9	25	152	11.8	22	647	26.0	9			
2014 & beyond	1,372	22.2	19	1,769	20.7	33	706	54.6	22	1,068	43.0	13			
Parking	790	—	—	2,139	—	—	503	—	—	521	—	—			
	6,958	100.0	\$ 16	10,672	100.0	\$ 27	1,795	100.0	\$ 21	3,008	100.0	\$ 11			
Weighted average market net rent			\$ 17			\$ 24			\$ 17			\$ 15			

Toronto				Calgary				Ottawa				Other			
Year of Expiry	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$	000's Sq. Ft.	%	Net Rate per Sq. Ft.-\$
Currently available	443	4.2		15	0.2		15	0.8		62	4.4				
2007	413	4.0	\$ 19	48	0.7	\$ 19	142	7.4	\$ 12	145	10.4	\$ 11			
2008	554	5.3	19	287	4.2	19	78	4.1	11	52	3.7	10			
2009	946	9.0	17	322	4.7	18	138	7.2	11	83	5.9	9			
2010	1,026	9.8	23	915	13.5	21	2	0.1	33	172	12.3	9			
2011	714	6.8	23	1,602	23.6	17	29	1.5	9	143	10.2	12			
2012	883	8.4	21	499	7.3	25	4	0.2	29	78	5.6	12			
2013	1,589	15.2	23	1,286	18.9	20	952	49.9	16	74	5.3	16			
2014 & beyond	3,887	37.3	21	1,827	26.9	20	549	28.8	12	591	42.2	10			
Parking	1,828	—	—	1,044	—	—	1,030	—	—	445	—	—			
	12,283	100.0	\$ 21	7,845	100.0	\$ 20	2,939	100.0	\$ 14	1,845	100.0	\$ 11			
Weighted average market net rent			\$ 23			\$ 29			\$ 14			\$ 15			

COMMERCIAL DEVELOPMENT

We hold interests in over 17 million square feet of high-quality, centrally-located development sites at various stages of planning and construction. 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. As the economy rebounds, continued supply constraints should create opportunities for us to enhance value through the development of these assets. We currently have six projects under development which are outlined on page 28 of this MD&A.

The following table summarizes our commercial development projects at December 31, 2006:

	Description	Number of Sites	Ownership ⁽¹⁾	Sq. Ft.
New York, New York				
Ninth Avenue	Between 31 st and 33 rd Streets across from the Farley Post Office	1	100%	4,700,000
Washington, D.C.				
77 K Street	Adjacent to Union Station	1	50%	322,000
Reston Crescent	3.6 acre landscaped campus adjacent to Reston, Virginia	1	100%	1,000,000
Waterview	Located at the foot of the Key Bridge in Rosslyn, Virginia	1	25%	930,000
Houston, Texas				
Four Allen Center ⁽²⁾	1400 Smith Street	1	100%	1,267,000
1500 Smith Street	Between Continental Center I and Four Allen Center	1	100%	800,000
Allen Center Garage	Located in the heart of the Allen Center / Cullen Center complex	1	100%	700,000
Allen Center Gateway	Adjacent to the Allen Center	1	100%	700,000
Toronto, Ontario				
Bay Adelaide Centre	Bay and Adelaide Streets	1	100%	2,600,000
BCE Place III	Third phase of BCE Place project	1	65%	800,000
Calgary, Alberta				
Bankers Court	East and West Parkades adjacent to Bankers Hall	1	50%	500,000
Herald Site	Within one block from our existing Calgary assets	1	100%	1,100,000
Ottawa, Ontario				
300 Queen Street	Third phase of Place de Ville project	1	25%	500,000
Denver, Colorado				
425 15th St.	One block from Republic Plaza	1	100%	800,000
Tremont Garage	One block from Republic Plaza	1	100%	500,000
Total		15		17,219,000

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

⁽²⁾ Property is currently under redevelopment. 100% of the building has been leased to Chevron, who will move into the building once redevelopment is complete

Residential Development

We develop residential land and conduct homebuilding operations. These business units primarily entitle and develop land in master-planned communities and sell these lots to other homebuilders. Through these units we also build and sell homes. Operations are currently focused in five markets: Alberta, Ontario, Colorado, Texas and Kansas City.

We intend to continue to grow this business by selectively acquiring land that provides the residential development groups with attractive projects that are consistent with our overall strategy and management expertise.

We classify our residential and development business into three categories: land held for development; land under development; and housing inventory. Land held for development includes costs of acquiring land as well as general infrastructure costs to service the land within a community that is not directly related to saleable lots. 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 the underlying land, roads and parks. Included in housing inventory is associated land as well as construction costs.

The following table summarizes our residential land development at December 31, 2006:

	Under Development		Housing Inventory		Held for Development	
	Number of Lots	Book Value (Millions)	Number of Units	Book Value (Millions)	Estimated Number of Lots	Book Value (Millions)
Alberta	3,753	\$ 212	566	\$ 35	32,007	\$ 223
Ontario	350	4	186	23	8,185	52
Colorado	806	29	—	—	7,686	79
Texas	102	3	—	—	7,178	40
Kansas City	64	1	—	—	498	5
Total	5,075	\$ 249	752	\$ 58	55,554	\$ 399

PERFORMANCE MEASUREMENT

The key indicators by which we measure our performance are:

- Net income per share;
- Net operating income;
- Funds from operations per share;
- 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, net operating income and funds from operations. While net income is calculated in accordance with generally accepted accounting principles ("GAAP"), net operating income and funds from operations are both non-GAAP financial measures which do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. We provide the components of net operating income on page 42 and a full reconciliation from net income to funds from operations on page 41 of this MD&A.

Net Income

Net income is calculated in accordance with GAAP. Net income is used as a key indicator in assessing the profitability of the company.

Net Operating Income

Net operating income is defined as income from property operations after operating expenses have been deducted, but prior to deducting financing, administration and income tax expenses. 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 sales and acquisitions.

Funds from Operations

Funds from operations is defined as net income prior to extraordinary items, one-time transaction costs, depreciation and amortization, and certain other non-cash items. While we believe that funds from operations is the most relevant measure to analyze real estate as commercial properties generally appreciate rather than depreciate, we believe that funds from operations, net operating income and net income are all relevant measures. We compute funds from operations substantially in accordance with the definition provided by the Real Property Association of Canada ("RealPac"). Under this definition, funds from operations does not represent or approximate cash generated from operating activities determined in accordance with GAAP in Canada or the United States, and should not be considered as an alternative to GAAP measures. Accordingly, we provide a reconciliation of funds from operations to net income, consistent with the definition provided as set out above. A reconciliation is not provided to cashflow from operating activities, as it is often subject to fluctuations based on the timing of working capital payments.

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing performance in terms of 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 up 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 new property acquisitions which fit into our strategic plan;
- The availability of equity capital at a reasonable cost; and
- The availability of debt capital at a cost and on terms conducive to our goals.

SIGNIFICANT EVENTS

Trizec Acquisition

On October 5, 2006, we, together with our partner in this transaction, The Blackstone Group, completed the acquisition of all of the shares of Trizec Properties, Inc. ("Trizec"), a publicly-traded U.S. Office REIT. We also completed the acquisition of Trizec Canada Inc. ("Trizec Canada"), a Canadian company that held, among other assets, an approximate 38% stake in Trizec. The outstanding shares of common stock of Trizec not already owned by Trizec Canada were acquired at \$29.0209 per share in cash. All of the outstanding subordinate voting shares and multiple voting shares of Trizec Canada were acquired at \$30.9809 per share in cash. The total purchase price, including transaction costs, was \$5.7 billion. Our share of the transaction's equity following syndication to institutional partners was \$857 million.

The portfolio, acquired in our U.S. Office Fund, consists of approximately 29 million square feet in New York, Washington, D.C., Los Angeles and Houston. These markets are consistent with Brookfield Properties' strategy to invest in cities with strong financial services, government and energy sector tenants.

In connection with our acquisition of properties, purchase costs are allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land, buildings and building and tenant improvements, are determined as if vacant (i.e., at replacement cost). Intangible assets, including the above-market value of leases, tenant relationships and the value of lease origination costs are recorded at their relative fair values. The below-market value of leases is recorded in Intangible liabilities on our consolidated balance sheet.

Above- and below-market values and lease origination costs are recorded based on the present value (using an interest rate reflecting the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the leases negotiated and in-place at the time of acquisition and (ii) management's estimate of fair market lease rates for the property or equivalent property, measured over a period equal to the remaining non-cancelable term of the lease. The capitalized above-market or below-market lease value is amortized as a reduction of, or increase to, rental income over the remaining non-cancelable term of each lease plus any renewal periods with fixed rental terms that are considered to be below-market.

The total amount of other intangible assets allocated to lease origination costs and tenant relationship intangible values is based on management's evaluation of the specific characteristics of each lease and our overall relationship with each tenant. Factors considered in the allocation of these values include, but are not limited to, the nature of the existing relationship with the tenant, the tenant's credit quality, the expectation of lease renewals, the estimated carrying costs of the property during a hypothetical expected lease-up period, current market conditions and the costs to execute similar leases.

The value of lease origination costs is amortized to expense over the remaining initial term of each lease. The value of tenant relationship intangibles is amortized to expense over the initial terms of the leases; however, no amortization period for intangible assets will exceed the remaining depreciable life of the building.

In the event that a tenant terminates its lease, the unamortized portion of each intangible, including market rate adjustments, lease origination costs and tenant relationship values, will be charged as an expense.

The following is a summary of our investment in the portfolio:

Region	Number of Properties	Leasable Area (000's Sq. Ft.)	Brookfield Properties' Owned Interest (000's Sq. Ft.)	Purchase Price Book Value (Millions)
New York, New York	6	7,069	5,617	\$ 2,594
Washington, D.C.	23	4,505	4,328	1,289
Houston, Texas	7	6,958	6,307	943
Los Angeles, California	22	10,672	10,438	2,698
	58	29,204	26,690	7,524
Office development sites	5	4,130	3,433	67
Total commercial and development properties	63	33,334	30,123	\$ 7,591
Cash and cash equivalents				325
Restricted cash				88
Accounts receivable and other assets				62
Intangible assets ⁽¹⁾				739
Accounts payable and other liabilities assumed				(218)
Intangible liabilities ⁽¹⁾				(816)
Future income tax liabilities				(182)
Non-controlling interests assumed				(4)
Preferred shares assumed				(65)
Commercial property debt assumed				(1,854)
Total purchase price				\$ 5,666

⁽¹⁾ All intangibles are subject to amortization

The total purchase price was financed as follows:

(Millions)	
Investment by Fund partners and joint venture partner	\$ 1,042
Acquisition financing	3,702
Brookfield Properties' equity investment	857
Cash on hand utilized	167
Excess funding for working capital	(102)
Total purchase price	\$ 5,666

The earnings from the company's interest in Trizec are included in the consolidated statement of income commencing October 5, 2006.

The following summarizes the total equity capitalization in the Trizec acquisition:

(Millions)	Capitalization	%
Institutional Investors	\$ 535	28
Brookfield Properties' Equity	857	45
U.S. Office Fund Equity	1,392	73
The Blackstone Group	507	27
Total Equity	\$ 1,899	100

Further details and analysis of our U.S. Office Fund is included in Part III of this MD&A, commencing on page 50.

PART II – FINANCIAL STATEMENT ANALYSIS

ASSET PROFILE

Our total asset book value was \$19.3 billion at December 31, 2006, an increase of \$9.8 billion from 2005. The increase in total assets is primarily attributable to the acquisition of the Trizec portfolio, as well as a significant increase in our development properties' portfolio. The following is a summary of our assets over the past two years:

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Commercial properties	\$ 15,287	\$ 7,430
Commercial developments	735	224
Residential developments	706	391
Receivables and other	974	830
Intangible assets	853	125
Restricted cash and deposits	507	316
Marketable securities	—	58
Cash and cash equivalents	188	64
Assets held for sale ⁽¹⁾	64	75
Total	\$ 19,314	\$ 9,513

⁽¹⁾ Includes \$61 million of commercial properties and \$3 million of other assets related to assets held for sale at December 31, 2006 (December 31, 2005 - \$75 million and nil, respectively)

COMMERCIAL PROPERTIES

Our acquisition of the Trizec portfolio accounts for the majority of the increase in book value of commercial properties from December 31, 2005. The total value assigned to the Trizec commercial property assets was \$7.5 billion at December 31, 2006. Our 45% economic interest in the Trizec portfolio was purchased for \$857 million, after the assumption of debt and acquisition financing totaling \$5.7 billion, and comprises 29 million square feet in New York, Washington, D.C., Houston and Los Angeles.

In addition to the purchase of the Trizec portfolio, we acquired One Bethesda and 601 and 701 South 12th Street in Washington, D.C. and purchased the remaining 75% interest in Hudson's Bay Centre in Toronto. These acquisitions are offset by the disposition of the Trade Center Denver in the first quarter of 2006 and the sale of six properties in Calgary and two properties in Winnipeg in the second quarter of 2006, which were purchased in 2005 as part of the O&Y acquisition. The consolidated carrying value of our North American properties is approximately \$265 per square foot, significantly less than the estimated replacement cost of these assets.

A breakdown of our commercial properties by region is as follows:

Region	Leasable Area (000's Sq. Ft.)	Brookfield Properties' Owned Interest (000's Sq. Ft.) ⁽¹⁾	Dec. 31, 2006 Book Value (Millions)	Dec. 31, 2005 Book Value (Millions)
New York, New York	19,516	16,352	\$ 6,495	\$ 3,824
Boston, Massachusetts	2,163	1,103	350	325
Washington, D.C.	6,771	6,594	1,980	395
Houston, Texas	6,958	6,307	941	—
Los Angeles, California	10,672	10,438	2,689	—
Toronto, Ontario	11,042	6,352	1,434	1,399
Calgary, Alberta	7,845	3,544	513	570
Ottawa, Ontario	2,780	695	88	100
Denver, Colorado	1,795	1,795	264	269
Minneapolis, Minnesota	3,008	3,008	423	429
Other	1,845	1,155	110	119
Continuing operations	74,395	57,343	15,287	7,430
Discontinued operations	1,400	661	61	75
Total	75,795	58,004	\$ 15,348	\$ 7,505

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

TENANT INSTALLATION COSTS AND CAPITAL EXPENDITURES

Upon the signing of the majority of our leases, we provide tenant improvements for leased space in order to accommodate the specific space requirements of the tenant. In addition to this capital, leasing commissions are paid to third-party brokers representing tenants in lease negotiations. Tenant improvements and leasing commissions are capitalized in the year incurred, amortized over the term of the lease and recovered through rental payments. Expenditures for tenant installation costs in 2006 totaled \$82 million, compared with the \$123 million

expended in 2005. The decrease was a result of costs incurred in the prior year for the substantial lease-up of Three World Financial Center in New York offset by an increase in leasing commissions incurred as a result of increased leasing activity.

Tenant installation costs are summarized as follows:

(Millions)	2006	2005
Leasing commissions	\$ 27	\$ 15
Tenant improvements	55	108
Total	\$ 82	\$ 123

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 year ended December 31, 2006 totaled \$25 million, compared with \$21 million during 2005. These expenditures exclude repairs and maintenance costs which are recovered through contractual tenant cost recovery payments.

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.

The details of our capital expenditures are summarized as follows:

(Millions)	2006	2005
Revenue enhancing	\$ 14	\$ 15
Non-revenue enhancing	11	6
Total	\$ 25	\$ 21

ASSETS HELD FOR SALE

In the fourth quarter of 2006, three properties met the criteria for being classified as held for sale: Atrium on Bay in Toronto, and 2200 Walkley and 2204 Walkley in Ottawa. We have reclassified \$64 million of assets and \$36 million of liabilities to assets held for sale and liabilities related to assets held for sale, respectively, in connection with these properties.

In the third and fourth quarters of 2005, two properties, the Colorado State Bank Building ("CSBB") and the Trade Center Denver, respectively, met the criteria for being classified as held for sale. The sale of CSBB closed in December 2005 and the disposition of Trade Center Denver was completed in January 2006. At December 31, 2005, we reclassified \$75 million of assets and \$51 million of liabilities to assets held for sale and liabilities related to assets held for sale, respectively, in connection with these properties.

COMMERCIAL DEVELOPMENTS

Commercial developments consist of commercial property development sites, density rights and related infrastructure. The total book value of this development land and infrastructure was \$735 million at December 31, 2006, an increase of \$511 million from \$224 million in 2005. The increase is primarily attributable to the acquisitions of 400 West 33rd Street (combined with our previously owned 401 West 31st Street site, this gives us ownership of two blocks of land at Ninth Avenue from 31st to 33rd Streets totaling five acres) in New York and Herald site in Calgary in the fourth quarter of 2006, and Four Allen Center in Houston and 77 K Street in Washington, D.C. in the third quarter of 2006. In addition, with the Trizec portfolio, we acquired five development sites totaling 4.1 million square feet in the fourth quarter of 2006.

The details of the commercial development property portfolio and related book values are as follows:

(Millions, except square feet)	Buildable Sq. Ft.	Sq. Ft. Currently Under Construction	Dec. 31, 2006	Dec. 31, 2005
Active developments and properties under redevelopment				
Bay Adelaide Centre, Toronto	2,600,000	1,100,000	\$ 251	\$ 191
Four Allen Center, Houston	1,267,000	1,267,000	139	—
Reston Crescent, Washington, D.C.	1,000,000	185,000	6	—
Waterview, Washington, D.C.	930,000	930,000	44	—
77 K Street, Washington, D.C.	322,000	322,000	16	—
Bankers Court, Calgary	500,000	265,000	7	4
Planning				
Ninth Avenue, New York	4,700,000		184	10
Herald Site, Calgary	1,100,000		38	—
<i>Others:</i>				
1500 Smith Street, Houston	800,000			
Allen Center Gateway, Houston	700,000			
Allen Center Garage, Houston	700,000			
425 15 th Street, Denver	800,000			
Tremont Garage, Denver	500,000			
BCE Place III, Toronto	800,000			
300 Queen Street, Ottawa	500,000			
	4,800,000		50	19
Total	17,219,000	4,069,000	\$ 735	\$ 224

Although we are not a speculative developer, we are a full-service real estate company with in-house development expertise. With over 17 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. The following development activity took place during 2006:

- In July, 2006, we acquired 50% of a Capitol Hill development site, 77 K Street in Washington, D.C., for \$15 million in a 50-50 joint venture with ING Clarion. We will be acting as general partner and developer. Construction on the 322,000 square foot building commenced in November, 2006 and upon completion, expected in 2008, we will manage the building.
- In July, 2006, we began development on Phase I of our Bay Adelaide Centre project in Toronto. We signed a long-term lease with KPMG, a global professional services firm, for approximately 250,000 square feet in Bay Adelaide Centre West, the first tower of the three-phase project.
- In July, 2006, we began development on our Bankers Court project in Calgary. The project is 500,000 square feet, of which 265,000 square feet is currently being developed as a 15-storey building adjacent to the 2.7 million square foot Bankers Hall complex in the heart of downtown Calgary. The project is fully leased and completion is expected in 2008.
- In September, 2006, we acquired Four Allen Center, a 1,267,000 square foot building located at 1400 Smith Street in downtown Houston for \$120 million. Re-development commenced during the fourth quarter of 2006. On closing, the building was 100% leased to Chevron U.S.A., Inc. ("Chevron"), a subsidiary of Chevron Corporation. Chevron is expected to move into the building once construction is complete sometime in late 2007. We raised \$240 million of mortgage financing to fund the acquisition and refurbishment costs.
- In October, 2006, we acquired five development sites along with the acquisition of the Trizec portfolio: Reston Crescent and Waterview in Washington, D.C. and 1500 Smith Street, Allen Center Garage and Allen Center Gateway in Houston. Reston Crescent and Waterview are currently under development and both are expected to be complete in 2007.
- In November, 2006, we purchased a site at 400 West 33rd Street in New York with 2.2 million buildable square feet. This site is adjacent to our existing site at 401 West 31st Street. The combined site on Ninth Avenue can accommodate up to 4,700,000 square feet of development.
- In December, 2006, we purchased the Herald Site in downtown Calgary with 1.1 million buildable square feet for C\$45 million. The site is within one block of each of our core office assets: Fifth Avenue Place, Bankers Hall and Petro-Canada Centre.

Expenditures for development and redevelopment on commercial and development properties totaled \$79 million in 2006 compared with \$50 million in 2005. The increase is due to construction costs incurred on Bay Adelaide Centre, Bankers Court and 77 K Street, which are all currently under active development.

The details of development and redevelopment expenditures are as follows:

(Millions)	2006	2005
Construction costs	\$ 38	\$ 30
Interest capitalized	24	15
Property taxes and other	17	5
Total	\$ 79	\$ 50

RESIDENTIAL DEVELOPMENTS

Our residential development operations are focused in five markets: Alberta, Ontario, Colorado, Texas and Kansas City. The book value of these investments at December 31, 2006 was \$706 million, compared with \$391 million at the end of 2005. The increase was attributable to additional land acquisitions and increased work in progress on costs incurred during the year offset by residential inventory sold.

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

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Under development	\$ 249	\$ 120
Housing inventory	58	46
Held for development	399	225
Total	\$ 706	\$ 391

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

Under Development	Number of Lots		Book Value (Millions)	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Alberta	3,753	2,348	\$ 212	\$ 90
Ontario	350	269	4	9
Colorado	806	729	29	19
Texas	102	158	3	2
Kansas City	64	—	1	—
Total	5,075	3,504	\$ 249	\$ 120

Housing Inventory	Number of Units		Book Value (Millions)	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Alberta	566	365	\$ 35	\$ 23
Ontario	186	228	23	23
Total	752	593	\$ 58	\$ 46

Held for Development	Estimated Number of Lots		Number of Acres		Book Value (Millions)	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Alberta	32,007	24,943	4,913	4,428	\$ 223	\$ 156
Ontario	8,185	6,983	1,637	1,364	52	39
Colorado	7,686	2,931	1,531	548	79	23
Texas	7,178	1,859	1,860	541	40	7
Kansas City	498	—	83	—	5	—
Total	55,554	36,716	10,024	6,881	\$ 399	\$ 225

RECEIVABLES AND OTHER ASSETS

Receivables and other assets increased to \$974 million at December 31, 2006 from \$830 million at December 31, 2005 primarily due to the acquisition of Trizec and the expansion of our land and housing business.

The components of receivables and other assets are as follows:

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Receivables	\$ 432	\$ 371
Real estate mortgages	86	86
Residential receivables and other assets	245	219
Prepaid expenses and other assets	211	154
Total	\$ 974	\$ 830

INTANGIBLE ASSETS

In September 2003, the CICA issued EIC 140 "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination" in which the Emerging Issues Committee of the CICA concluded that an enterprise that acquires real estate should allocate a portion of the purchase price to in-place operating leases, based on their fair value that the enterprise acquires in connection with the real estate property. As described on page 24 of this MD&A, we assessed the fair value of acquired intangible assets and liabilities, including tenant improvements, above- and below-market leases, origination costs, and other identified intangible assets and assumed liabilities, and have allocated \$853 million (2005 - \$125 million) to lease origination costs, tenant relationships, above-market leases and below-market ground leases, net of related amortization, in connection with acquisitions since September 2003, including the Trizec acquisition, the O&Y acquisition and the recent acquisitions in the greater Washington, D.C. area.

The components of intangible assets are as follows:

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Intangible assets		
Lease origination costs	\$ 263	\$ 52
Tenant relationships	573	80
Above-market leases and below-market ground leases	79	3
	915	135
Less accumulated amortization		
Lease origination costs	(32)	(2)
Tenant relationships	(26)	(8)
Above-market leases and below-market ground leases	(4)	—
Total net	\$ 853	\$ 125

RESTRICTED CASH AND DEPOSITS

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 increased to \$507 million in 2006 from \$316 million in 2005. The increase is primarily a result of \$120 million related to an escrow account set up in connection with the acquisition of Four Allen Center in Houston in the third quarter of 2006, offset by the reinvestment of restricted cash held in a depository account that was used for the purchase of 601 & 701 South 12th Street into our Washington, D.C. portfolio. Included in restricted cash and deposits is \$249 million (2005 - \$256 million) of short-term government securities held in a trust account to match interest and principal payments of the \$241 million mortgage on One Liberty Plaza maturing in 2007.

CASH AND MARKETABLE SECURITIES

We endeavor to maintain high levels of liquidity to ensure that we can react quickly to potential investment opportunities. This liquidity consists of cash and marketable securities, which contribute 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. These funds are invested in short-term marketable securities.

As at December 31, 2006, cash balances increased to \$188 million from \$64 million at December 31, 2005 as marketable securities of \$58 million were disposed of for the acquisition of the remaining 75% interest in Hudson's Bay Centre which closed in the second quarter of 2006.

UTILIZATION OF CASH RESOURCES

The following table illustrates the utilization of cashflow generated by our operating activities, and our financing and investing initiatives:

(Millions)	2006	2005	Total
Cashflow provided by operating activities	\$ 66	\$ 230	\$ 296
Financing			
Borrowings, net of repayments	1,365	283	1,648
Trizec acquisition financing arranged	3,702	—	3,702
Distributions to non-controlling interests	(12)	(13)	(25)
Net issuance (repurchase) of common shares	1,234	(66)	1,168
Shareholder distributions	(176)	(152)	(328)
	6,113	52	6,165
Investing			
Marketable securities	58	227	285
Loans receivable and other	(24)	—	(24)
Acquisition of Trizec, net of cash and cash equivalents acquired	(5,341)	—	(5,341)
Acquisitions of real estate, net	(487)	(359)	(846)
Development and redevelopment	(79)	(50)	(129)
Commercial property tenant improvements	(55)	(108)	(163)
Restricted cash and deposits	(102)	(19)	(121)
Capital expenditures	(25)	(21)	(46)
	(6,055)	(330)	(6,385)
Increase / (decrease) in cash	\$ 124	\$ (48)	\$ 76

Cashflow from operating activities represents a source of liquidity to service debt, to fund capital expenditures and leasing costs, and to fund distributions on shares. Cashflow from commercial operating activities is dependent upon occupancy levels of properties owned, rental rates achieved and timing of the collection of receivables and payment of payables.

LIABILITIES AND SHAREHOLDERS' EQUITY

Our asset base of \$19.3 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)	Dec. 31, 2006	Dec. 31, 2005
Liabilities		
Commercial property debt	\$ 11,185	\$ 5,216
Accounts payable and other liabilities	923	500
Intangible liabilities	919	126
Future income tax liability	584	188
Liabilities related to assets held for sale ⁽¹⁾	36	51
Capital securities - corporate	1,093	1,101
Capital securities - fund subsidiaries	803	—
Non-controlling interests - fund subsidiaries	266	—
Non-controlling interests - other subsidiaries	67	59
Preferred equity - subsidiaries	326	329
Shareholders' equity		
Preferred equity - corporate	45	45
Common equity	3,067	1,898
Total	\$ 19,314	\$ 9,513

⁽¹⁾ Includes \$34 million of commercial property debt and \$2 million of other liabilities associated with liabilities related to assets held for sale at December 31, 2006 (December 31, 2005 - \$51 million and nil, respectively)

COMMERCIAL PROPERTY DEBT

Commercial property debt totaled \$11.2 billion at December 31, 2006, compared with \$5.2 billion at December 31, 2005. The increase during 2006 is primarily due to the acquisition of the Trizec portfolio, which added \$5.8 billion of debt. In addition, during 2006, we had new property debt on 601 & 701 South 12th Street, Hudson's Bay Centre, One Bethesda and Four Allen Center and we refinanced 53 State Street. These increases are offset by principal amortization. Commercial property debt at December 31, 2006 had an average interest rate of 6.8% and an average term to maturity of eight years. Predominantly all of our Direct commercial property debt is recourse only to specific properties, thereby reducing the overall financial risk to the company. Our U.S. Office Fund debt is recourse to the Fund entities.

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

Objective	Three-Year Average	Annual Results		
		2006	2005	2004
Maintain debt-to-total-market-capitalization of 50% or less	37%	41%	34%	37%
Move toward long-term goal of 95% non-recourse debt ⁽¹⁾	92%	94%	88%	93%
Maintain interest expense coverage of 2.2x or greater ⁽²⁾	2.4x	2.1x	2.6x	2.6x

⁽¹⁾ Non-recourse to Brookfield Properties Corporation

⁽²⁾ 2006 is lower than our target due to corporate debt used to fund the acquisition of Trizec. In December 2006, this debt was repaid with proceeds from the common share equity offering

In addition, we attempt to match the maturity of our commercial property debt portfolio with the average lease term of our properties. At December 31, 2006, the average term to maturity of our commercial property debt was eight years, while our average lease term was seven years.

During 2006, we financed or refinanced \$710 million of commercial property debt. The details are as follows:

(Millions)	Financed / Refinanced	
	Mortgage	Interest Rate %
Hudson's Bay Centre	\$ 85	CDOR + 150bps
601 & 701 South 12 th Street	95	5.42%
53 State Street	143	5.96%
One Bethesda	53	5.66%
Atrium on Bay	34	CDOR + 115bps
Total Commercial Property	410	
Term Loan Facility	300	LIBOR + 150bps
Total	\$ 710	

We have \$650 million of committed corporate credit facilities consisting of a \$350 million bank credit facility and a \$300 million line from Brookfield Asset Management. During 2006, we paid down the balance of these facilities which are in the form of three-year revolving facilities (balances at December 31, 2005 were \$274 million and \$50 million, respectively). At the time of the Trizec acquisition, we financed a new term \$600 million loan facility at a rate of LIBOR + 150 basis points in the form of a twelve month facility with two six-month extension options. The outstanding balance at December 31, 2006 on this facility was \$300 million. We also financed Hudson's Bay Centre at 150 basis points over the CDOR Interbank rate for \$85 million, 601 & 701 South 12th Street at a fixed rate of 5.42% for \$95 million and One Bethesda for \$53 million at a fixed rate of 5.66%. We refinanced 53 State Street with a \$143 million, 10-year non-recourse mortgage debt at a fixed rate of 5.96%. We also refinanced Atrium on Bay for \$34 million on a one-year floating rate basis at 115 basis points over the one-month CDOR Interbank rate while the asset is repositioned. This asset is currently held for sale.

As at December 31, 2006, we had approximately \$345 million (2005 - \$397 million) of indebtedness outstanding to Brookfield Asset Management Inc. and its affiliates. During the fourth quarter of 2006, we obtained a \$500 million bridge acquisition facility from Brookfield Asset Management for the purchase of the Trizec portfolio. This facility was fully repaid by the end of December 2006.

The composition of debt owed to Brookfield Asset Management is as follows:

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Corporate credit facility	\$ —	\$ 50
Property specific debt	174	175
Class AAA series E capital securities	171	172
Total	\$ 345	\$ 397

Interest expense related to indebtedness, including preferred dividends reclassified to interest expense, totaled \$35 million for the year ended December 31, 2006, compared to \$12 million in 2005, and was recorded at the exchange amount.

The details of commercial property debt at December 31, 2006 are as follows:

Commercial Property	Location	Interest Rate %	Maturity Date	Brookfield Properties' Consolidated Share (Millions)	Mortgage Details
Direct					
Atrium on Bay	Toronto	5.49	2007	\$ 34	Non-recourse, floating rate
One Liberty Plaza ⁽¹⁾	New York	6.98	2007	241	Non-recourse, fixed rate
TD Canada Trust Tower	Toronto	6.86	2007	103	Non-recourse, fixed rate
Hudson's Bay Centre	Toronto	5.84	2008	85	Non-recourse, floating rate
Petro-Canada Centre	Calgary	6.43	2008	108	Non-recourse, fixed rate
One World Financial Center	New York	6.32	2009	300	Recourse, floating rate
245 Park Avenue	New York	6.65	2011	239	Non-recourse, fixed rate
One Liberty Plaza	New York	6.75	2011	401	Non-recourse, fixed rate
Fifth Avenue Place	Calgary	7.59	2011	64	Non-recourse, fixed rate
Potomac Tower	Washington	4.72	2011	75	Non-recourse, fixed rate
Exchange Tower	Toronto	6.83	2012	55	Non-recourse, fixed rate
Two World Financial Center	New York	6.91	2013	607	Non-recourse, fixed rate
Four World Financial Center	New York	6.95	2013	306	Non-recourse, fixed rate
Bay Wellington Tower	Toronto	6.49	2013	298	Non-recourse, fixed rate
Bankers Hall	Calgary	7.20	2013	152	Non-recourse, fixed rate
601 South 12th Street	Washington	5.42	2013	52	Non-recourse, fixed rate
701 South 12th Street	Washington	5.42	2013	43	Non-recourse, fixed rate
Republic Plaza	Denver	5.13	2014	168	Non-recourse, fixed rate
1625 Eye Street	Washington	6.00	2014	127	Non-recourse, fixed rate
53 State Street	Boston	5.96	2016	143	Non-recourse, fixed rate
One Bethesda	Washington	5.66	2016	53	Non-recourse, fixed rate
Royal Centre	Vancouver	7.50	2022	42	Non-recourse, fixed rate
33 South Sixth Street	Minneapolis	6.72	2027	95	Non-recourse, fixed rate
Dain Plaza	Minneapolis	7.37	2027	82	Non-recourse, fixed rate
701 9th Street	Washington	6.73	2028	153	Non-recourse, fixed rate
75 State Street	Boston	7.00	2028	85	Non-recourse, fixed rate
300 Madison Avenue	New York	7.26	2032	400	Non-recourse, fixed rate
300 Madison Avenue	New York	5.57	2012	92	Non-recourse, floating rate
				4,603	
U.S. Fund					
2000 L Street	Washington	6.26	2007	56	Non-recourse, fixed rate
Bethesda Crescent	Washington	7.07	2008	34	Non-recourse, fixed rate
Two Ballston Plaza	Washington	6.91	2008	26	Non-recourse, fixed rate
5670 Wilshire	Los Angeles	6.47	2008	59	Non-recourse, floating rate
Waterview	Washington	6.98	2009	30	Non-recourse, floating rate
1460 Broadway	New York	5.11	2012	12	Non-recourse, floating rate
Four Allen Center	Houston	5.77	2013	240	Non-recourse, fixed rate
Grace Building	New York	5.54	2014	195	Non-recourse, fixed rate
1411 Broadway	New York	5.50	2014	112	Non-recourse, fixed rate
2001 M Street	Washington	5.25	2014	45	Non-recourse, fixed rate
Bank of America Building	Los Angeles	5.31	2014	237	Non-recourse, fixed rate
Ernst & Young Plaza	Los Angeles	5.07	2014	114	Non-recourse, fixed rate
One New York Plaza	New York	5.50	2016	396	Non-recourse, fixed rate
Victor Building	Washington	5.39	2016	47	Non-recourse, fixed rate
Marina Towers	Los Angeles	5.84	2016	21	Non-recourse, fixed rate
Mezzanine debt	—	7.85	2011	3,102	Non-recourse, floating rate
CMBS Pool debt	—	6.10	2011	600	Non-recourse, floating rate
CMBS Pool debt	—	6.83	2008/2011	473	Non-recourse, fixed rate
				5,799	
Canadian Fund					
First Canadian Place	Toronto	8.06	2009	60	Non-recourse, fixed rate
O&Y portfolio debt	—	Various	2007	139	Various terms
				199	
Corporate and Other					
Term facility	—	6.82	2008	300	Recourse, floating rate
Development and other debt	—	Various	Various	318	Various terms
Total ⁽²⁾		6.80%		\$ 11,219	

⁽¹⁾ Included in restricted cash and deposits is \$249 of securities to match interest and principal payments on this commercial property debt

⁽²⁾ Includes \$34 million of commercial property debt associated with liabilities related to assets held for sale

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

(Millions) Year	Scheduled Amortization	Maturities	Total	Weighted-Average Interest Rate at Dec. 31, 2006
2007 ⁽¹⁾	\$ 171	\$ 635	\$ 806	6.5%
2008	187	773	960	6.6%
2009	138	471	609	6.6%
2010	208	4	212	6.5%
2011	198	4,770	4,968	7.2%
2012 and thereafter	—	3,664	3,664	6.2%
Total	\$ 902	\$ 10,317	\$ 11,219	6.8%

⁽¹⁾ Includes \$34 million of commercial property debt associated with assets held for sale

CONTRACTUAL OBLIGATIONS

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

(Millions)	Total	Payments Due By Period			
		1 Year	2 - 3 Years	4 - 5 Years	After 5 Years
Commercial property debt	\$ 11,219	\$ 806	\$ 1,569	\$ 5,180	\$ 3,664
Residential development debt	236	200	29	7	—
Capital securities ⁽¹⁾	922	—	—	171	751
Interest expense ⁽²⁾					
Commercial property debt	3,475	690	946	606	1,233
Capital securities - corporate ⁽¹⁾	376	50	100	91	135
Capital securities – fund subsidiaries ⁽³⁾	191	28	56	56	51

⁽¹⁾ Excludes Class AAA Series E, as these are retractable at the holder's option or redeemable at our option at any time

⁽²⁾ 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

⁽³⁾ Excludes redeemable equity interests

Additionally, we have properties situated on land held under leases or other agreements largely expiring on or before the year 2099. Minimum rental payments on land leases are approximately \$28 million annually for the next five years and \$1,230 million in total on an undiscounted basis.

Credit Ratings

We are currently rated by two credit rating agencies, Dominion Bond Rating Service (“DBRS”) and Standard and Poors (“S&P”). We are committed to arranging our affairs to maintain these ratings and improve them further over time.

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

	DBRS	S&P
Corporate rating	BBB(high)	BBB
Preferred shares	Pfd-3(high)	P3(high)

At the time of the acquisition of the Trizec portfolio, S&P assigned a negative outlook to our rating. We are working to proactively address this outlook as demonstrated by the December 2006 common equity offering proceeds of which were used to reduce indebtedness.

Credit ratings are intended to provide investors with an independent measure of the credit quality of an issue of securities. The credit ratings presented are not recommendations to purchase, hold or sell the company's common or preferred shares, as such ratings do not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised or withdrawn entirely by a rating agency in the future if, in its judgment, circumstances so warrant.

Corporate Guarantees and Contingent Obligations

We conduct our operations through entities that are fully or proportionately consolidated in the financial statements except for our investment in Brookfield LePage Johnson Controls and a 25% investment in Oakridges, a residential development project in Toronto, which are both equity accounted.

We may be contingently liable with respect to litigation and claims that arise in the normal course of business. In addition, we may execute agreements that provide for indemnifications and guarantees to third parties. Disclosure of commitments, guarantees and contingencies can be found in Note 25 to the consolidated financial statements.

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities totaled \$923 million at December 31, 2006, compared with \$500 million at December 31, 2005. The increase is due to the acquisition of Trizec as well as new land development debt, which totaled \$236 million in 2006 compared with \$158 million in 2005. This financing is primarily recourse in nature 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 6.2% at December 31, 2006 (2005 - 5.0%). The balance of the change is due to additional accrued interest as a result of higher debt balances.

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

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Accounts payable and accrued liabilities	\$ 549	\$ 227
Residential payables and accrued liabilities	138	115
Land development debt	236	158
Total	\$ 923	\$ 500

INTANGIBLE LIABILITIES

Intangible liabilities are below-market tenant leases and above-market ground leases assumed on acquisitions, net of related accumulated amortization.

The composition of intangible liabilities is as follows:

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Intangible liabilities		
Below-market leases	\$ 902	\$ 56
Above-market ground leases	70	74
	972	130
Less accumulated depreciation		
Below-market leases	(46)	(1)
Above-market ground leases	(7)	(3)
Total net	\$ 919	\$ 126

FUTURE INCOME TAXES

At December 31, 2006, we had a net future income tax liability of \$584 million compared to \$188 million at December 31, 2005, an increase of \$396 million, primarily due to the utilization of tax losses and the Trizec acquisition.

(Millions)	Dec. 31, 2006	2005
Future income tax liabilities related to difference in tax and book basis, net	\$ (935)	\$ (541)
Future income tax assets related to non-capital losses and capital losses	351	353
Total	\$ (584)	\$ (188)

CAPITAL SECURITIES - CORPORATE

Pursuant to the CICA Handbook section 3861, "Financial Instruments – Disclosure and Presentation," financial instruments that may be settled, at our option, in cash or the equivalent value of a variable number of the company's equity instruments are required to be presented as a liability. Accordingly, certain of our Class AAA preferred shares are classified as liabilities under the caption "Capital securities."

We have the following capital securities – corporate outstanding:

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	Dec. 31, 2006	Dec. 31, 2005
Class AAA Series E	8,000,000	70% of bank prime	\$ 171	\$ 172
Class AAA Series F	8,000,000	6.00%	171	172
Class AAA Series G	4,400,000	5.25%	110	110
Class AAA Series H	8,000,000	5.75%	171	173
Class AAA Series I	8,000,000	5.20%	171	172
Class AAA Series J	8,000,000	5.00%	171	172
Class AAA Series K	6,000,000	5.20%	128	130
Total			\$ 1,093	\$ 1,101

For redemption dates, refer to Note 16 of the consolidated financial statements

CAPITAL SECURITIES – FUND SUBSIDIARIES

We consolidate our investment in the U.S. Office Fund. Capital securities within our Fund are as follows:

(Millions)	Dec. 31, 2006	Dec. 31, 2005
Debt securities	\$ 257	—
Redeemable equity interests	546	—
Total	\$ 803	—

Debt securities consist of partner contributions to the Fund by way of an unsecured debenture. The debenture matures on October 31, 2013 and bears interest at 11%.

Redeemable equity interests includes \$481 million of equity contributions made to the Fund by our joint venture partner, Blackstone. Under the terms of the joint venture agreement, commencing in 2011 Blackstone has the option to put its interest in the venture in exchange for certain properties that are sub-managed by Blackstone. If Blackstone does not exercise this option, in 2013 the Brookfield Properties-led consortium has the option to call Blackstone's interest in the venture in exchange for the Blackstone sub-managed properties. On exercise of either the put or call, the parties are subject to certain cash adjustment payments to compensate for relative differences in the performance of their respective sub-managed properties in terms of net cash flow and changes in fair value. Blackstone's equity interest is classified as a liability in our financial statements as we are obligated to transfer assets to Blackstone as a result of Blackstone's put option. For the year-ended December 31, 2006, there was no impact on the financial statements as a result of the accounting for this arrangement. The balance of redeemable equity interests is comprised of \$65 million of redeemable preferred securities bearing interest at 12%.

NON-CONTROLLING INTERESTS – FUND SUBSIDIARIES

At December 31, 2006, non-controlling interests – fund subsidiaries was \$266 million (2005 – nil) and represents equity contributions by other Fund investors in the Brookfield Properties-led consortium.

NON-CONTROLLING INTERESTS – OTHER SUBSIDIARIES

In addition to our 100% owned subsidiaries, we conduct our commercial property operations through BPO Properties Ltd. ("BPO Properties") in Canada, which holds substantially all of our Canadian assets other than BCE Place in Toronto and 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 Washington, D.C. assets.

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

(Millions)	Others' Equity Ownership	Dec. 31, 2006	Dec. 31, 2005
Common shares of BPO Properties	11.0%	\$ 55	\$ 47
Limited partnership units of Brookfield Financial Properties	0.6%	12	12
Total		\$ 67	\$ 59

Non-controlling interests in BPO Properties increased to \$55 million at December 31, 2006 from \$47 million at December 31, 2005 primarily due to earnings in 2006 in excess of distributions.

PREFERRED EQUITY – SUBSIDIARIES

In addition to the preferred equity classified as capital securities, we had \$326 million of preferred equity outstanding at December 31, 2006 issued by BPO Properties. These preferred shares represent low-cost capital to Brookfield Properties, without dilution to the common equity base. Dividends paid on these preferred shares are a component of non-controlling interests expense.

The following table details the preferred shares issued by our subsidiaries:

(Millions, except share information)	Shares Outstanding	Preferred Shares Series	Cumulative Dividend Rate	Dec. 31, 2006	Dec. 31, 2005
BPO Properties					
	1,805,489	Series G	70% of bank prime	\$ 39	\$ 39
	3,816,527	Series J	70% of bank prime	82	82
	300	Series K	30-day BA + 0.4%	127	129
	2,847,711	Series M	70% of bank prime	61	62
	800,000	Series N	30-day BA + 0.4%	17	17
Total				\$ 326	\$ 329

During 2006, dividends of \$14 million were paid on preferred shares issued by our subsidiaries, compared with \$10 million in 2005.

PREFERRED EQUITY – CORPORATE

At December 31, 2006 we had \$45 million of preferred equity outstanding. Similar to the preferred shares issued by subsidiaries, 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 capital distributions.

We have the following preferred shares outstanding:

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	Dec. 31, 2006	Dec. 31, 2005
Class A redeemable voting	6,312,000	7.50%	\$ 11	\$ 11
Class AA Series E	2,000,000	70% of bank prime	34	34
Total			\$ 45	\$ 45

For details regarding the terms on our preferred shares, refer to our Annual Information Form.

During 2006, we paid preferred dividends of \$3 million, compared to \$2 million in 2005.

COMMON EQUITY

As at December 31, 2006, we had 264,578,971 issued and outstanding common shares. On a diluted basis, we had 269,365,276 common shares outstanding, calculated as follows:

	Dec. 31, 2006	Dec. 31, 2005
Common shares outstanding	264,578,971	231,209,625
Unexercised options	4,786,305	4,641,961
Common shares outstanding – diluted ⁽¹⁾	269,365,276	235,851,586
Common shares repurchased	—	2,693,500

⁽¹⁾ Includes all potential common shares at December 31, 2006 and December 31, 2005

The diluted book value per common share at December 31, 2006 was \$11.76 compared with \$8.35 at December 31, 2005. While we repurchased no common shares during 2006, since the inception of the normal course issuer bid in 1999, we have repurchased approximately 21 million shares at an average price of \$14.97 per share on a post-split adjusted basis.

At December 31, 2006, the book value of our common equity was \$3.1 billion, compared with a market equity capitalization of approximately \$10.4 billion, calculated as total common shares outstanding multiplied by \$39.33, the closing price per common share on the New York Stock Exchange on December 29, 2006.

Equity offering

In December, 2006, we entered into agreements for the issuance of 33 million of our common shares. Under the agreements, the underwriters purchased 20.625 million of our common shares at a price of \$38 per share. Concurrently, Brookfield Asset Management purchased, directly or indirectly, 12.375 million of our common shares at a price of \$38 per share. The gross proceeds from the combined share issuances totaled approximately \$1.25 billion.

Following the offering, Brookfield Asset Management owns, directly and indirectly, approximately 50.1% of our voting interest.

The proceeds from this offering were used to repay outstanding indebtedness taken on to finance the company's \$857 million equity investment in its U.S. Office Fund created to invest in the acquisition of Trizec and the repayment of lines of credit to ensure the company is in a position to acquire further assets should opportunities of interest become available.

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.

Contractual rent is the primary driver of cashflow from operating activities, which represents the primary source of liquidity to fund debt service, dividend payments and recurring capital and leasing costs in our commercial property portfolio. Sufficient cashflows are generated by our properties to service these obligations. We seek to increase income from our existing properties by maintaining quality standards, which promote high occupancy rates and permit increases in rental rates while reducing tenant turnover, and controlling operating expenses. Other sources of revenue include third-party fees generated by our real estate management, leasing and development businesses. In addition, our tax status as a corporation and substantial tax loss pools allow us to reinvest and retain cash generated by our operations without incurring cash taxes.

Our commercial property debt is primarily fixed-rate and non-recourse to the company. These investment-grade financings are typically structured on a loan-to-appraised value basis of up to 70%. In addition, in certain circumstances when 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.

For the year ended December 31, 2006, common share dividends paid exceeded net cash provided from operating activities, primarily due to the expansion of our land and housing division which utilized approximately \$258 million of operating cash flow. Excluding this, operating cashflow exceeded dividends paid by \$151 million. During 2006, the company arranged \$78 million of project specific financing related to our residential development operations and the balance of capital required was funded by free cashflow generated from our commercial operations.

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 December 31, 2006, our weighted average cost of capital, assuming a 12% return on equity, was 7.9% (2005 – 8.1%). 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 increase over the prior year is due to a general increase in interest rates resulting in a higher cost of floating rate debt.

The following schedule details the capitalization of the company at the end of 2006 and 2005 and the related costs thereof:

(Millions)	Cost of Capital ⁽¹⁾		Underlying Value ⁽²⁾	
	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005
Liabilities				
Commercial property debt	6.8%	6.5%	\$ 11,219	\$ 5,267
Residential debt	6.2%	5.0%	236	158
Capital securities – corporate	5.2%	5.1%	1,093	1,101
Capital securities – fund subsidiaries ⁽³⁾	10.0%	—	803	—
Non-controlling interests – fund subsidiaries ⁽³⁾	10.0%	—	266	—
Non-controlling interests – other subsidiaries	12.0%	12.0%	67	59
Preferred equity - subsidiaries	4.3%	3.6%	326	329
Shareholders' equity				
Preferred equity - corporate	5.0%	4.5%	45	45
Common equity	12.0%	12.0%	10,406	6,802
Total⁽⁴⁾	7.9%	8.1%	\$ 24,461	\$13,761

⁽¹⁾ As a percentage of average book value

⁽²⁾ 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

⁽³⁾ Assuming 10% return on co-invested capital

⁽⁴⁾ In calculating the weighted average cost of capital, the cost of debt has been tax-effected

OPERATING RESULTS

NET INCOME

Our net income for the year ended December 31, 2006 was \$135 million (\$0.56 per diluted share) compared to \$164 million (\$0.69 per diluted share) in 2005. The net decrease is largely a result of:

- an increase in interest expense of \$156 million (\$0.66 per diluted share) related to interest carry on the Trizec portfolio, the recent acquisitions of One Bethesda and 601 & 701 South 12th Street in Washington, D.C. and new debt on Hudson's Bay Centre;
- an increase in general and administrative expense of \$19 million (\$0.08 per diluted share) primarily due to the expansion of our portfolio and asset management platform;
- an increase in depreciation and amortization expense of \$120 million (\$0.51 per diluted share) related to the Trizec acquisition as well as the acquisitions of One Bethesda and 601 & 701 South 12th Street in Washington, D.C., and a full year of depreciation and amortization from the O&Y portfolio offset by:
- \$38 million of growth (\$0.16 per diluted share) from our residential development operations which continues to benefit from the low interest rate environment and strong demand in the Alberta housing market;
- \$166 million of growth (\$0.71 per diluted share) from commercial property operating income, primarily as a result of the Trizec acquisition, the acquisitions of One Bethesda and 601 & 701 South 12th Street in the first and second quarters of 2006, respectively, the purchase of the remaining 75% interest in Hudson's Bay Centre in the second quarter of 2006 and a full year of net operating income from the O&Y portfolio;
- an \$11 million gain (\$0.05 per diluted share), net of tax, on the sale of eight properties from the O&Y portfolio during the second quarter of 2006 and an \$18 million gain (\$0.08 per diluted share), net of tax, on the sale of the Trade Center Denver in the first quarter of 2006;

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

(Millions)	2006	2005	2004
Total revenue	\$ 1,923	\$ 1,529	\$ 1,408
Net operating income			
Commercial property operations			
Operating income from commercial properties	\$ 840	\$ 674	\$ 666
Lease termination income	—	—	60
Total commercial property operations	840	674	726
Residential development operations	144	106	42
Interest and other income	44	37	47
	1,028	817	815
Expenses			
Interest			
Commercial property debt	424	273	258
Capital securities – corporate	59	54	44
Capital securities – fund subsidiaries	(19)	—	—
General and administrative	67	48	41
Transaction costs	15	—	—
Non-controlling interests			
Fund subsidiaries	(14)	—	—
Other subsidiaries	21	16	20
Depreciation and amortization	281	161	138
Unrealized foreign exchange on preferred share restatement	—	—	63
Future income taxes	91	103	116
Net income from continuing operations	103	162	135
Discontinued operations ⁽¹⁾	32	2	3
Net income	\$ 135	\$ 164	\$ 138
Net income per share – diluted			
Continuing operations	\$ 0.42	\$ 0.68	\$ 0.42
Discontinued operations	0.14	0.01	0.01
Lease termination income	—	—	0.15
	\$ 0.56	\$ 0.69	\$ 0.58
Funds from operations and gains per share - diluted			
Continuing operations	\$ 1.84	\$ 1.81	\$ 1.66
Discontinued operations	0.03	0.04	0.04
Lease termination income and disposition gains	0.19	—	0.25
	\$ 2.06	\$ 1.85	\$ 1.95

⁽¹⁾ Refer to page 47 for further details on discontinued operations

It should be noted that challenges of comparability of net income exist among various real estate companies, as those entities structured as corporations, such as Brookfield Properties, are required to charge their earnings with tax expense, despite the presence of tax losses which reduce the cash tax obligation. This differs from those entities which operate as real estate investment trusts (“REITs”), as REITs are not subject to taxation, provided they remain in compliance with specific tax codes.

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

(Millions, except per share amounts)	2006	2005	2004
Net income	\$ 135	\$ 164	\$ 138
Preferred share dividends	(3)	(2)	(2)
Net income available to common shareholders	\$ 132	\$ 162	\$ 136
Weighted average shares outstanding – basic	232.4	232.1	234.0
Net income per share – basic	\$ 0.57	\$ 0.70	\$ 0.58
Weighted average shares outstanding – diluted	235.3	234.2	235.7
Net income per share – diluted	\$ 0.56	\$ 0.69	\$ 0.58
Weighted average shares outstanding – basic	232.4	232.1	234.0
Unexercised options	2.9	2.1	1.7
Weighted average shares outstanding – diluted	235.3	234.2	235.7

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

(Millions)	2006	2005	2004
Net income	\$ 135	\$ 164	\$ 138
Depreciation and amortization ⁽¹⁾	284	168	145
Unrealized foreign exchange on preferred share restatement	—	—	63
Future income taxes ⁽²⁾	107	103	116
Non-cash items included in capital securities – fund subsidiaries and non-controlling interests – fund subsidiaries	(45)	—	—
Funds from operations and gains	\$ 481	\$ 435	\$ 462
Transaction costs	15	—	—
Non-controlling interests in transaction costs ⁽³⁾	(9)	—	—
Property disposition gain	(44)	—	—
Lease termination income	—	—	(59)
Funds from operations	\$ 443	\$ 435	\$ 403

⁽¹⁾ Includes depreciation and amortization from discontinued operations of \$3 million, \$7 million and \$7 million for the years ended December 31, 2006, 2005 and 2004, respectively

⁽²⁾ Includes future income taxes from discontinued operations of \$16 million, nil and nil for the years ended December 31, 2006, 2005 and 2004, respectively

⁽³⁾ Represents non-controlling interests in transaction costs, which have been added back to net income. These costs included merger integration costs and employee transition costs. Net of non-controlling interests, our share of these costs was \$6 million.

After providing for preferred share dividends, our funds from operations per diluted share, excluding lease termination income and gains, is calculated as follows:

(Millions, except per share amounts)	2006	2005	2004
Funds from operations	\$ 443	\$ 435	\$ 403
Preferred share dividends	(3)	(2)	(2)
	\$ 440	\$ 433	\$ 401
Weighted average shares outstanding – diluted	235.3	234.2	235.7
Funds from operations per share – diluted	\$ 1.87	\$ 1.85	\$ 1.70

Funds from operations was \$1.87 per share in 2006 compared with \$1.85 per share in 2005. Our 2005 results include a special fee of \$30 million (\$0.13 per share) received from Goldman Sachs pursuant to a cooperation agreement permitting the commencement of construction on certain lands adjacent to the company's World Financial Center in New York, known as Site 26. The 2004 results included lease termination income of \$60 million (\$0.25 per share) in connection with the termination of a previously existing lease and the commencement of a new lease at One World Financial Center in New York.

REVENUE

The components of revenue are as follows:

(Millions)	2006	2005	2004
Commercial property revenue			
Revenue from continuing operations	\$ 1,382	\$ 1,051	\$ 993
Recurring fee income	32	22	20
Non-recurring fee and other income	5	30	27
Total commercial property revenue	1,419	1,103	1,040
Revenue from residential development operations	460	389	261
Revenue from commercial property and residential development operations	1,879	1,492	1,301
Lease termination income	—	—	60
Interest and other	44	37	47
Total	\$ 1,923	\$ 1,529	\$ 1,408

COMMERCIAL PROPERTY OPERATIONS

Commercial property net operating income totaled \$840 million in 2006 compared with \$674 million in 2005 and \$666 million in 2004.

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

(Millions)	2006	2005	2004
Commercial property revenue			
Revenue from current properties	\$ 1,365	\$ 1,030	\$ 971
Straight-line rental income	17	21	22
Revenue from continuing operations	1,382	1,051	993
Recurring fee income	32	22	20
Non-recurring fee and other income	5	30	27
Total commercial property revenue	1,419	1,103	1,040
Property operating costs	(579)	(429)	(374)
Commercial property net operating income	\$ 840	\$ 674	\$ 666

(Millions)	2006	2005	2004
Commercial property operations			
Net operating income – same property	\$ 615	\$ 616	\$ 619
Net operating income – properties acquired	53	6	—
Net operating income – properties acquired - Trizec	135	—	—
Recurring fee income	32	22	20
Non-recurring fee and other income	5	30	27
Commercial property net operating income	\$ 840	\$ 674	\$ 666

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

(Millions)	2006	2005	2004
Discontinued operations			
Revenue from discontinued operations	\$ 20	\$ 34	\$ 34
Property operating expenses	(10)	(17)	(17)
Net operating income from discontinued operations	\$ 10	\$ 17	\$ 17

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. Revenue from commercial properties totaled \$1,419 million during 2006 compared with \$1,103 million in 2005 and \$1,040 in 2004. The increases are primarily a result of the Trizec acquisition as well as the acquisitions in our Washington, D.C. portfolio that took place during 2006 and the acquisition of the O&Y portfolio in the fourth quarter of 2005.

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. GAAP requires that these increases be recorded on a straight-line basis over the life of the lease. For the year ended December 31, 2006, we recognized \$17 million of straight-line rental revenue, as compared to \$21 million in 2005.

Commercial property operating costs which include real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses were \$579 million in 2006, as compared to \$429 million in 2005. The primary reason for the increase was the acquisition of Trizec in the fourth quarter of 2006, as well as the acquisitions of One Bethesda and 601 & 701 South 12th Street in Washington D.C. during the year. These acquisitions accounted for approximately \$87 million of the increase in 2006. Additionally, in 2006 we had a full year of commercial property operating costs related to the O&Y properties, which accounted for \$36 million of this increase (the O&Y portfolio was purchased in the fourth quarter of 2005). On top of these acquisitions, premiums for insurance have increased substantially for all property owners, utility costs have generally risen by 10% due to higher gas and electricity costs, and inflationary pressures have resulted in an increase in commercial property operating costs.

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 is the principal contributor to the change in same property net operating income. During 2006, occupancy increased due to lease-ups in Lower Manhattan, Washington, D.C., and Denver as compared to 2005, but was offset by a decrease in straight-line rental revenue recognized. At December 31, 2006, average in-place net rent throughout the portfolio was \$21 per square foot.

The following table shows the average in-place rents and estimated current market rents for similar space in each of our markets as at December 31, 2006:

	Gross Leasable Area (000's Sq. Ft.)	Avg. Lease Term (Years)	Avg. In-Place Net Rent (\$ per Sq. Ft.)	Avg. Market Net Rent (\$ per Sq. Ft.)
New York, New York				
Midtown	6,334	11.5	\$ 34	\$ 65
Lower Manhattan	13,182	8.6	26	32
Boston, Massachusetts	2,163	5.5	28	32
Washington, D.C.	6,771	6.7	24	35
Houston, Texas	6,958	5.4	11	17
Los Angeles, California	10,672	5.1	19	24
Toronto, Ontario	12,283	6.8	20	23
Calgary, Alberta	7,845	6.4	19	29
Ottawa, Ontario	2,939	6.1	12	14
Denver, Colorado	1,795	8.1	17	17
Minneapolis, Minnesota	3,008	7.1	9	15
Other	1,845	8.1	10	15
Total ⁽¹⁾	75,795	7.3	\$ 21	\$ 29

⁽¹⁾ Excludes developments

Our total portfolio occupancy rate increased by 50 basis points to 95.1% at December 31, 2006 compared with 94.6% at December 31, 2005 primarily due to the improved leasing environment in 2006 across almost all of our markets, particularly Three World Financial Center in lower Manhattan, as well as the acquisitions of One Bethesda and 601 & 701 South 12th Street in Washington, D.C., offset by the acquisition of the Trizec portfolio.

A summary of current and historical occupancy levels for the past two years is as follows:

(Thousands of square feet)	Dec. 31, 2006		Dec. 31, 2005	
	Total Square Feet	% Leased	Total Square Feet	% Leased
New York, New York				
Midtown	6,334	98.3	2,786	99.7
Lower Manhattan	13,182	95.7	9,667	93.5
Total New York, New York	19,516	96.5	12,453	94.9
Boston, Massachusetts	2,163	92.5	2,163	92.1
Washington, D.C.	6,771	97.6	1,557	98.5
Houston, Texas	6,958	94.6	—	—
Los Angeles, California	10,672	87.4	—	—
Toronto, Ontario	12,283	95.8	12,278	93.4
Calgary, Alberta	7,845	99.8	8,936	99.1
Ottawa, Ontario	2,939	99.2	2,935	99.7
Denver, Colorado	1,795	95.7	2,605	86.9
Minneapolis, Minnesota	3,008	89.3	3,008	87.9
Other	1,845	95.6	2,095	92.3
Total ⁽¹⁾	75,795	95.1	48,030	94.6

⁽¹⁾ Excludes developments

During 2006, we leased 6.2 million square feet of space at an average leasing net rent of \$22 per square foot. This included 3.6 million square feet of new leases and 2.6 million square feet of renewals. Expiring net rent for the portfolio averaged \$18 per square foot.

The details of our leasing activity for 2006 are as follows:

Dec. 31, 2005			Activities During the Year Ended Dec. 31, 2006						Dec. 31, 2006	
(Thousands of sq. ft.)	GLA ⁽¹⁾	Leased	Accelerated		Average	Average	Acq./		GLA ⁽¹⁾	Leased
			Expiries	Expiries	Expiring Net Rent	Leasing Net Rent		(Disp.)		
New York, New York										
Midtown	2,786	2,777	(12)	(235)	\$ 40	239	\$ 69	3,459	6,334	6,228
Lower Manhattan	9,667	9,057	(364)	(54)	15	877	23	3,107	13,182	12,623
Boston, Massachusetts	2,163	2,013	(39)	(99)	29	146	26	—	2,163	2,021
Washington, D.C.	1,557	1,542	(31)	(95)	23	180	25	5,036	6,771	6,632
Houston, Texas	—	—	(58)	(230)	14	614	14	6,296	6,958	6,622
Los Angeles, California	—	—	(159)	(147)	19	328	23	9,575	10,672	9,597
Toronto, Ontario	12,278	11,591	(356)	(595)	21	1,198	22	2	12,283	11,840
Calgary, Alberta	8,936	8,865	(67)	(702)	16	798	26	(1,064)	7,845	7,830
Ottawa, Ontario	2,935	2,930	(37)	(928)	9	957	16	2	2,939	2,924
Denver, Colorado	2,605	2,334	(414)	(34)	15	571	18	(718)	1,795	1,739
Minneapolis, Minnesota	3,008	2,708	(133)	(1)	11	167	15	—	3,008	2,741
Other	2,095	1,971	(34)	(118)	12	174	16	(210)	1,845	1,783
Total	48,030	45,788	(1,704)	(3,238)	\$ 18	6,249	\$ 22	25,485	75,795	72,580

⁽¹⁾ Excludes developments

Acquisitions

The value created in our mature commercial properties provides us with the opportunity to generate additional gains and a potential source of capital available to reinvest in other assets at higher returns. The acquisition of the Trizec portfolio as well as One Bethesda and 601 & 701 South 12th Street in greater Washington, D.C. contributed an additional \$188 million to net operating income in 2006. Net operating income from the O&Y portfolio, which was purchased in the fourth quarter of 2005, contributed \$39 million in 2006.

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. and Brookfield LePage Johnson Controls. Brookfield Residential Services Ltd. has been managing condominiums in the Greater Metropolitan Toronto area for the past 25 years and manages in excess of 47,000 units in over 250 condominium corporations. Brookfield Properties LePage Facilities Management, one of the largest facilities management operations in Canada, is owned 40% by Brookfield Properties in partnership with Johnson Controls. This joint venture, which is equity accounted, manages close to 80 million square feet of premises for major corporations and government.

The details of our fee income are as follows:

(Millions)	2006	2005	2004
Property management, leasing, project management and other fees	\$ 16	\$ 7	\$ 6
Brookfield Residential Services Ltd. fees	13	9	8
Brookfield LePage Johnson Controls	3	6	6
Total	\$ 32	\$ 22	\$ 20

The generation of fee income is not viewed as a separate segmented business activity; 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.

Lease termination income

During the first quarter of 2004, we entered into a 20-year lease with Cadwalader, Wickersham & Taft for approximately 460,000 square feet in One World Financial Center in New York. The transaction resulted in termination income of \$60 million in the second quarter of 2004 upon termination of the existing lease. While these events are opportunistic and difficult to predict, the dynamic tenant base which is typical of our buildings should provide us with similar opportunities in the future.

RESIDENTIAL DEVELOPMENT OPERATIONS

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

Our residential development operations contributed \$144 million of pre-tax income during 2006, as compared to \$106 million during 2005 and \$42 million in 2004. These increases are due to an increase in operating margins which is attributable to the low cost basis of our land inventory offset by a decrease in volume due to longer housing build-out times. Longer housing build-out times are a result of both labor and material shortages in Alberta and a housing slowdown in the U.S.

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

(Millions)	2006	2005	2004
Sales revenue	\$ 460	\$ 389	\$ 261
Operating costs	(316)	(283)	(219)
Total	\$ 144	\$ 106	\$ 42

Lot sales for the past three years and the related revenue are as follows:

	Lot Sales (Units)			Lot Sales Revenue (Millions)			Average Lot Sales Revenue (Thousands)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Alberta	2,347	2,617	2,078	\$ 277	\$ 184	\$107	\$ 118	\$ 70	\$ 51
Colorado	96	369	468	6	22	19	63	60	41
Texas	55	—	—	2	—	—	36	—	—
Kansas City	64	—	—	2	—	—	31	—	—
Other ⁽¹⁾	—	—	—	—	5	—	—	—	—
Total	2,562	2,986	2,546	\$ 287	\$ 211	\$126	\$ 112	\$ 71	\$ 49

⁽¹⁾ Represents \$5 million earned on the completion of all outstanding commitments related to a previous development in Florida

Home sales for the past three years and the related revenue are as follows:

	Home Sales (Units)			Home Sales Revenue (Millions)			Average Home Sales Revenue (Thousands)		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Alberta	538	556	496	\$ 100	\$ 84	\$ 61	\$ 186	\$ 151	\$ 123
Ontario	280	391	339	73	94	74	261	240	218
Total	818	947	835	\$ 173	\$ 178	\$ 135	\$ 211	\$ 188	\$ 162

Residential development operating costs, which include land costs, land servicing costs, housing development costs, property taxes and other related costs increased to \$316 million during 2006 from \$283 million in 2005 and \$219 million in 2004. These increases are a result of our expanded operations leading to a decrease in unit sales from inflationary pressures due to a high demand and limited supply of labor market.

INTEREST AND OTHER INCOME

Interest and other income includes interest charged on real estate mortgages and residential receivables, interest received on cash balances, and transactional gains. Interest and other income increased to \$44 million in 2006 compared with \$37 million in 2005 and \$47 million in 2004, primarily due to interest on cash deposits held as part of the Trizec acquisition.

INTEREST EXPENSE

Commercial property debt

Interest expense relating to commercial property debt increased to \$424 million in 2006, from \$273 million in 2005 and \$258 million in 2004. These increases relate to additional interest carry on the Trizec portfolio and Washington, D.C. acquisitions and the cessation of interest capitalization on Three World Financial Center in the first quarter of 2005.

Capital securities – corporate

Interest expense on capital securities – corporate relates to preferred share dividends reclassified to interest expense. This amount increased to \$59 million in 2006 from \$54 million in 2005 and \$44 million in 2004 due to the issuance of Series' I, J and K in 2004 and the impact of interest rates on Series E.

Capital securities – fund subsidiaries

Interest expense on capital securities – fund subsidiaries represents expenses incurred on our investment in the U.S. Office Fund as follows:

(Millions)	2006	2005
Interest on debt securities	\$ 7	—
Interest on redeemable equity interests	4	—
	11	—
Non-cash component ⁽¹⁾	(30)	—
Total	\$ (19)	—

⁽¹⁾ Represents co-investors share of non-cash items, such as depreciation and amortization

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative costs during the year ended 2006 increased to \$67 million from \$48 million in 2005 and \$41 million in 2004 due to expansion of our asset management platform including the acquisition of the Trizec portfolio in the fourth quarter of 2006, as well as inflationary and competitive pressures on salaries. Included in general and administrative expenses is \$13 million (2005 - \$9 million) of expenses related to the operations of our subsidiary, Brookfield Residential Services Ltd.

TRANSACTION COSTS

Transaction costs represent \$15 million of costs incurred related to the Trizec merger. These costs included merger integration costs and employee transition costs. Net of non-controlling interests, our share of these costs was \$6 million.

NON-CONTROLLING INTERESTS

Fund subsidiaries

Our non-controlling interests in our fund subsidiaries is as follows:

(Millions)	2006	2005
Non-controlling interests	\$ 1	—
Non-cash component ⁽¹⁾	(15)	—
Total	\$ (14)	—

⁽¹⁾ Represents co-investors share of non-cash items, such as depreciation and amortization

Other subsidiaries

Non-controlling interests consists of earnings attributable to interests not owned by Brookfield Properties in BPO Properties and Brookfield Financial Properties, as well as dividends on shares issued by BPO Properties and our 100%-owned subsidiaries.

For the year ended December 31, 2006, dividends paid on shares issued by our subsidiaries increased to \$14 million from \$11 million in 2005 and \$48 million in 2004. The 2004 results included the impact of the redemption of \$120 million of preferred shares issued by our subsidiaries in October 2004 as well as the payment of a special dividend in March 2004.

Non-controlling interests in subsidiary earnings was \$7 million in 2006 compared with \$5 million in 2005 and \$(28) million in 2004. The 2004 results included the lease termination income earned in the third quarter of 2004 and the payment of a special dividend by BPO Properties in March 2004.

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

(Millions)	Type	2006	2005	2004
BPO Properties	Redeemable preferred shares ⁽¹⁾	\$ 13	\$ 10	\$ 8
BPO Properties	Common shares	1	1	37
100%-owned subsidiaries	Redeemable preferred shares ⁽¹⁾	—	—	3
Dividends – shares of subsidiaries		\$ 14	\$ 11	\$ 48
BPO Properties	Participating interests	\$ 6	\$ 4	\$ (30)
Brookfield Financial Properties	Participating interests	1	1	2
Non-controlling interests expense in subsidiary earnings		\$ 7	\$ 5	\$ (28)
Total		\$ 21	\$ 16	\$ 20

⁽¹⁾ Non-participating

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation for the year ended December 31, 2006 increased by \$120 million to \$281 million from \$161 million in 2005. The majority of this increase was due to the addition of the Trizec portfolio in the fourth quarter of 2006 and the Washington, D.C. properties in the first and second quarters of 2006 as well as a full year of depreciation and amortization related to the O&Y properties.

DISCONTINUED OPERATIONS

During the fourth quarter of 2006, we reached an agreement to sell our 50% interest in Atrium on Bay in Toronto and our 25% interest in both 2200 Walkley and 2204 Walkley in Ottawa. During the second quarter of 2006, we sold our 25% interest in eight of the properties purchased in the O&Y acquisition resulting in a gain of \$14 million. During the first quarter of 2006, we sold our 100% interest in the World Trade Center Denver (“WTD”) and recognized a gain of \$30 million. Income attributable to discontinued operations was \$4 million for 2006, compared to \$2 million in 2005 and \$3 million in 2004. The 2004 results also include the sale of Colorado State Bank Building, which was sold in the fourth quarter of 2005.

The following table summarizes the income from discontinued operations:

(Millions)	2006	2005	2004
Revenue from discontinued operations	\$ 20	\$ 34	\$ 34
Operating expenses	(10)	(17)	(17)
	10	17	17
Interest expense	(3)	(8)	(7)
Funds from operations – discontinued operations	7	9	10
Depreciation and amortization	(3)	(7)	(7)
Income from discontinued operations ⁽¹⁾	\$ 4	\$ 2	\$ 3

⁽¹⁾ Excludes gains

SEGMENTED INFORMATION

The company 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 71% of our commercial property net operating income is derived from the U.S. Our residential development operations are focused in five markets: Alberta and Ontario in Canada and Colorado, Texas and Kansas City in the U.S. Details of the segmented financial information for our principal areas of business are as follows:

(Millions)	Commercial				Residential Development		Total	
	United States		Canada					
	2006	2005	2006	2005	2006	2005	2006	2005
Assets								
Commercial properties	\$13,136	\$5,289	\$2,151	\$2,141	\$ —	\$ —	\$15,287	\$7,430
Development properties	433	29	302	195	706	391	1,441	615
Receivables and other	516	337	213	320	245	173	974	830
Intangible assets	799	70	54	55	—	—	853	125
Restricted cash and deposits	497	314	10	2	—	—	507	316
Marketable securities	—	—	—	58	—	—	—	58
Cash and cash equivalents	166	33	21	25	1	6	188	64
Assets held for sale	—	75	64	—	—	—	64	75
Total	\$15,547	\$6,147	\$2,815	\$2,796	\$ 952	\$ 570	\$19,314	\$9,513

(Millions)	Commercial				Residential Development		Total	
	United States		Canada					
	2006	2005	2006	2005	2006	2005	2006	2005
Revenues	\$ 994	\$ 787	\$ 425	\$ 316	\$ 460	\$ 389	\$ 1,879	\$1,492
Expenses	400	297	179	132	316	283	895	712
	594	490	246	184	144	106	984	780
Other revenues	19	5	16	28	9	4	44	37
Net operating income from continuing operations	613	495	262	212	153	110	1,028	817
Interest expense								
Commercial property debt	317	178	107	95	—	—	424	273
Capital securities – corporate	59	54	—	—	—	—	59	54
Capital securities – fund subsidiaries	(19)	—	—	—	—	—	(19)	—
General and administrative	34	28	33	20	—	—	67	48
Transaction costs	15	—	—	—	—	—	15	—
Non-controlling interests								
Fund subsidiaries	(14)	—	—	—	—	—	(14)	—
Other subsidiaries	1	—	20	16	—	—	21	16
Depreciation and amortization	202	124	78	37	1	—	281	161
Income before unallocated costs	18	111	24	44	152	110	194	265
Future income taxes							91	103
Net income from continuing operations							\$ 103	\$ 162
Discontinued operations							32	2
Net income							\$ 135	\$ 164

QUARTERLY RESULTS

The 2006 and 2005 results by quarter are as follows:

(Millions, except per share amounts)	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	\$ 680	\$ 428	\$421	\$ 394	\$ 469	\$ 373	\$ 357	\$ 330
Commercial property operations	313	180	177	170	190	158	161	165
Residential development operations	51	37	31	25	45	24	24	13
Interest and other	14	9	8	13	6	10	10	11
	378	226	216	208	241	192	195	189
Expenses								
Interest ⁽¹⁾	207	96	93	87	85	83	80	79
Interest – capital securities – fund subsidiaries	(19)	—	—	—	—	—	—	—
General and administrative	23	15	14	15	15	11	11	11
Transaction costs	15	—	—	—	—	—	—	—
Non-controlling interests – fund subsidiaries	(14)	—	—	—	—	—	—	—
Non-controlling interests – other subsidiaries	4	7	6	4	4	4	5	3
Depreciation and amortization	136	50	51	44	46	40	40	35
Future income taxes and other provisions	4	23	37	27	42	22	19	20
Net income from continuing operations	\$ 22	\$ 35	\$ 15	\$ 31	\$ 49	\$ 32	\$ 40	\$ 41
Discontinued operations	(1)	—	15	18	(2)	1	1	2
Net income	\$ 21	\$ 35	\$ 30	\$ 49	\$ 47	\$ 33	\$ 41	\$ 43
Net income per share - basic								
Continuing operations	\$ 0.08	\$0.14	\$0.08	\$ 0.13	\$ 0.21	\$0.14	\$0.17	\$ 0.18
Discontinued operations	—	—	0.06	0.08	(0.01)	—	0.01	—
	\$ 0.08	\$0.14	\$0.14	\$ 0.21	\$ 0.20	\$0.14	\$0.18	\$ 0.18
Net income per share - diluted								
Continuing operations	\$ 0.08	\$0.14	\$0.07	\$0.13	\$ 0.21	\$0.14	\$0.16	\$ 0.17
Discontinued operations	—	—	0.06	0.08	(0.01)	—	0.01	0.01
	\$0.08	\$0.14	\$0.13	\$0.21	\$ 0.20	\$0.14	\$0.17	\$ 0.18
Funds from operations per share – diluted								
Continuing operations	\$ 0.51	\$0.46	\$0.43	\$ 0.44	\$ 0.59	\$0.39	\$0.42	\$ 0.41
Discontinued operations	0.01	—	0.02	—	—	0.02	0.01	0.01
Property disposition gains	—	—	0.06	0.13	—	—	—	—
	\$ 0.52	\$0.46	\$0.51	\$ 0.57	\$ 0.59	\$0.41	\$0.43	\$ 0.42

⁽¹⁾ Includes interest on capital securities – corporate

Operating income from current properties in the fourth quarter of 2006 increased as compared with previous quarters in 2006 primarily due to the acquisition of the Trizec portfolio.

Residential development income increased in the fourth quarter of 2006 compared with previous quarters in 2006 and 2005 due to the continued strength of the Alberta housing market.

Interest expense increased in the fourth quarter of 2006 as a result of debt assumed in connection with the acquisition of Trizec. General and administrative expenses increased in the fourth quarter of 2006 primarily due to the acquisition of the Trizec portfolio. Non-controlling interests expense remained relatively consistent with prior quarters. Depreciation and amortization increased due to the acquisition of the Trizec portfolio. Future income taxes and other provisions increased in the second quarter of 2006 due to a change in Canadian tax legislation. Net income decreased in the fourth quarter of 2006 compared to the fourth quarter of 2005 principally due to the increases in the aforementioned expenses primarily as a result of the Trizec acquisition.

PART III – U.S. OFFICE FUND SUPPLEMENTAL INFORMATION

During 2006, we established and fully invested in a U.S. Office Fund. This Fund was created as a single purpose fund to acquire the Trizec portfolio. We successfully completed the acquisition of the Trizec portfolio, along with our joint venture partner, The Blackstone Group, in the fourth quarter of 2006 for \$7.6 billion.

The U.S. Office Fund now consists of 58 commercial properties totaling 29 million square feet and six development sites totaling 5.4 million square feet in New York, Washington, D.C., Houston and Los Angeles. The following represents our portfolio:

	Number of Properties	Leased %	Office 000's Sq.Ft.	Retail 000's Sq.Ft.	Parking 000's Sq.Ft.	Leasable Area 000's Sq. Ft.	Owned Interest %(⁽¹⁾)	Brookfield Properties' Owned Interest 000's Sq. Ft. ⁽¹⁾
COMMERCIAL PROPERTIES								
New York								
The Grace Building	1	99.7	1,499	20	—	1,519	49.9	758
One New York Plaza	1	98.7	2,426	33	—	2,459	100	2,459
Newport Tower	1	63.2	1,028	34	—	1,062	100	1,062
1065 Avenue of the Americas	1	92.7	625	40	—	665	99	658
1411 Broadway	1	95.7	1,074	39	36	1,149	49.9	573
1460 Broadway	1	100.0	206	9	—	215	49.9	107
	6	92.6	6,858	175	36	7,069		5,617
Washington, D.C.								
1225 Connecticut Avenue	1	98.0	195	22	52	269	100	269
1200 K Street	1	100.0	366	24	44	434	100	434
1250 23 rd Street	1	100.0	116	—	16	132	100	132
1250 Connecticut Avenue	1	99.6	152	20	26	198	100	198
1400 K Street	1	97.7	178	12	34	224	100	224
2000 L Street	1	99.9	308	75	—	383	100	383
2001 M Street	1	100.0	190	39	35	264	98	259
2401 Pennsylvania Avenue	1	93.6	58	19	16	93	100	93
Bethesda Crescent	3	98.0	241	27	68	336	100	336
One Reston Crescent	1	100.0	185	—	—	185	100	185
Silver Springs Metro Plaza	3	96.1	640	47	84	771	100	771
Sunrise Tech Park	4	97.3	315	1	—	316	100	316
Two Ballston Plaza	1	96.3	204	19	—	223	100	223
Victor Building	1	99.8	298	45	—	343	49.9	171
1550 & 1560 Wilson Blvd	2	76.8	226	32	76	334	100	334
	23	96.9	3,672	382	451	4,505		4,328
Houston								
Allen Center								
One Allen Center	1	98.1	913	79	—	992	100	992
Two Allen Center	1	96.8	987	9	—	996	100	996
Three Allen Center	1	92.8	1,173	22	—	1,195	100	1,195
Cullen Center								
Continental Center I	1	97.0	1,048	50	411	1,509	100	1,509
Continental Center II	1	82.1	428	21	81	530	100	530
KBR Tower	1	94.2	985	63	254	1,302	50	651
500 Jefferson Street	1	93.5	351	39	44	434	100	434
	7	94.6	5,885	283	790	6,958		6,307
Los Angeles								
601 Figueroa	1	58.0	1,037	2	123	1,162	100	1,162
Bank of America Plaza	1	94.8	1,383	39	343	1,765	100	1,765
Ernst & Young Tower	1	86.9	910	335	391	1,636	100	1,636
Landmark Square	1	91.9	420	23	212	655	100	655
Marina Towers	2	95.2	356	25	87	468	50	234
5670 Wilshire Center	1	90.0	390	19	—	409	100	409
6060 Center Drive	1	98.3	242	15	113	370	100	370
6080 Center Drive	1	86.7	288	—	163	451	100	451
6100 Center Drive	1	96.5	286	—	168	454	100	454
701 B Street	1	81.7	529	37	—	566	100	566
707 Broadway	1	80.7	181	—	128	309	100	309
9665 Wilshire Blvd	1	100.0	162	—	64	226	100	226
Howard Hughes Spectrum	1	100.0	37	—	—	37	100	37
Howard Hughes Tower	1	99.4	316	2	141	459	100	459
Northpoint	1	99.6	103	—	45	148	100	148
Arden Towers at Sorrento	4	82.1	548	54	—	602	100	602
Westwood Center	1	100.0	291	25	—	316	100	316
World Savings Center	1	99.1	464	14	161	639	100	639
	22	87.4	7,943	590	2,139	10,672		10,438
TOTAL COMMERCIAL PROPERTIES	58	92.0	24,358	1,430	3,416	29,204		26,690

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

	Number of Sites	Leasable Area 000's Sq. Ft.	Owned Interest % ⁽¹⁾	Brookfield Properties' Owned Interest 000's Sq. Ft. ⁽¹⁾
DEVELOPMENT PROPERTIES				
Washington, D.C.				
Reston Crescent	1	1,000	100	1,000
Waterview	1	930	25	233
	2	1,930		1,233
Houston				
Four Allen Center	1	1,267	100	1,267
1500 Smith Street	1	800	100	800
Allen Center Gateway	1	700	100	700
Allen Center Garage	1	700	100	700
	4	3,467		3,467
TOTAL DEVELOPMENT PROPERTIES	6	5,397		4,700

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

Our 45% economic 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.

At December 31, 2006, our investment in the U.S. Office Fund can be summarized as follows:

(Millions)	Balance Sheet Effect	Income Statement Effect
New York, New York	\$ 2,581	\$ 45
Washington, D.C.	1,287	26
Houston, Texas	941	22
Los Angeles, California	2,689	42
	7,498	135
Development properties	214	—
Total book value / Net operating income	7,712	135
Property specific and subsidiary debt / Interest expense	(5,799)	(96)
Partner capital (debt and equity) / Interest expense and non-controlling interests	(1,069)	(24)
Total	844	15
Other assets, net	(43)	—
Net investment / Funds from operations prior to fees eliminated against non-controlling interest	801	15
Fees eliminated against non-controlling interest	—	3
Invested capital / Funds from operations	\$ 801	\$ 18

Commercial property debt relating to the U.S. Office Fund totaled \$5.8 billion at December 31, 2006. The details are as follows:

Commercial Property	Location	Interest Rate %	Maturity Date	Brookfield Properties' Consolidated Share (Millions)	Mortgage Details
2000 L Street	Washington	6.26	2007	\$ 56	Non-recourse, fixed rate
Bethesda Crescent	Washington	7.07	2008	34	Non-recourse, fixed rate
Two Ballston Plaza	Washington	6.91	2008	26	Non-recourse, fixed rate
5670 Wilshire	Los Angeles	6.47	2008	59	Non-recourse, floating rate
Waterview	Washington	6.98	2009	30	Non-recourse, floating rate
1460 Broadway	New York	5.11	2012	12	Non-recourse, fixed rate
Four Allen Center	Houston	5.77	2013	240	Non-recourse, fixed rate
Grace Building	New York	5.54	2014	195	Non-recourse, fixed rate
1411 Broadway	New York	5.50	2014	112	Non-recourse, fixed rate
2001 M Street	Washington	5.25	2014	45	Non-recourse, fixed rate
Bank of America Building	Los Angeles	5.31	2014	237	Non-recourse, fixed rate
Ernst & Young Plaza	Los Angeles	5.07	2014	114	Non-recourse, fixed rate
One New York Plaza	New York	5.50	2016	396	Non-recourse, fixed rate
Victor Building	Washington	5.39	2016	47	Non-recourse, fixed rate
Marina Towers	Los Angeles	5.84	2016	21	Non-recourse, fixed rate
Mezzanine debt	—	7.85	2011	3,102	Non-recourse, floating rate
CMBS Pool debt	—	6.10	2011	600	Non-recourse, floating rate
CMBS Pool debt	—	6.83	2008/2011	473	Non-recourse, fixed rate
Total		5.90%		\$ 5,799	

PART IV – CANADIAN OFFICE FUND SUPPLEMENTAL INFORMATION

During 2005, we established and fully invested in a Canadian Office Fund. This Fund was created as a single purpose fund to acquire the O&Y portfolio. We successfully completed the acquisition of the O&Y portfolio in the fourth quarter of 2005 for \$1.8 billion.

The Canadian Office Fund, at the time of acquisition, consisted of 27 commercial properties totaling 11 million square feet in Toronto, Calgary, Ottawa, Edmonton and Winnipeg. However, certain of these properties were disposed of in the second quarter of 2006 and the Canadian Fund now consists of 19 commercial properties totaling 10 million square feet primarily in Toronto, Calgary, Ottawa and Edmonton.

The following represents our Canadian Office Fund portfolio as of December 31, 2006:

	Number of Properties	Leased %	Office 000's Sq. Ft.	Retail 000's Sq. Ft.	Parking 000's Sq. Ft.	Leasable Area 000's Sq. Ft.	Owned Interest % ⁽¹⁾	Brookfield Properties' Owned Interest 000's Sq. Ft. ⁽¹⁾
COMMERCIAL PROPERTIES								
Toronto								
First Canadian Place	1	95.5	2,379	232	170	2,781	25	695
2 Queen St. E	1	98.6	448	16	81	545	25	136
151 Yonge St.	1	96.8	289	10	72	371	25	93
18 King St. E	1	98.4	219	9	23	251	25	63
2 St. Clair Ave. W	1	96.0	219	12	68	299	25	75
40 St. Clair Ave. W	1	96.5	117	4	28	149	25	37
	6	96.2	3,671	283	442	4,396		1,099
Calgary								
Gulf Canada Square	1	99.5	1,047	73	21	1,141	25	285
Altius Centre	1	100.0	303	3	72	378	25	95
	2	99.6	1,350	76	93	1,519		380
Ottawa								
Place de Ville I	2	99.0	569	18	502	1,089	25	272
Place de Ville II	2	98.5	591	19	433	1,043	25	261
Jean Edmonds Towers	2	100.0	540	13	95	648	25	162
2204 Walkley	1	99.9	104	—	—	104	25	26
2200 Walkley	1	100.0	55	—	—	55	25	14
	8	99.2	1,859	50	1,030	2,939		735
Other Commercial								
Canadian Western Bank, Edmonton	1	97.7	375	31	91	497	25	124
Enbridge Tower, Edmonton	1	100.0	179	4	30	213	25	53
4342 Queen Street, Niagara Falls	1	84.9	149	—	60	209	25	52
	3	95.7	703	35	181	919		229
TOTAL COMMERCIAL PROPERTIES	19	97.5	7,583	444	1,746	9,773		2,443

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

	Number of Sites	Leasable Area 000's Sq. Ft.	Owned Interest % ⁽¹⁾	Brookfield Properties' Owned Interest 000's Sq. Ft. ⁽¹⁾
DEVELOPMENT PROPERTIES				
Ottawa				
300 Queen Street	1	500	25	125
	1	500		125
TOTAL DEVELOPMENT PROPERTIES	1	500		125

⁽¹⁾ Represents the company's consolidated interest before non-controlling interests

Our interest in the O&Y portfolio was purchased for approximately \$182 million, after the assumption of debt and acquisition financing totaling \$110 million in the fourth quarter of 2005.

At December 31, 2006, our investment in the Canadian Office Fund can be summarized as follows:

(Millions)	Balance Sheet Effect	Income Statement Effect	
		2006	2005
Toronto, Ontario	\$ 255	\$ 22	\$ 4
Calgary, Alberta	75	8	1
Ottawa, Ontario	89	7	1
Edmonton, Alberta and other	18	2	—
	437	39	6
Development properties	3	—	—
Total book value / Net operating income	440	39	6
Property specific and subsidiary debt / Interest expense	(199)	(11)	(1)
Total	241	28	5
Properties held for sale ⁽¹⁾	7	16	—
Other assets, net	(32)	—	—
Net investment / Funds from operations prior to fee income	216	44	5
Fee income	—	11	—
Invested capital / Funds from operations	\$ 216	\$ 55	\$ 5

⁽¹⁾ Includes assets classified as discontinued operations

Commercial property debt relating to the Canadian Office Fund totaled \$199 million at December 31, 2006. The details are as follows:

Commercial Property	Location	Interest Rate %	Maturity Date	Brookfield Properties' Consolidated Share	
				(Millions)	Mortgage Details
Canadian Fund					
First Canadian Place	Toronto	8.06	2009	\$ 60	Non-recourse, fixed rate
O&Y portfolio debt	—	Various	2007	139	Various terms
Total				\$ 199	

PART V – 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 the company 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 the company's business operations. A more detailed description of the business environment and risks is contained in our Annual Information Form which is posted on our website.

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 core 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 is an effective mitigate to 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 been favorable over the past five years with strong demand for well located building lots, particularly in Colorado, Texas and 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 higher interest rates due to their impact on home buyers' decisions. The 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 evenly over a 10-year time horizon. We believe that this strategy will most effectively manage interest rate risk.

As outlined under "Capital Resources and Liquidity," on page 37 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.

We have a floating rate bank credit facility of \$350 million, the terms of which extend to 2009 and a floating rate term facility with Brookfield Asset Management of \$300 million, the terms of which extend to 2008. At December 31, 2006, there were no funds drawn on either facility. We also set up a floating rate term loan facility of \$300 million, the terms of which extend to 2008, in order to aid in financing acquisitions. There is a risk that bank lenders will not refinance the facility on terms and conditions acceptable to us, or on any

terms at all. As a mitigating factor, we have a one-year term extension option. Approximately 42% of the company's outstanding debt at December 31, 2006 is floating rate debt (December 31, 2005 – 19%).

The table below outlines the effect of hypothetical changes in interest rates on total interest expense relating to our floating rate debt. The analysis does not reflect the impact a changing interest rate environment could have on our overall performance, and as a result, it does not reflect the actions management may take in such an environment.

As at	Interest Rate Movement	Approximate Change in Annual Interest Expense (Millions)	Approximate Change on Interest Expense per Share per Year
December 31, 2006	+ 100 bps	\$ 20	\$ 0.09
December 31, 2005	+ 100 bps	\$ 16	\$ 0.07

We have identified a target level of indebtedness for the company of 55% of gross book value. It is our view that such level of indebtedness is conservative given the lending parameters currently existing in the real estate marketplace (generally up to 80% of current market value) and based on this, we believe that all debts will be financed or refinanced as they come due in the foreseeable future.

CREDIT RISK

Because we invest in mortgages from time to time, further credit risks arise in the event that borrowers default on the repayment of their mortgages to us. We endeavor to ensure that adequate security has been provided in support of such mortgages.

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 10% 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 20 of this MD&A.

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

Tenant	Location	Year of Expiry ⁽¹⁾	000's Sq.Ft. ⁽²⁾	% of Sq. Ft. ⁽²⁾	Credit Rating ⁽³⁾
Rated					
Merrill Lynch	New York/Toronto	2013	4,534	6.9%	AA-
CIBC	New York/Toronto/Calgary	2028	2,074	3.2%	A+
Government of Canada	Toronto/Ottawa/Edmonton	2010	2,003	3.0%	AAA
Chevron U.S.A.	Houston	2018	1,725	2.6%	AA
Wachovia	New York	2015	1,331	2.0%	A+
RBC Financial Group	Five major markets	2018	1,184	1.8%	AA-
Bank of Montreal	Toronto/Calgary	2020	1,128	1.7%	AA-
JPMorgan Chase	New York/Denver	2018	1,122	1.7%	A+
Petro-Canada	Calgary	2013	914	1.4%	BBB
Target Corporation	Minneapolis	2014	865	1.3%	A+
Goldman Sachs	New York	2011	850	1.3%	AA-
Continental Airlines	Houston	2009	695	1.1%	B
Imperial Oil	Calgary	2011	633	1.0%	AAA
Devon Energy Production Company	Houston	2012	544	0.8%	BBB
Transportation Security Administration	Washington, D.C.	2014	540	0.8%	AAA
Talisman Energy	Calgary	2015	527	0.8%	BBB+
CP Rail	Calgary	2014	455	0.7%	BBB
Conoco Phillips	Calgary	2010	445	0.7%	A-
American Express	New York	2022	412	0.6%	A+
Enbridge Inc.	Calgary/Edmonton	2015	392	0.6%	A-
Pension Benefit Guaranty Corporation	Washington, D.C.	2018	386	0.6%	AAA
Fidelity Properties Inc.	New York/Boston	2009	381	0.6%	AA
Amerada Hess Corporation	Houston	2011	371	0.6%	BBB-
Pepco Holdings Inc.	Washington, D.C.	2028	364	0.6%	BBB
United States Government	Washington, D.C./LA/Houston	2010	352	0.5%	AAA
Home Box Office, Inc.	New York	2019	328	0.5%	BBB+
Smithsonian Institution	Washington, D.C.	2020	326	0.5%	AAA
Teachers Insurance Annuity Association	Denver	2008	323	0.5%	AAA
Canadian Natural Resources	Calgary	2011	278	0.4%	BBB+
EnCana Corporation	Calgary	2013	258	0.4%	A-
Bank of Nova Scotia	New York	2014	255	0.4%	AA-
Anadarko Canada Corporation	Calgary	2011	235	0.4%	BBB-
Kinder Morgan, Inc.	Houston	2020	226	0.3%	BB-
Exxon Mobil Corporation	Houston	2007	225	0.3%	AAA
Bank of America	Boston	2011	222	0.3%	AA
Marsh Mercer	Toronto	2015	207	0.3%	BB+
Willis of New York	New York	2026	202	0.3%	BBB
Other government and related services	Various	Various	1,277	1.9%	BBB- or higher
Other investment grade	Various	Various	5,986	9.1%	BBB- or higher
			34,575	52.5%	
Unrated					
Kellogg, Brown & Root	Washington, D.C./Houston	2016	964	1.5%	—
Cadwalader, Wickersham & Taft	New York	2024	519	0.8%	—
Cleary, Gottlieb, Steen & Hamilton	New York	2012	446	0.7%	—
Goodwin Procter	Boston	2016	411	0.6%	—
Fried, Frank & Harris	New York	2024	382	0.6%	—
Ernst & Young	Washington, D.C./Los Angeles	2010	369	0.6%	—
Wellington Management Co.	Boston	2011	358	0.5%	—
The Capital Group Companies	Los Angeles	2018	326	0.5%	—
Osler Hoskin & Harcourt LLP	Toronto	2015	285	0.4%	—
National Association of Securities Dealers	New York	2020	277	0.4%	—
Bennett Jones	Calgary/Toronto	2010	237	0.4%	—
CI Investments Inc.	Toronto	2011	212	0.3%	—
KPMG	Toronto	2011	210	0.3%	—
Total			39,571	60.1%	

⁽¹⁾ Weighted average based on square feet

⁽²⁾ Prior to considering partnership interests in partially-owned properties

⁽³⁾ From Standard & Poors, Moody's or Dominion Bond Rating Service

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 5% of our leases mature annually. 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 20 of this MD&A.

The following table sets out lease expiries, by square footage, for our portfolio at December 31, 2006:

(000's Sq. Ft.)	Currently Available	2007	2008	2009	2010	2011	2012	2013	2014 & Beyond	Parking	Total
New York	665	288	541	1,023	1,038	360	860	5,128	9,296	317	19,516
Boston	142	61	399	40	172	394	31	30	618	276	2,163
Washington, D.C.	139	719	458	582	268	199	531	189	2,664	1,022	6,771
Houston	336	575	454	155	941	581	1,232	522	1,372	790	6,958
Los Angeles	1,075	668	766	558	981	1,004	1,125	587	1,769	2,139	10,672
Toronto	443	413	554	946	1,026	714	883	1,589	3,887	1,828	12,283
Calgary	15	48	287	322	915	1,602	499	1,286	1,827	1,044	7,845
Ottawa	15	142	78	138	2	29	4	952	549	1,030	2,939
Denver	56	55	48	9	100	89	77	152	706	503	1,795
Minneapolis	267	36	32	221	55	35	126	647	1,068	521	3,008
Other	62	145	52	83	172	143	78	74	591	445	1,845
	3,215	3,150	3,669	4,077	5,670	5,150	5,446	11,156	24,347	9,915	75,795
	4.9%	4.8%	5.6%	6.2%	8.6%	7.8%	8.3%	16.9%	36.9%	—	100.0%

Brookfield Properties' portfolio has a weighted average lease life of seven years. The average lease terms in our markets of New York, Boston, Washington, Houston, Los Angeles, Toronto, Calgary, Ottawa, Denver and Minneapolis are 10 years, 6 years, 7 years, 5 years, 5 years, 7 years, 6 years, 6 years, 8 years and 7 years, respectively.

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 operation. 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 financial condition or results of operation.

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.

While the outlook for commercial office rents is positive in the long term, 2007 may 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 nine years. A protracted disruption in the economy, such as the onset of a severe recession, could place downward pressure on overall occupancy levels and net effective rents.

The company's terrorism insurance program consists of coverage from third-party commercial insurers up to \$500 million, as well as a wholly-owned subsidiary that the company has formed, Realrisk Insurance Corporation ("Realrisk") to act as a captive insurance company. Realrisk provides limits for terrorism in two ways. For non-NBCR (Nuclear, Biological, Chemical and Radioactive) events that qualify under

the Terrorism Risk Insurance Act of 2002 ("TRIA"), limits of \$1 billion per occurrence are granted above the \$500 million provided by third-party insurers. For NBCR events that qualify under TRIA, Realrisk provides for limits up to \$1 billion per occurrence. For any TRIA certified event, Realrisk is responsible for a deductible equal to \$400,000 plus 15% of the loss above such deductible. Since the limit with respect to our portfolio may be less than the value of the affected properties, terrorist acts could result in property damage that exceeds the limits available in our current coverage, which could result in significant financial losses to us due to the loss of capital invested in the property.

As a result of the merger with Trizec we acquired two wholly-owned captive insurance companies: Chapman Insurance LLC and Concordia Insurance LLC. The terrorism program for those buildings that we manage is contained in the applicable terrorism insurance program available from third party insurers, for limits of \$100 million. This program also provides for a total of \$200 million of coverage for non-certified acts of terrorism. Chapman and Concordia provide \$400 million of TRIA coverage in addition to the \$100 million mentioned above. For NBCR events that qualify under TRIA, Chapman and Concordia provides for limits up to \$400 million per occurrence. For any TRIA certified event, Chapman and Concordia are responsible for their respective deductibles of \$82,738 and \$338,389 deductible equal to \$400,000 plus 15% of the loss above such deductible.

In our land development operations, markets have been favorable over the past five years with strong demand for well-located residential lots. Our operations are concentrated in high growth areas which we believe to have positive demographic and economic conditions. Nonetheless, the home building and land development industry is cyclical in nature and may be significantly affected by changes in general and local economic conditions such as consumer confidence, job stability, availability of financing for home buyers and higher interest rates due to their impact on home buyers' decisions. These conditions can affect consumer behavior 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 the construction schedules and cost overruns.

FOREIGN EXCHANGE FLUCTUATIONS

While approximately 19% of our assets and 47% of our revenues originate in Canada, we have substantially matched our Canadian assets with Canadian liabilities. Furthermore, our U.S. and Canadian operations are self sustaining and we hedge our net investment in our Canadian operations. As a result, our operations have generally not been materially affected by the movement in the Canadian to U.S. dollar exchange rate.

DERIVATIVE FINANCIAL INSTRUMENTS

We utilize derivative financial instruments primarily to manage financial risks, including interest rate, commodity and foreign exchange risks. Hedge accounting is applied where the derivative is designated as a hedge of a specific exposure and there is reasonable assurance the hedge will be effective. Realized and unrealized gains and losses on forward exchange contracts designated as hedges of currency risks are included in the cumulative translation account when the currency risk being hedged relates to a net investment in a self-sustaining subsidiary. Otherwise, realized and unrealized gains and losses on derivative financial instruments designated as hedges of financial risks are included in income as an offset to the hedged item in the period the underlying asset, liability or anticipated transaction to which they relate.

Financial instruments that are not designated as hedges are carried at estimated fair values and gains and losses arising from changes in fair values are recognized in income as a component of interest and other income in the period the changes occur. The use of non-hedging derivative contracts is governed by documented risk management policies and approved limits.

At December 31, 2006, our use of derivative financial instruments was limited to the transactions identified below. Unrealized gains and losses, representing the fair value of such contracts, are determined in reference to the appropriate forward exchange rate for each contract at December 31st and are reflected in receivables and other assets or accounts payable and other liabilities, as appropriate, on the balance sheet.

In 2006, we entered into a series of interest rate cap contracts that are designated as hedges of interest rate exposure associated with variable rate debt issued in October 2006 in connection with the acquisition of Trizec. At December 31, 2006, there were contracts outstanding to cap the interest rate on a notional \$3.1 billion of variable rate debt at 6% and \$600 million of variable rate debt at 7% for a period of two years. The contracts have been recorded at cost in Receivables and other. The contract cost and any accrued gains from exercise of the cap will be recorded as an adjustment to interest expense in the period the hedged interest payment occurs. The fair value of the contracts at December 31, 2006 was \$1 million. The cost of these contracts was \$3 million.

At December 31, 2006, we had foreign exchange contracts to sell a notional amount of C\$900 million, maturing in March 2007, designated as hedges for accounting purposes to manage our foreign exchange risk in respect to our Canadian-denominated net assets. The fair value of these contracts at December 31, 2006 was a gain of \$3.2 million which is reflected in the cumulative translation adjustment account and in receivables and other in the consolidated balance sheet. Our self-sustaining subsidiaries also had foreign exchange contracts to sell a notional amount of US\$21 million, maturing in March 2007, which have not been designated as hedges for financial reporting purposes. The fair value of these contracts at December 31, 2006 was a loss of \$0.2 million.

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. 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 VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

We adopted the following new accounting policies, none of which individually or collectively had a material impact on our consolidated financial statements, unless otherwise noted. These changes were the result of changes to the Canadian Institute of Chartered Accountants (“CICA”) Handbook, Accounting Guidelines (“AcG”) or Emerging Issues Committee Abstracts (“EIC”).

(i) Effect of Contingently Convertible Instruments on the Computation of Diluted Earnings Per Share, Emerging Issues Committee Abstract 155

In September 2005, the Emerging Issues Committee of the AcSB of the CICA issued EIC 155, “The Effect of Contingently Convertible Instruments on the Computation of Diluted Earnings Per Share,” which is effective for our 2006 fiscal year. The abstract addresses when the effect of contingently convertible instruments should be included in the computation of diluted earnings per share. The conclusion is that the effect of the contingently convertible instruments should be included in the computation of diluted earnings per share (if dilutive), regardless of whether the market price trigger has been met. This abstract has had no impact on our financial statements.

(ii) Implicit Variable Interests, Emerging Issues Committee Abstract 157

In October 2005, the Emerging Issues Committee issued Abstract No. 157, “Implicit Variable Interests Under AcG 15” (“EIC 157”), which is effective for our 2006 fiscal year. This EIC clarifies that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity’s net assets exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. This abstract has had no impact on our financial statements.

(iii) Conditional Asset Retirement Obligations, Emerging Issues Committee Abstract 159

In December 2005, the Emerging Issues Committee issued Abstract No. 159, “Conditional Asset Retirement Obligations” (“EIC 159”). EIC 159, which was effective for our second quarter of 2006, clarifies that the term “conditional asset retirement obligation” refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional upon future events that may or may not be within an entity’s control. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability, from the date the liability was incurred, for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. Certain of our real estate assets contain asbestos. Although the asbestos is appropriately contained in accordance with current environmental regulations, our practice is to remediate the asbestos upon the renovation or redevelopment of our properties. As a result of adopting EIC 159, we recognized a liability of \$0.6 million related to asbestos remediation for certain properties where the quantum of such costs and the timing for settlement is reasonably determinable. The impact on prior periods decreased opening equity by \$0.2 million.

(iv) Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date, Emerging Issues Committee Abstract 162

In July 2006, the Emerging Issues Committee issued Abstract No. 162, “Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date” (“EIC 162”), which was effective for our 2006 fiscal year. This EIC clarifies how compensation cost should be recognized in the case that a compensation plan contains provisions that allow an employee to continue vesting in accordance with the stated terms after the employee has retired from the entity. The adoption of this EIC did not have a material impact on our financial statements.

FUTURE ACCOUNTING POLICY CHANGES

(i) Comprehensive Income, CICA Handbook Section 1530

In January 2005, the CICA issued Handbook Section 1530, “Comprehensive Income,” which is effective for the company’s 2007 fiscal year. As a result of adopting this standard, a Statement of Comprehensive Income will be included in the company’s financial statements. Comprehensive income consists of net income and other comprehensive income. Major components of other comprehensive income will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, net of the impact of related hedges, and changes in fair value of the effective portion of cash flow hedging instruments.

(ii) Financial Instruments – Recognition and Measurement, CICA Handbook Section 3855

In January 2005, the CICA issued Handbook Section 3855, “Financial Instruments – Recognition and Measurement,” which is effective for our 2007 fiscal year. Under this new standard, all financial assets will be classified as one of the following: held-to-maturity; loans and receivables; held-for-trading; or available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

(iii) Hedges, CICA Handbook Section 3865

In January 2005, the CICA issued Handbook Section 3865, “Hedges,” which is effective for our 2007 fiscal year. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted

hedging strategies: fair value hedges; cash flow hedges; and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income, net of tax. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income, net of tax.

Impact of adopting sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as of January 1, 2007: (i) financial instruments that the company will classify as held-for-trading and that were not previously recorded at fair value; (ii) the difference in the carrying amount of loans and deposits prior to January 1, 2007, and the carrying amount calculated using the effective interest rate from inception of the loan; (iii) the cumulative ineffective portion of cash flow hedges; and (iv) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards.

Adjustments arising due to remeasuring financial assets classified as available-for-sale and hedging instruments designated as cashflow hedges will be recognized in the opening balance of "Accumulated other comprehensive income ("AOCI")."

Neither of the transition amounts that will be recorded in the opening retained earnings or in the opening AOCI balance on January 1, 2007 is expected to be material to our consolidated financial position.

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.

Our critical accounting policies are those that we believe are the most important in portraying our financial condition and results, and require the most subjective judgment and estimates on the part of management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is set forth in Note 1 to our consolidated financial statements.

Property Acquisitions

Upon acquisition of rental properties, we determine the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above- and below-market leases and origination costs related to acquired in-place leases, other identified intangible assets and assumed liabilities and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at depreciated replacement cost. We assess and consider fair values based on estimated cashflow projections that utilize appropriate discount rates, as well as available market information. Estimates of future cashflows are based on a number of factors including the historical operating results, known and anticipated trends and market conditions. We also consider an allocation of purchase price to other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenant, the tenant's credit quality and expectations of renewals. We record acquired above- and below-market leases at their fair value, using a discount rate which reflects the risks associated with the leases acquired, equal to the difference between: (1) the contractual amounts to be paid pursuant to each in-place lease; and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the leases for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases. Recorded amounts for in-place lease origination values are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during expected lease-up periods considering current market conditions, and costs to execute similar leases. Building is stated at a depreciated replacement cost.

The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs.

Depreciation and amortization on rental properties is based on the allocation of the acquisition cost to land, building, tenant improvements and intangibles and their estimated useful lives, based on management's estimates. The allocation of the acquisition cost and the determination of the estimated useful lives of the components significantly impact the computation of depreciation and amortization recorded over future periods and, accordingly, net income.

Depreciation

We apply the straight-line method of depreciation. Under this method, depreciation is charged to income on a straight-line basis over the remaining estimated useful life of the property. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon management's estimates. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of depreciation will not be appropriately reflected over future periods.

Impairment of Assets

We review the long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates a potential impairment in value. An asset is considered impaired when the undiscounted future cashflows are not sufficient to recover the asset's carrying value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cashflows is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

The fair value of mortgages receivable depends upon the financial stability of the issuer and the economic value of the underlying security.

There were no impairments recorded for the years ended December 31, 2006 or 2005.

Revenue Recognition

Base rental revenue is reported on a straight-line basis over the terms of each lease. In accordance with EIC-140, we recognize rental revenue of acquired in-place "above and below" market leases at their fair value over the terms of the respective leases. Free rent receivable represents rental income recognized in excess of rent payments actually received pursuant to the terms of the individual lease agreements. 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.

Recoveries from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and presented in accordance with EIC Abstract No. 123 "Reporting Revenue Gross as a Principal versus Net as an Agent," which requires that these reimbursements be recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, having discretion in selecting suppliers and taking credit risk.

Fair Value of Financial Instruments

The fair values of mortgage debt notes payable and unsecured senior notes are calculated based on the discount spread between the future contractual interest payments and future interest payments on mortgage debt based on a current market rate. In determining the current market rate, market spread is added to the quoted yields on federal government bonds with similar maturity dates to debt in place. Because valuations of the financial instruments are based on these types of estimates, the fair values of financial instruments may change if the estimates do not prove to be accurate.

Tax

In accordance with both Canadian and US GAAP, we use the liability method of accounting for future income taxes and provide for future income taxes for all significant income tax temporary differences.

Preparation of the financial statements requires an estimate of income taxes in the jurisdictions in which we operate. The process involves an estimate of our actual current tax exposure and an assessment of temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes. These differences result in future tax assets and liabilities which are included in our balance sheet. An assessment must also be made to determine the likelihood that our future tax assets will be recovered from future taxable income. To the extent that recovery is not considered more likely than not, a valuation allowance must be provided.

Judgment is required in determining the provision for income taxes, future income 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.

During the year, we released nil (2005 - \$11 million) of tax valuation allowances related to our Canadian commercial operations following the completion of certain reviews by taxation authorities, and recorded nil (2005 - \$8 million) in previously unrecognized tax assets in connection with a strategic tax review undertaken by the company and determination of the necessary plans to realize such assets. Both these changes are reflected in our income tax provision.

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 December 31, 2006, we had approximately \$345 million (December 31, 2005 - \$397 million) of indebtedness outstanding to our parent company, Brookfield Asset Management Inc. and its affiliate. Refer to page 32 of this MD&A for the composition of this debt. Interest expense related to this indebtedness, including preferred share dividends classified as interest expense in the consolidated financial statements, totaled \$35 million for the year ended December 31, 2006, compared to \$12 million for the year ended December 31, 2005, and was recorded at the exchange amount. Additionally, included in rental revenues are amounts received from Brookfield Asset Management Inc., and its affiliates for the rental of office premises of \$4 million for the year ended December 31, 2006 (2005 - \$5 million). These amounts have been recorded at the exchange amount.

PART VII - BUSINESS ENVIRONMENT AND OUTLOOK

COMMERCIAL OPERATIONS

The office property markets where we are invested have stabilized and are now recovering. Absorption rates have become positive in most markets, with the most significant improvements having taken place in New York and Calgary.

The lack of development, especially in central business districts, coupled with the erosion in rental rates in past years has created some stability. Office vacancy rates are generally expected to continue to decline gradually over the near term, with the pace of absorption accelerating during 2007. As a result, rental rates are expected to continue to move upward in 2007, with leasing costs and landlord incentives expected to decline. However, any significant slow-down in the economy could have a dampening effect on the recovery of office markets.

The investment market continues to remain highly competitive with acquisition prices increasing. The strength in acquisition activity is due to a great demand from investors for high-quality office product with limited supply of assets for sale. In addition, the current low interest rate environment has allowed investors to acquire real estate at lower yields.

RESIDENTIAL DEVELOPMENT OPERATIONS

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

While we remain committed to greenfield developments, over the last several years we have taken a greater interest in infill opportunities as cities strive to intensify. We are working on several infill opportunities at this time and while we have found them to take longer to consummate than traditional deals, we believe that escalation of cities is a trend that must and will continue and as a result, we plan to designate additional resources to this aspect of the operation going forward.

DISCLOSURE CONTROLS AND PROCEDURES

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in applicable U.S. and Canadian securities law) as of December 31, 2006. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures are effective as of December 31, 2006 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to us by others within those entities.

INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our company's internal control over financial reporting that occurred during 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management has also evaluated the effectiveness of our internal control over financial reporting as of December 31, 2006, and based on that assessment determined that our internal control over financial reporting was effective. Refer to *Management's Report on Internal Control over Financial Reporting* on page 67 of this annual report.

OUTLOOK

We are optimistic as we look to 2007. The leasing markets within which we operate are continuing to improve and the general economic environment has strengthened, although there are some conditions that warrant continued caution. Further, residential markets remain very sound in Alberta, giving us expectations of another successful year from these operations. With a solid growth platform consisting of a strong balance sheet, 17 million square feet of development opportunities and significant financial flexibility, Brookfield Properties is well-positioned to continue to deliver on its commitments to shareholders.



Craig J. Laurie
Senior Vice President and Chief Financial Officer
March 7, 2007

DISTRIBUTIONS

Distributions paid by the company during the year ended December 31, 2006 and in the past three fiscal years are as follows:

	Currency	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2003
Common shares ⁽¹⁾	US\$	\$ 0.7500	\$ 0.6500	\$ 0.4200	\$ 0.3400 ⁽²⁾
Class A preferred shares	C\$	0.1875	0.1875	0.1875	0.1875
Class AA Series E preferred shares	C\$	0.9922	0.7591	0.7061	0.8202
Class AAA Series C preferred shares	C\$	—	—	—	1.2356
Class AAA Series D preferred shares	C\$	—	—	—	1.2356
Class AAA Series E preferred shares	C\$	1.0082	0.7695	0.7027	—
Class AAA Series F preferred shares	C\$	1.5000	1.5000	1.5000	1.5000
Class AAA Series G preferred shares	US\$	1.3125	1.3125	1.3125	0.7237
Class AAA Series H preferred shares	C\$	1.4375	1.4375	1.4375	0.3033
Class AAA Series I preferred shares	C\$	1.3000	1.3000	1.3000	—
Class AAA Series J preferred shares	C\$	1.2500	1.2500	0.8333	—
Class AAA Series K preferred shares	C\$	1.3000	1.3000	0.2486	—

⁽¹⁾ Per share amounts include the effect of the three-for-two common stock-split on March 31, 2005

⁽²⁾ Excludes the distribution of Brookfield Properties Homes Corporation

Management's Responsibility for the Financial Statements

The consolidated financial statements and management's financial analysis and review contained in this annual report are the responsibility of the management of the company. To fulfill this responsibility, the company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgment in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

Deloitte & Touche LLP, the independent registered chartered accountants appointed by the shareholders, have audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as independent registered chartered accountants is set out below.

The consolidated financial statements have been further examined by the Board of Directors and by its Audit Committee, which meets with the auditors and management to review the activities of each and reports to the Board of Directors. The auditors have direct and full access to the Audit Committee and meet with the committee both with and without management present. The Board of Directors, directly and through its Audit Committee, oversees management responsibilities and is responsible for reviewing and approving the financial statements.



Richard B. Clark
President and Chief Executive Officer
March 7, 2007



Craig J. Laurie
Senior Vice President and Chief Financial Officer

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Brookfield Properties Corporation

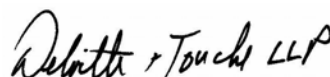
We have audited the accompanying consolidated balance sheets of Brookfield Properties Corporation and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, retained earnings and cashflow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the financial statements for the year ended December 31, 2006 we conducted our audit in accordance with Canadian Generally Accepted Auditing Standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the financial statements for the year ended December 31, 2005, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Brookfield Properties Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cashflow for the years then ended in conformity with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Toronto, Canada
March 7, 2007



Independent Registered Chartered Accountants

Management's Report on Internal Control over Financial Reporting

Management of Brookfield Properties Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Due to its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation to the effectiveness of internal control over the financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Brookfield Properties' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2006, Brookfield Properties' internal control over financial reporting was effective. Also, management determined that there were no material weaknesses in Brookfield Properties' internal control over financial reporting as of December 31, 2006. Management excluded from its assessment the internal control over financial reporting at Trizec, which was acquired on October 5, 2006 and whose financial statements constitute 26 percent and 42 percent of net and total assets, respectively, 16 percent of revenues, and (3) percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2006.

Management's assessment of the effectiveness of Brookfield Properties' internal control over financial reporting as of December 31, 2006, has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, who also audited Brookfield Properties' Consolidated Financial Statements for the year ended December 31, 2006, as stated in the Report of Independent Registered Chartered Accountants, which expressed an unqualified opinion on management's assessment of Brookfield Properties' internal control over financial reporting and an unqualified opinion on the effectiveness of Brookfield Properties' internal control over financial reporting.



Richard B. Clark
President and Chief Executive Officer
March 7, 2007



Craig J. Laurie
Senior Vice President and Chief Financial Officer

Report of Independent Registered Chartered Accountants

To the Board of Directors and Shareholders of Brookfield Properties Corporation

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control over Financial Reporting*, that Brookfield Properties Corporation and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in *Management's Report on Internal Control over Financial Reporting*, management excluded from its assessment the internal control over financial reporting at Trizec Properties Inc. and Trizec Canada Inc. (collectively, "Trizec"), which was acquired on October 5, 2006 and whose financial statements constitute 26 percent and 42 percent of net and total assets, respectively, 16 percent of revenues, and (3) percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2006. Accordingly, our audit did not include the internal control over financial reporting at Trizec. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

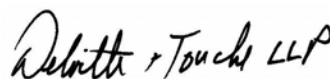
A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006 of the Company and our report dated March 7, 2007 expressed an unqualified opinion on those financial statements.

Toronto, Canada
March 7, 2007



Independent Registered Chartered Accountants

Consolidated Balance Sheets

December 31 (US Millions)	Note	2006	2005
Assets			
Commercial properties	5	\$ 15,287	\$ 7,430
Commercial developments	6	735	224
Residential developments	6	706	391
Receivables and other	7	974	830
Intangible assets	8	853	125
Restricted cash and deposits	9	507	316
Marketable securities	10	—	58
Cash and cash equivalents		188	64
Assets related to discontinued operations	11	64	75
		\$ 19,314	\$ 9,513
Liabilities			
Commercial property debt	12	\$ 11,185	\$ 5,216
Accounts payable and other liabilities	13	923	500
Intangible liabilities	14	919	126
Future income tax liabilities	15	584	188
Liabilities related to discontinued operations	11	36	51
Capital securities - corporate	16	1,093	1,101
Capital securities - fund subsidiaries	17	803	—
Non-controlling interests – fund subsidiaries	17	266	—
Non-controlling interests – other subsidiaries	18	67	59
Preferred equity - subsidiaries	19	326	329
Shareholders' equity			
Preferred equity - corporate	20	45	45
Common equity	21	3,067	1,898
		\$ 19,314	\$ 9,513

See accompanying notes to the consolidated financial statements

On behalf of the Board,



Gordon E. Arnell
Chairman



Richard B. Clark
President and Chief Executive Officer

Consolidated Statement of Income

December 31 (US Millions, except per share amounts)	Note	2006	2005
Total revenue	23	\$ 1,923	\$ 1,529
Net operating income			
Commercial property operations	23	\$ 840	\$ 674
Residential development operations	23	144	106
Interest and other		44	37
		1,028	817
Expenses			
Interest			
Commercial property debt		424	273
Capital securities – corporate	16	59	54
Capital securities – fund subsidiaries	17	(19)	—
General and administrative		67	48
Transaction costs	4	15	—
Non-controlling interests			
Fund subsidiaries	17	(14)	—
Other subsidiaries		21	16
Depreciation and amortization		281	161
Future income taxes	15	91	103
Net income from continuing operations		\$ 103	\$ 162
Discontinued operations	11	32	2
Net income		\$ 135	\$ 164
Net income from continuing operations per common share			
Basic	21	\$ 0.43	\$ 0.69
Diluted		\$ 0.42	\$ 0.68
Net income per common share	21		
Basic		\$ 0.57	\$ 0.70
Diluted		\$ 0.56	\$ 0.69

See accompanying notes to the consolidated financial statements

Consolidated Statement of Retained Earnings

December 31 (US Millions)	Note	2006	2005
Retained earnings – beginning of year		\$ 747	\$ 787
Net income		135	164
Shareholder distributions			
Preferred shares dividends - corporate		(3)	(2)
Common share dividends		(173)	(150)
Amount paid in excess of the book value of common shares purchased for cancellation		—	(52)
Retained earnings – end of year	21	\$ 706	\$ 747

See accompanying notes to the consolidated financial statements

Consolidated Statement of Cashflow

December 31 (US Millions)	Note	2006	2005
Operating activities			
Net income		\$ 135	\$ 164
Depreciation and amortization		284	168
Future income taxes		107	103
Property disposition gains		(44)	—
Amortization of value of acquired operating leases to rental revenue, net		(44)	(4)
Non-controlling interests – fund and other subsidiaries		7	16
Non-cash component of capital securities – fund subsidiaries		(30)	—
Income from equity-accounting investments		(4)	(12)
Distributions received from equity-accounting investments		9	7
Deferred leasing costs		(27)	(15)
Increase in housing and land inventory and related working capital		(258)	(137)
Other		(69)	(60)
		66	230
Financing activities and capital distributions			
Commercial property debt arranged		517	476
Commercial property debt repayments		(248)	(463)
Corporate credit facilities arranged		1,086	568
Corporate credit facilities repayments		(1,110)	(294)
Capital securities arranged – fund subsidiaries		764	—
Non-controlling interest contributions arranged – fund subsidiaries		278	—
Trizec acquisition financing arranged		3,702	—
Land development debt, net		78	(4)
Distributions to non-controlling interests		(12)	(13)
Common shares issued		1,234	8
Common shares repurchased		—	(74)
Preferred share dividends		(3)	(2)
Common share dividends		(173)	(150)
		6,113	52
Investing activities			
Marketable securities		58	227
Loans receivable and other		(24)	—
Acquisition of Trizec, net of cash and cash equivalents acquired	4, 26	(5,341)	—
Acquisitions of real estate, net	26	(569)	(366)
Dispositions of real estate, net	26	82	7
Restricted cash and deposits		(102)	(19)
Development and redevelopment investments		(79)	(50)
Commercial property tenant improvements		(55)	(108)
Capital expenditures		(25)	(21)
		(6,055)	(330)
Increase / (decrease) in cash resources		124	(48)
Opening cash and cash equivalents		64	112
Closing cash and cash equivalents		\$ 188	\$ 64

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

(a) General

The consolidated financial statements of Brookfield Properties Corporation ("the company") are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants ("CICA").

(b) Principles of consolidation

The consolidated financial statements include:

- (i) the accounts of all wholly-owned subsidiaries of the company and the accounts of all such wholly-owned subsidiaries' incorporated and unincorporated joint ventures to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses;
- (ii) the accounts of BPO Properties Ltd. ("BPO Properties") and Brookfield Financial Properties L.P. ("Brookfield Financial Properties") and the accounts of BPO Properties' and Brookfield Financial Properties' incorporated and unincorporated joint ventures to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses; and
- (iii) the accounts of Brookfield Properties Office Partners, Inc., TRZ Holdings LLC, BPOP Holdings (US) LLC and BPOP (Canada) Inc. (collectively, the "US Office Fund") and the accounts of the US Office Funds' incorporated and unincorporated joint ventures to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses.

The company's ownership interests in operating entities which are not wholly owned, other than joint ventures, are as follows:

- (i) Brookfield Financial Properties L.P.: The company owns a 99.4% limited partnership interest and a 100% general partnership interest in Brookfield Financial Properties L.P.
- (ii) BPO Properties Ltd.: The company owns 89% on an equity basis and 54.3% on a voting basis of the common shares of BPO Properties Ltd.
- (iii) US Office Fund: The company owns an indirect 45% economic interest in the US Office Fund.

(c) Properties

- (i) Commercial properties

Commercial properties held for investment are carried at cost less accumulated depreciation. Upon acquisition, the company allocates the purchase price to the components of the commercial properties acquired: the amount allocated to land is based on its estimated fair value; buildings and existing tenant improvements are recorded at depreciated replacement cost; above- and below-market in-place operating leases are determined based on the present value of the difference between the rents payable under the contractual terms of the leases and estimated market rents; lease origination costs for in-place operating leases are determined based on the estimated costs that would be incurred to put the existing leases in place under the same terms and conditions; and tenant relationships are measured based on the present value of the estimated avoided net costs if a tenant were to renew its lease at expiry, discounted by the probability of such renewal.

Depreciation on buildings is provided on a straight-line basis over the useful lives of the properties to a maximum of 60 years. Depreciation is determined with reference to each rental property's carried value, remaining estimated useful life and residual value. Acquired tenant improvements, above- and below-market in-place operating leases and lease origination costs are amortized on a straight-line basis over the remaining terms of the leases. The value associated with acquired tenant relationships is amortized on a straight-line basis over the expected term of the relationships. All other tenant improvements and re-leasing costs are deferred and amortized on a straight-line basis over the terms of the leases to which they relate. Depreciation on buildings and amortization of deferred leasing costs and tenant improvements that are determined to be assets of the company are recorded in depreciation and amortization expense. All other amounts are amortized to revenue.

Properties are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. For commercial properties, an impairment loss is recognized when a property's carrying value exceeds its undiscounted future net cashflow. The impairment is measured as the amount by which the carrying value exceeds the estimated fair value. Projections of future cashflow take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

- (ii) Commercial developments

Commercial properties under development consist of properties for which a major repositioning program is being conducted and properties which are under construction. These properties are recorded at cost, including pre-development expenditures. For development properties, an impairment loss is recognized when a property's carrying value exceeds its undiscounted future net cashflow. Properties are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. The impairment is measured as the amount by which the carrying value exceeds the

estimated fair value. Projections of future cashflow take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

(iii) Residential developments

Development land is held for residential development and is 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.

(d) Capitalized costs

Costs capitalized to commercial and residential properties which are under development include all direct and directly attributable expenditures incurred in connection with the acquisition, to the extent that such costs are incremental to a specific acquisition, development, construction and initial predetermined leasing period. Costs directly attributable to development projects include interest and salaries and benefits of employees directly associated with the development projects, such as architects, engineers, designers and development project managers. Ancillary income relating specifically to such properties during the development period is treated as a reduction of costs.

(e) Deferred financing costs

Financing costs are deferred and amortized to amortization expense on a straight-line basis over the terms of the debt to which they relate.

(f) Stock-based compensation

The company accounts for stock options using the fair value method. Under this method, compensation expense for stock options that are direct awards of stock is measured at fair value at the grant date using the Black-Scholes option pricing model and recognized over the vesting period. A Deferred Share Unit ("DSU") plan is offered to executive officers and non-employee directors of the company. DSUs are accounted for as liabilities. Employee compensation expense for these plans is charged against income over the vesting period of the DSUs. Changes in the amount payable by the company in respect to vested DSUs as a result of dividends and share price movements are recorded as employee compensation expense in the period of the change.

(g) Revenue recognition

(i) Commercial properties

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, as applicable, is recorded for the difference between the rental revenue recorded and the contractual amount received. Rental revenue 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.

Revenue from a commercial property is recognized upon the earlier of attaining a break-even point in cashflow after debt servicing or the expiration of a reasonable period of time, subject to the time limitation determined when the project is approved, but no later than one year following substantial completion. Prior to this, the property is categorized as a property under development, and related revenue is applied to reduce development costs.

(ii) Residential properties

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.

(h) Income taxes

The company accounts for income taxes under the liability method. Under this method, future income tax assets and liabilities are calculated based on: (i) the temporary differences between the carrying values and the tax bases of assets and liabilities, and (ii) unused income tax losses, measured using substantively enacted income tax rates and laws that are expected to apply in the future as temporary differences reverse and income tax losses are used.

(i) Reporting currency and foreign currency translation

The consolidated financial statements have been presented in US dollars as the company's principal investments and cashflow are influenced primarily by the US dollar. Assets and liabilities denominated in foreign currencies are translated into US dollars at the rate in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate in effect for the period presented. The company's operations in Canada are self-sustaining in nature and as such, cumulative gains and losses arising from the translation of the assets and liabilities of these operations are recorded as a separate component of shareholders' equity.

All amounts expressed in the financial statements are in millions of US dollars unless otherwise noted.

(j) Marketable securities

Marketable securities are carried at the lower of amortized cost and their estimated net realizable value. During periods where the fair value or the quoted market value may be less than cost, the company reviews the relevant security to determine if it will recover its carrying value within a reasonable period of time and adjusts it, if necessary. The company also considers the degree to which estimation is incorporated into valuations and any potential impairment relative to the magnitude of the related portfolio.

In determining fair values, quoted market prices are generally used when available and, when not available, management estimates the amounts which could be recovered over time or through a transaction with knowledgeable and willing third parties under no compulsion to act.

(k) Use of estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires estimates and assumptions that affect the carried amounts of assets and liabilities and 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. Actual results could differ from estimates. Significant estimates are required in the determination of future cashflows and probabilities in assessing net recoverable amounts and net realizable value, the allocation of the purchase price to components of commercial properties and businesses acquired, depreciation and amortization, the company's ability to utilize tax losses, hedge effectiveness and fair value for disclosure purposes.

(l) Derivative financial instruments

The company and its consolidated entities utilize derivative financial instruments primarily to manage financial risks, including interest rate, commodity and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits.

Hedge accounting is applied where the derivative is designated as a hedge of a specific exposure and there is reasonable assurance the hedge will be effective. Realized and unrealized gains and losses on forward exchange contracts designated as hedges of currency risks are included in the cumulative translation account when the currency risk being hedged relates to a net investment in a self-sustaining subsidiary. Otherwise, realized and unrealized gains and losses on derivative financial instruments designated as hedges of financial risks are included in income as an offset to the hedged item in the period the underlying asset, liability or anticipated transaction to which they relate.

Financial instruments that are not designated as hedges are carried at estimated fair values, and gains and losses arising from changes in fair values are recognized in income as a component of interest and other income in the period the changes occur. The use of non-hedging derivative contracts is governed by documented risk management policies and approved limits.

Unrealized gains and losses, representing the fair value of outstanding foreign exchange contracts, are determined in reference to the appropriate forward rate for each contract at December 31st and are reflected in receivables and other assets or accounts payable and other liabilities, as appropriate, on the balance sheet. Premiums paid for interest rate caps are recorded in receivables and other on the balance sheet.

(m) Cash and cash equivalents

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

NOTE 2: CHANGES IN ACCOUNTING POLICIES

The company adopted the following new accounting policies, none of which individually or collectively had a material impact on the consolidated financial statements of the company, unless otherwise noted. These changes were the result of changes to the Canadian Institute of Chartered Accountants ("CICA") Handbook, Accounting Guidelines ("AcG") or Emerging Issues Committee Abstracts ("EIC").

(i) Effect of Contingently Convertible Instruments on the Computation of Diluted Earnings Per Share, Emerging Issues Committee Abstract 155

In September 2005, the Emerging Issues Committee of the AcSB of the CICA issued EIC 155, "The Effect of Contingently Convertible Instruments on the Computation of Diluted Earnings Per Share," which is effective for the company's 2006 fiscal year. The abstract addresses when the effect of contingently convertible instruments should be included in the computation of diluted earnings per share. The conclusion is that the effect of the contingently convertible instruments should be included in the computation of diluted earnings per share (if dilutive), regardless of whether the market price trigger has been met. This abstract has had no impact on the company's financial statements.

(ii) Implicit Variable Interests, Emerging Issues Committee Abstract 157

In October 2005, the Emerging Issues Committee issued Abstract No. 157, "Implicit Variable Interests Under AcG 15" ("EIC 157"), which is effective for the company's 2006 fiscal year. This EIC clarifies that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest is similar to

an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. This abstract has had no impact on the company's financial statements.

(iii) Conditional Asset Retirement Obligations, Emerging Issues Committee Abstract 159

In December 2005, the Emerging Issues Committee issued Abstract No. 159, "Conditional Asset Retirement Obligations" ("EIC 159"). EIC 159, which was effective for the company's second quarter of 2006, clarifies that the term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional upon future events that may or may not be within an entity's control. The obligation to perform the asset retirement activity is unconditional even though uncertainty exists about the timing and/or method of settlement. Accordingly, an entity is required to recognize a liability, from the date the liability was incurred, for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. Certain of the company's real estate assets contain asbestos. Although the asbestos is appropriately contained in accordance with current environmental regulations, the company's practice is to remediate the asbestos upon the renovation or redevelopment of its properties. As a result of adopting EIC 159, the company recognized a liability of \$0.6 million related to asbestos remediation for certain properties where the quantum of such costs and the timing for settlement is reasonably determinable. The impact on prior periods decreased opening equity by \$0.2 million.

(iv) Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date, Emerging Issues Committee Abstract 162

In July 2006, the Emerging Issues Committee issued Abstract No. 162, "Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date" ("EIC 162"), which was effective for the company's 2006 fiscal year. This EIC clarifies how compensation cost should be recognized in the case that a compensation plan contains provisions that allow an employee to continue vesting in accordance with the stated terms after the employee has retired from the entity. The adoption of this EIC did not have a material impact on the company's financial statements.

NOTE 3: FUTURE ACCOUNTING POLICY CHANGES

(i) Comprehensive Income, CICA Handbook Section 1530

In January 2005, the CICA issued Handbook Section 1530, "Comprehensive Income," which is effective for the company's 2007 fiscal year. As a result of adopting this standard, a Statement of Comprehensive Income will be included in the company's financial statements. Comprehensive income consists of net income and other comprehensive income. Major components of other comprehensive income will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations, net of the impact of related hedges, and changes in fair value of the effective portion of cash flow hedging instruments.

(ii) Financial Instruments – Recognition and Measurement, CICA Handbook Section 3855

In January 2005, the CICA issued Handbook Section 3855, "Financial Instruments – Recognition and Measurement," which is effective for the company's 2007 fiscal year. Under this new standard, all financial assets will be classified as one of the following: held-to-maturity; loans and receivables; held-for-trading; or available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in other comprehensive income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

(iii) Hedges, CICA Handbook Section 3865

In January 2005, the CICA issued Handbook Section 3865, "Hedges," which is effective for the company's 2007 fiscal year. This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges; cash flow hedges; and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in net income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in other comprehensive income, net of tax. The ineffective portion will be recognized in net income. The amounts recognized in accumulated other comprehensive income will be reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in other comprehensive income, net of tax.

Impact of adopting sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as of January 1, 2007: (i) financial instruments that the company will classify as held-for-trading and that were not previously recorded at fair value; (ii) the difference in the carrying amount of loans and deposits prior to January 1, 2007, and the carrying amount calculated using the effective

interest rate from inception of the loan; (iii) the cumulative ineffective portion of cash flow hedges; and (iv) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards.

Adjustments arising due to remeasuring financial assets classified as available-for-sale and hedging instruments designated as cash flow hedges will be recognized in the opening balance of "Accumulated other comprehensive income ("AOCI")."

Neither of the transition amounts that will be recorded in the opening retained earnings or in the opening AOCI balance on January 1, 2007 is expected to be material to the company's consolidated financial position.

NOTE 4: BUSINESS ACQUISITIONS

Trizec Acquisition

During the fourth quarter of 2006, the company completed the acquisition of a 45% economic interest in Trizec Properties Inc. and Trizec Canada (collectively, "Trizec"). The Trizec portfolio consists of 58 office properties totaling 29 million square feet and five development sites totaling 4.1 million square feet in New York, Washington, D.C., Houston and Los Angeles. These markets are consistent with the company's strategy to invest in cities with strong financial services, government and energy sector tenants. The company will serve as property and asset manager along with The Blackstone Group ("Blackstone") for the portfolio.

The company's interest in the Trizec portfolio is held through an indirect interest in TRZ Holdings LLC, an entity established by the company and Blackstone to acquire Trizec. The company has determined that TRZ Holdings LLC is a variable interest entity ("VIE") based on the characteristics of the equity investments. The company consolidates TRZ Holdings LLC and underlying portfolio of properties as, together with related parties, it will absorb the majority of the variability of TRZ Holdings LLC's operations.

The following is a summary of the amounts assigned to each major class of asset and liability of Trizec at the date of acquisition:

(Millions)	
Commercial and development properties	\$ 7,591
Cash and cash equivalents	325
Restricted cash	88
Accounts receivable and other assets	62
Intangible assets ⁽¹⁾	739
Accounts payable and other liabilities assumed	(218)
Intangible liabilities ⁽¹⁾	(816)
Future income tax liabilities	(182)
Non-controlling interests assumed	(4)
Preferred shares assumed	(65)
Commercial property debt assumed	(1,854)
Total purchase price	\$ 5,666

⁽¹⁾ All intangibles are subject to amortization

The total purchase price was financed as follows:

(Millions)	
Investment by Fund partners and joint venture partner	\$ 1,042
Acquisition financing	3,702
Brookfield Properties' equity investment	857
Cash on hand utilized	167
Excess funding for working capital	(102)
Total purchase price	\$ 5,666

The earnings from the company's interest in Trizec are included in the consolidated statement of income commencing October 5, 2006.

Following the acquisition of Trizec on October 5, 2006, the company developed a plan to restructure and integrate the operations of Trizec with its consolidated subsidiaries. The company expects the restructuring to be substantially completed by the end of 2007. The restructuring costs are mainly composed of severance, retention, and consulting and integration costs. The majority of these costs were accrued on the acquisition and a portion is to be expensed as incurred.

The following details the amounts and status of the restructuring costs:

(Millions)	Expected future costs			Amount utilized during year			Balance as at Dec. 31, 2006		
	Accrued on acquisition	Expense as incurred	Total	Accrued on acquisition	Expense as incurred	Total	Accrued on acquisition	Expense as incurred	Total
Severance costs	\$ 31	\$ 5	\$ 36	\$ 31	\$ 2	\$ 33	\$ —	\$ 3	\$ 3
Retention costs	7	10	17	7	9	16	—	1	1
Consulting and integration	—	7	7	—	4	4	—	3	3
Total	\$ 38	\$ 22	\$ 60	\$ 38	\$ 15	\$ 53	\$ —	\$ 7	\$ 7

The purchase price has been preliminarily allocated based on estimated fair values of the assets acquired and liabilities assumed at the date of acquisition, pending the completion of an independent appraisal relating to certain of the lease origination costs included in intangible assets, which the company anticipates to be completed in the first quarter of 2007. Accordingly, the fair value of assets acquired and liabilities assumed could differ from the amounts presented in the consolidated financial statements. The company does not expect the final allocation to be materially different from that presented.

O&Y Acquisition

During the fourth quarter of 2005, the company completed the acquisition of a 25% joint venture interest in O&Y Properties Corporation and O&Y Real Estate Investment Trust (collectively, "O&Y"). At the time of the acquisition, the O&Y portfolio consisted of 27 office properties and one development site totaling 11.6 million square feet in Toronto, Calgary, Ottawa, Edmonton and Winnipeg. In the second quarter of 2006, eight of the properties acquired in this purchase were sold. Refer to Note 11, Discontinued Operations for further details. The company serves as property and asset manager of the remaining portfolio.

The following is a summary of the amounts assigned to the company's proportionate share of each major class of asset and liability of O&Y at the date of acquisition:

(Millions)	
Commercial and development properties	\$ 495
Accounts receivable and other assets	14
Intangible assets ⁽¹⁾	56
Accounts payable and other liabilities assumed	(14)
Intangible liabilities ⁽¹⁾	(97)
Future income tax liabilities	(26)
Commercial property debt assumed	(136)
Total purchase price	\$ 292

⁽¹⁾ All intangibles are subject to amortization

The total purchase price was financed as follows:

(Millions)	
Sale of marketable securities	\$ 182
Acquisition financing	110
Total purchase price	\$ 292

The earnings from the company's interest in O&Y have been included in the consolidated statement of income since October 21, 2005.

NOTE 5: COMMERCIAL PROPERTIES

A breakdown of commercial properties is as follows:

(Millions)	2006	2005
Commercial properties		
Land	\$ 2,769	\$ 998
Building and improvements	13,332	7,139
Total commercial properties	16,101	8,137
Less: Accumulated depreciation	(814)	(707)
Total	\$ 15,287	\$ 7,430

(a) Commercial properties, carried at a net book value of approximately \$3,218 million (2005 - \$2,644 million), are situated on land held under leases or other agreements largely expiring after the year 2099. Minimum rental payments on land leases are approximately \$28 million annually for the next five years and \$1,230 million in total on an undiscounted basis.

(b) The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures and partnerships, reflected in the company's commercial and development properties:

(Millions)	2006	2005
Assets	\$ 4,608	\$ 2,669
Liabilities	2,652	1,611
Operating revenues	581	381
Operating expenses	351	151
Net income ⁽¹⁾	146	99
Cashflow from operating activities	175	140
Cashflow used in financing activities	(92)	(19)
Cashflow used in investing activities	(19)	(174)

⁽¹⁾ Future income taxes are not reflected here as they are recorded at the corporate level

NOTE 6: COMMERCIAL AND RESIDENTIAL DEVELOPMENTS

A breakdown of commercial and residential developments is as follows:

(Millions)	2006	2005
Commercial developments	\$ 735	\$ 224
Residential developments	706	391
Total	\$ 1,441	\$ 615

Commercial developments include commercial land which represents developable land and construction costs. Residential developments include fully entitled lots and land in processing. The company capitalizes interest, and general and administrative costs to both commercial and residential development properties.

During 2006, the company capitalized a total of \$79 million (2005 - \$50 million) of costs related to commercial developments. Included in this amount is \$1 million (2005 - \$18 million) related to redevelopment costs, \$54 million (2005 - \$17 million) of construction and related costs, and \$24 million (2005 - \$15 million) of interest capitalized to the company's commercial development sites. During 2006, the company capitalized \$3 million of general and administrative expenses related to commercial developments.

During 2006, the company capitalized a total of \$13 million (2005 - \$6 million) of interest related to residential developments and recovered \$16 million (2005 - \$5 million) of interest through the sale of properties.

The company, through its subsidiaries, is contingently liable for obligations of its joint venture associates in its residential development land joint ventures. The amount of such obligations at December 31, 2006 is \$1 million (2005 - \$1 million). In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations, with the balance shared among the participants in accordance with the pre-determined joint venture arrangements.

NOTE 7: RECEIVABLES AND OTHER

The components of receivables and other assets are as follows:

(Millions)	2006	2005
Receivables	\$ 432	\$ 371
Real estate mortgages	86	86
Residential receivables and other assets	245	219
Prepaid expenses and other assets	211	154
Total	\$ 974	\$ 830

NOTE 8: INTANGIBLE ASSETS

Intangible assets are lease origination costs, tenant relationships and above-market leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible assets is as follows:

(Millions)	2006	2005
Intangible assets		
Lease origination costs	\$ 263	\$ 52
Tenant relationships	573	80
Above-market leases and below-market ground leases	79	3
Less accumulated amortization	915	135
Lease origination costs	(32)	(2)
Tenant relationships	(26)	(8)
Above-market leases and below-market ground leases	(4)	—
Total net	\$ 853	\$ 125

NOTE 9: RESTRICTED CASH AND DEPOSITS

Cash and deposits are considered restricted when they are subject to contingent rights of third parties. Included in restricted cash and deposits is \$249 million (2005 - \$256 million) of short-term government securities held in a trust account to match interest and principal payments of the \$241 million mortgage on One Liberty Plaza maturing in 2007.

NOTE 10: MARKETABLE SECURITIES

At December 31, 2005, marketable securities consisted of a portfolio of fixed-rate corporate bonds with a book value exceeding fair value by \$1 million.

NOTE 11: DISCONTINUED OPERATIONS

Properties that meet the criteria of CICA Handbook Section 3475, "Disposal of long-lived assets and discontinued operations," are classified as discontinued operations. Such properties are recorded at the lower of carrying amount or fair value less estimated cost to sell and are not depreciated while classified as held for sale. The results of operations and balance sheet items of any property that has been identified as discontinued operations are reported separately if the company will not have any significant continuing involvement in the operations of the property after the disposal transaction. Comparative amounts are also reclassified.

During the fourth quarter of 2006, the company reached an agreement to sell its 50% interest in Atrium on Bay in Toronto and its 25% interest in both 2200 Walkley and 2204 Walkley in Ottawa. During the second quarter of 2006, the company sold its 25% interest in eight of the properties purchased in the O&Y acquisition resulting in a gain of \$14 million. During the first quarter of 2006, the company sold its 100% interest in the Trade Center Denver and recognized a gain of \$30 million. Income attributable to discontinued operations was \$32 million for 2006, compared to \$2 million in 2005.

The following table summarizes the income and gains from discontinued operations:

(Millions, except per share information)	2006	2005
Revenue	\$ 20	\$ 34
Operating expenses	(10)	(17)
	10	17
Interest expense	(3)	(8)
Depreciation and amortization	(3)	(7)
Income from discontinued operations prior to gain and taxes	4	2
Gain on sale of discontinued operations	44	—
Taxes related to discontinued operations	(16)	—
Income and gains from discontinued operations	\$ 32	\$ 2
Income and gains from discontinued operations per share	\$ 0.14	\$ 0.01

NOTE 12: COMMERCIAL PROPERTY DEBT

Predominantly all commercial property mortgages are secured by individual properties without recourse to the company. Approximately 93% of the company's commercial property debt is due after 2007.

(Millions)	Weighted Average Interest Rate at Dec. 31, 2006	Principal Repayments					2012 & Beyond	2006 Total	2005 Total
		2007	2008	2009	2010	2011			
Commercial property debt	6.8%	\$806 ⁽¹⁾	\$960	\$609	\$212	\$4,968	\$3,664	\$11,219 ⁽¹⁾	\$ 5,267

⁽¹⁾ Includes \$34 million of commercial property debt related to discontinued operations at December 31, 2006 (2005 - \$51 million)

The weighted average interest rate at December 31, 2006 was 6.8% (December 31, 2005 - 6.5%). Approximately 57% of the company's outstanding debt at December 31, 2006 is fixed rate debt (December 31, 2005 - 81%).

Commercial property debt includes \$1,233 million (2005 - \$1,221 million) repayable in Canadian dollars of C\$1,443 million (2005 - C\$1,416 million).

Included in total commercial property debt is \$24 million (2005 - \$10 million) of premiums related to mortgages assumed upon acquisition. This amount is amortized over the remaining term of the debt.

NOTE 13: ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

(Millions)	2006	2005
Accounts payable and accrued liabilities	\$ 549	\$ 227
Residential payables and accrued liabilities	138	115
Land development debt	236	158
Total	\$ 923	\$ 500

Land development debt of \$236 million (2005 - \$158 million) is secured by the underlying properties of the company. The weighted average interest rate on these advances as at December 31, 2006 was 6.2% (2005 - 5.0%).

Advances totaling \$200 million are due by the end of 2007, with the remaining balances due prior to 2011 as follows:

(Millions)	Weighted Average Interest Rate at Dec. 31, 2006	Principal Repayments					2006 Total	2005 Total
		2007	2008	2009	2010	2011		
Land development debt	6.2%	\$200	\$21	\$8	\$2	\$5	\$236	\$ 158

NOTE 14: INTANGIBLE LIABILITIES

Included in intangible liabilities are below-market tenant leases and above-market ground leases assumed on acquisitions, net of related accumulated amortization. The breakout of intangible liabilities is as follows:

(Millions)	2006	2005
Intangible liabilities		
Below-market leases	\$ 902	\$ 56
Above-market ground lease obligations	70	74
Less accumulated amortization	972	130
Below-market leases	(46)	(1)
Above-market ground lease obligations	(7)	(3)
Total net	\$ 919	\$ 126

NOTE 15: FUTURE INCOME TAXES

Future income tax liabilities consist of the following:

(Millions)	2006	2005
Future income tax liabilities related to difference in tax and book basis, net	\$ (935)	\$ (541)
Future income tax assets related to non-capital losses and capital losses	351	353
Total	\$ (584)	\$ (188)

The company and its Canadian subsidiaries have future income tax assets of \$117 million (2005 - \$162 million) that relate to non-capital losses which expire over the next 10 years and \$101 million (2005 - \$47 million) that relate to capital losses which have no expiry. The company's U.S. subsidiaries have future income tax assets of \$133 million (2005 - \$144 million) that relate to net operating losses which expire over the next 15 years. The amount of non-capital losses and deductible temporary differences, for which no future income tax assets have been recognized, is approximately \$341 million (2005 - \$377 million) which also expire over the next 10 years.

The components of income tax expense are as follows:

(Millions)	2006	2005
Income tax expense at the Canadian federal and provincial income tax rate of 35% (2005 - 35%)	\$ 68	\$ 94
Increase (decrease) in income tax expense due to the following:		
Non-deductible preferred share dividends	16	19
(Lower) / higher income tax rates in other jurisdictions	(8)	1
Non-controlling interests in income tax expense	(2)	(2)
Tax assets previously not recognized	—	(18)
Change in future Canadian tax rates	16	—
Other	1	9
Total	\$ 91	\$ 103

NOTE 16: CAPITAL SECURITIES - CORPORATE

The company has the following capital securities outstanding:

(Millions, except share information)	Shares Authorized	Shares Outstanding	Cumulative Dividend Rate	2006	2005
Class AAA Series E	8,000,000	8,000,000	70% of bank prime	\$ 171	\$ 172
Class AAA Series F	8,000,000	8,000,000	6.00%	171	172
Class AAA Series G	6,000,000	4,400,000	5.25%	110	110
Class AAA Series H	8,000,000	8,000,000	5.75%	171	173
Class AAA Series I	8,000,000	8,000,000	5.20%	171	172
Class AAA Series J	8,000,000	8,000,000	5.00%	171	172
Class AAA Series K	6,000,000	6,000,000	5.20%	128	130
Total				\$ 1,093	\$ 1,101

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

	Redemption Date ⁽¹⁾	Redemption Price ⁽²⁾	Company's Option ⁽³⁾	Holder's Option ⁽⁴⁾
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

⁽¹⁾ 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.

⁽²⁾ 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.

⁽³⁾ 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.

⁽⁴⁾ 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, as and when declared by the Board of Directors, on the last day of March, June, September and December.

Interest expense on capital securities – corporate is comprised as follows:

(Millions)	2006	2005
Series E ⁽¹⁾	\$ 7	\$ 5
Series' F through K	52	49
Total	\$ 59	\$ 54

⁽¹⁾ Owned by Brookfield Asset Management – refer to Note 26(c)

NOTE 17: U.S. OFFICE FUND

In 2006, the company established a U.S. Office Fund (the "Fund") which was fully invested with the acquisition of Trizec. The company consolidates the Fund (see Note 4). Third party interests in the Fund are as follows:

(Millions)	2006	2005
Capital securities – fund subsidiaries		
Debt securities	\$ 257	—
Redeemable equity interests	546	—
	803	—
Non-controlling interests – fund subsidiaries	266	—
Total	\$ 1,069	—

Debt securities consist of contributions to the Fund by an institutional investor in the Brookfield Properties-led consortium in the form of an unsecured debenture. The debenture matures on October 31, 2013 and bears interest at 11%.

Redeemable equity interests includes \$481 million of equity contributions made to the Fund by the company's joint venture partner, Blackstone. Under the terms of the joint venture agreement, commencing in 2011 Blackstone has the option to put its interest in the venture in exchange for certain properties that are sub-managed by Blackstone. If Blackstone does not exercise this option, in 2013 the Brookfield Properties-led consortium has the option to call Blackstone's interest in the venture in exchange for the Blackstone sub-managed properties. On exercise of either the put or call, the parties are subject to certain cash adjustment payments to compensate for relative differences in the performance of their respective sub-managed properties in terms of net cash flow and changes in fair value. Blackstone's equity interest is classified as a liability in Brookfield Properties' financial statements as the company is obligated to transfer assets to Blackstone as a result of Blackstone's put option. For the year-ended December 31, 2006, there was no impact on the financial statements as a result of the accounting for this arrangement. The balance of redeemable equity interests is comprised of \$65 million of redeemable preferred securities bearing interest at 12%.

Non-controlling interests - fund subsidiaries represent equity contributions by other Fund investors in the Brookfield Properties-led consortium.

The income statement effect of the aforementioned interests in the Fund is as follows:

(Millions)	2006	2005
Interest on debt securities	\$ 7	—
Interest on redeemable equity interests	4	—
	11	—
Non-cash component ⁽¹⁾	(30)	—
Total interest expense – capital securities – fund subsidiaries	\$ (19)	—

⁽¹⁾ Represents co-investors share of non-cash items, such as depreciation and amortization

(Millions)	2006	2005
Non-controlling interests	\$ 1	—
Non-cash component ⁽¹⁾	(15)	—
Total non-controlling interests – fund subsidiaries	\$ (14)	—

⁽¹⁾ Represents co-investors share of non-cash items, such as depreciation and amortization

NOTE 18: NON-CONTROLLING INTERESTS – OTHER SUBSIDIARIES

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

(Millions)	Others' Equity Ownership	2006	2005
Common shares of BPO Properties ⁽¹⁾	11.0%	\$ 55	\$ 47
Limited partnership units of Brookfield Financial Properties	0.6%	12	12
Total		\$ 67	\$ 59

⁽¹⁾ Canadian dollar denominated

NOTE 19: PREFERRED EQUITY – SUBSIDIARIES

Subsidiaries preferred shares outstanding total \$326 million (2005 - \$329 million) as follows:

(Millions, except share information)	Shares Outstanding	Preferred Shares Series	Cumulative Dividend Rate	2006	2005
BPO Properties	1,805,489	Series G	70% of bank prime	\$ 39	\$ 39
	3,816,527	Series J	70% of bank prime	82	82
	300	Series K	30-day BA + 0.4%	127	129
	2,847,711	Series M	70% of bank prime	61	62
	800,000	Series N	30-day BA + 0.4%	17	17
Total				\$ 326	\$ 329

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.

NOTE 20: PREFERRED EQUITY – CORPORATE

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

(Millions, except share information)	Shares Outstanding	Cumulative Dividend Rate	2006	2005
Class A redeemable voting	6,312,000	7.50%	\$ 11	\$ 11
Class AA Series E	2,000,000	70% of bank prime	34	34
Total			\$ 45	\$ 45

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.

The holders of Class A preferred shares are entitled to receive notice of and to attend all shareholders' meetings and for all purposes are entitled to one vote for each Class A preferred share held, except in respect to the election of directors, where cumulative voting will apply in the same manner as for the common shares. Upon giving at least 30 days' notice prior to the date set for redemption, the company may redeem all, or from time to time any part, of the outstanding Class A preferred shares on payment to the holders thereof, for each share to be redeemed of an amount equal to C\$2.50 per share, together with all accrued and unpaid cumulative dividends thereon.

The company may redeem outstanding Class AA preferred shares, at a redemption price for each of the Class AA preferred shares so redeemed as may have been fixed for that purpose in respect of each series prior to the sale and allotment of any Class AA preferred shares of that series, plus an amount equal to unpaid cumulative dividends.

NOTE 21: COMMON EQUITY

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

(Millions)	2006	2005
Common shares	\$ 2,305	\$1,066
Retained earnings	706	747
Cumulative translation adjustment	56	85
Total	\$ 3,067	\$1,898

(a) Common shares

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

	2006	2005
Common shares outstanding, beginning of year	231,209,625	233,387,780
Addition of shares as a result of exercise of options	369,346	515,345
Addition of shares as a result of equity offering	33,000,000	—
Deduction of shares as a result of repurchases made	—	(2,693,500)
Common shares outstanding, end of year	264,578,971	231,209,625

During 2006, the exercise of options issued under the company's share option plan generated cash proceeds of \$4 million (2005 - \$8 million). During 2006, no common shares of the company were acquired (2005 - 2.7 million common shares of the company were acquired for cancellation pursuant to the normal course issuer bid at an average price of \$27.50 per share).

In the fourth quarter of 2006, the company issued 33 million common shares generating cash proceeds of \$1.25 billion.

(b) Earnings per share

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

(Millions, except per share amounts)	2006	2005
Net income from continuing operations	\$ 103	\$ 162
Preferred share dividends	(3)	(2)
Net income from continuing operations available to common shareholders	\$ 100	\$ 160
Net income	\$ 135	\$ 164
Preferred share dividends	(3)	(2)
Net income available to common shareholders	\$ 132	\$ 162
Weighted average shares outstanding – basic	232.4	232.1
Unexercised dilutive options	2.9	2.1
Weighted average shares outstanding – diluted	235.3	234.2

NOTE 22: 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. The exercise price is equal to the market price at the grant date.

During 2006, the company granted 589,891 stock options (2005 – 763,000) under the Share Option Plan with a weighted average exercise price of \$30.26 per share (2005 - \$24.40 per share), which was equal to the market price on the grant date. The compensation expense was calculated using the Black-Scholes model of valuation, assuming a 7.5-year term, 13% volatility (2005 – 12%), a weighted average dividend yield of 2.4% (2005 – 1.7%) and a risk free interest rate of 4.2% (2005 – 4.1%). The resulting fair value 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.

The following table sets out the number of options to purchase common shares which were issued and outstanding at December 31, 2006 under the company's share option plan:

Issue Date	Expiry Date	Number of Shares	Weighted Average Exercise Price
1998	2008	313,250	\$ 9.48
1999	2009	29,300	6.73
2000	2010	289,766	7.64
2001	2011	522,818	11.71
2002	2012	734,015	12.42
2003	2013	616,262	13.23
2004	2014	1,055,132	20.16
2005	2015	653,075	24.77
2006	2016	572,688	30.15
Total		4,786,306	\$ 17.44

The change in the number of options during 2006 and 2005 is as follows:

	2006		2005	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,641,962	\$ 15.70	4,692,869	\$ 14.03
Granted	589,891	30.26	763,000	24.40
Exercised	(369,346)	(14.42)	(515,345)	(12.44)
Cancelled	(76,201)	(22.93)	(298,562)	(20.63)
Outstanding, end of year	4,786,306	\$ 17.44	4,641,962	\$ 15.70
Exercisable at end of year	3,329,932	\$ 14.66	2,875,041	\$ 13.30

A Deferred Share Unit Plan is offered to executive officers and non-employee directors of the company. Under this plan, each officer and director may choose to receive all or a percentage of his or her annual incentive bonus or directors fees in the form of deferred share units ("DSUs"). The DSUs are vested over a five year period and accumulate additional DSUs at the same rate as dividends on common shares. Officers and directors are not permitted to convert the DSUs into cash until retirement or cessation of employment. The value of the vested and non-vested DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. Employee compensation expense for these plans is charged against income over the vesting period of the DSUs. Changes in the amount payable by the company in respect to vested DSUs as a result of dividends and share price movements are recorded as employee compensation expense in the period of the change.

At December 31, 2006, the company had a total of 652,781 deferred share units outstanding (2005 – 618,110) of which 627,433 were vested (2005 – 575,660).

Employee compensation expense related to the stock option and the Deferred Share Unit plans for the year ended December 31, 2006 was \$9 million (2005 – \$4 million).

NOTE 23: COMMERCIAL PROPERTY AND RESIDENTIAL DEVELOPMENT OPERATIONS

(a) Revenue

The components of revenue are as follows:

(Millions)	2006	2005
Revenue from commercial property operations	\$ 1,419	\$ 1,103
Revenue from residential development operations	460	389
Revenue from commercial property and residential development operations	1,879	1,492
Interest and other	44	37
Total	\$ 1,923	\$ 1,529

(b) Commercial property operations

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

(Millions)	2006	2005
Revenue	\$ 1,419	\$ 1,103
Property operating costs	(579)	(429)
Net operating income	\$ 840	\$ 674

Due to the events of September 11, 2001 and the impact on the company's properties in Lower Manhattan, revenue from commercial property operations includes \$2 million of business interruption insurance claims as a result of loss of revenue for the year ended December 31, 2006 (December 31, 2005 - \$3 million).

Included in revenue from commercial property operations for the year ended December 31, 2005 is a \$30 million fee received from Goldman Sachs pursuant to a cooperation agreement permitting the commencement of construction on certain lands adjacent to the company's World Financial Center in New York, known as Site 26.

Included in revenue is amortization of above- and below-market leases amounting to \$44 million (2005 - \$4 million).

Rental revenues from Merrill Lynch accounted for 20% of U.S. and 1% of Canadian revenues from commercial property operations, respectively (2005 - 25% and 1%, respectively). On a consolidated basis, rental revenues from Merrill Lynch accounted for 11% (2005 - 14%) of total revenue from commercial property operations.

Minimum rental commitments on non-cancelable leases over the next five years are expected as follows:

(Millions)	2007	2008	2009	2010	2011
Rental revenue	\$ 1,233	\$ 1,210	\$ 1,157	\$ 1,079	\$ 980

(c) Residential development operations

The results of the company's residential development operations are as follows:

(Millions)	2006	2005
Revenue	\$ 460	\$ 389
Expenses	(316)	(283)
Total	\$ 144	\$ 106

NOTE 24: DIFFERENCES FROM UNITED STATES ACCOUNTING PRINCIPLES

Canadian generally accepted accounting principles ("Canadian GAAP") differ in some respects from the principles that the company would follow if its consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The effects of significant accounting differences on the company's balance sheet and statements of income, retained earnings and cashflow are quantified and described in the accompanying notes. Under both Canadian and US GAAP, non-GAAP measures and discussion are generally not included in the financial statements and notes thereto.

(a) Income statement differences

The incorporation of the significant differences in accounting principles in the company's statement of income for the year ended December 31, 2006 under US GAAP would result in net income under US GAAP of \$138 million (2005 - \$173 million).

The principal differences between Canadian GAAP and US GAAP are summarized in the following table:

(Millions, except per share information)	Note	2006	2005
Net income as reported under Canadian GAAP		\$ 135	\$ 164
Adjustments:			
Decreased commercial property income	(i)	(17)	(15)
Decreased commercial property depreciation	(ii)	7	8
Increased (decreased) commercial property lease termination income and property disposition gains	(iii)	3	(2)
Foreign exchange and dividends on convertible preferred shares	(iv)	44	49
Decreased residential development income	(v)	(31)	(26)
Increased deferred income taxes	(vi)	(3)	(5)
Net income under US GAAP		\$ 138	\$ 173
Preferred share dividends		(55)	(51)
Net income available to common shareholders under US GAAP		\$ 83	\$ 122
Net income per share under US GAAP			
Basic		\$ 0.34	\$ 0.52
Diluted		\$ 0.34	\$ 0.52

Explanation of the significant income statement differences between Canadian GAAP and US GAAP are as follows:

(i) Decreased commercial property income

Prior to January 1, 2004, rental revenue was recognized under Canadian GAAP over the term of the lease as it became due where increases in rent are intended to offset the estimated effects of inflation. Effective January 1, 2004, rental revenue is recognized on a straight-line basis over the term of the lease on a prospective basis. Under US GAAP, rental revenue has always been recognized on a straight-line basis. The net impact on the current year income of the company had the straight-line method always been used under Canadian GAAP would be a decrease in commercial property revenue of \$17 million (2005 - \$15 million).

(ii) Decreased commercial property depreciation

Prior to January 1, 2004, commercial properties were depreciated under Canadian GAAP using the sinking-fund method. Effective January 1, 2004, depreciation of rental properties is recorded using the straight-line method on a prospective basis. Under US GAAP, commercial properties have been depreciated on a straight-line basis from inception. As a result of the higher carrying value under Canadian GAAP at January 1, 2004 when the accounting standard changed, straight-line depreciation is higher under Canadian GAAP by \$7 million for 2006 (2005 - \$8 million).

(iii) Increased (decreased) commercial property lease termination income and property disposition gains

Under US GAAP, the book values of commercial property assets differ from Canadian GAAP as a result of historical rental revenue recognition and commercial property depreciation methods, as explained in (i) and (ii). Further, termination of a previously-existing lease at One World Financial Center in New York resulted in additional lease termination income under US GAAP in 2004 whereas under Canadian GAAP this amount is amortized into income over the life of the lease. The net impact of these amounts would be an increase in commercial property lease termination income and gains of \$3 million (2005 - decrease of \$2 million).

(iv) Foreign exchange and dividends on convertible preferred shares

Effective January 1, 2005, the company adopted an amendment to CICA Handbook Section 3860. The amendment requires certain of the company's preferred share obligations that could be settled with a variable number of the company's common equity to be classified as liabilities and corresponding distributions as interest expense for Canadian GAAP, whereas under US GAAP, they continue to be treated as equity with the corresponding distributions classified as dividends. Under Canadian GAAP, these preferred share liabilities are converted into the company's functional currency at current rates. Under US GAAP, these preferred shares are treated as equity and are converted into the company's functional currency at historical rates. The net impact would be an increase in income of \$44 million (2005 - \$49 million).

The Class AAA preferred shares contain a beneficial conversion feature in favor of the holder (refer to Note 16 for details of the conversion feature). The beneficial conversion feature was measured at its intrinsic value at the date of issuance of the shares and is being recognized as a return to the preferred shareholders through a charge to retained earnings, over the period from the date of issuance to the earliest date when the conversion becomes exercisable by the holder. The charge during the current year was \$4 million. Although there is no impact on net income, the charge to retained earnings affects the computation of both basic and diluted EPS for US GAAP in the same way that dividends on the preferred shares do.

(v) Decreased residential development income

The company's revenue recognition policy for land sales requires, in part, that the significant risks and rewards of ownership have passed to the purchaser prior to the recognition of revenue by the vendor. Primarily in the province of Alberta, land sales transactions substantially transfer the risks and rewards of ownership to the purchaser when both parties are bound to the terms of the sale agreement and possession passes to the purchaser. In certain instances, title may not have transferred. Under FAS No. 66, "Sales of Real Estate," transfer of title is a requirement for recognizing revenue under US GAAP. Accordingly, residential development income would decrease by \$31 million for US GAAP purposes (2005 - \$26 million).

(vi) Increased deferred income taxes

Income taxes are accounted for using the liability method under Canadian and US GAAP. For the year ended December 31, 2006, an increase of deferred income tax expense of \$3 million (2005 - \$5 million) would be recorded under US GAAP due to the tax effect of the stated differences between Canadian and US GAAP described above.

Under current Canadian and US GAAP, the impact of changes in income tax rates to the tax asset or liability account is reflected in the current year's statement of income. Under Canadian GAAP, the impact of the change is reflected when the legislation affecting the tax rate change is substantively enacted, whereas the impact under US GAAP is reflected when legislation is enacted. There was no impact in the current year from this difference.

(b) Comprehensive income

Under US GAAP, the Financial Accounting Standards Board ("FASB") issued SFAS 130 entitled "Reporting Comprehensive Income." Comprehensive income, which incorporates net income, includes all changes in equity during the year other than transactions with shareholders, and accordingly, the change in the company's cumulative translation adjustment is reflected in the company's calculation of comprehensive income.

Differences arise from the application of the current rate method of currency translation under US GAAP to all periods presented pursuant to the adoption of the US dollar as the company's reporting currency, and from other differences between Canadian and US GAAP as described above under "Income statement differences."

Comprehensive income using US GAAP amounts is as follows:

(Millions)	2006	2005
Net income under US GAAP	\$ 138	\$ 173
Foreign currency translation adjustment under US GAAP	(17)	11
Comprehensive income using US GAAP amounts	\$ 121	\$ 184

(c) Balance sheet differences

There are differences in the treatment of balance sheet items between Canadian GAAP and US GAAP. Incorporation of the significant differences in accounting principles in the company's financial statements as at December 31, 2006 and 2005 would result in the following balance sheet presentation under US GAAP:

(Millions)	Note	2006	2005
Assets			
Commercial properties	(i)	\$ 14,892	\$ 7,025
Commercial developments		735	224
Residential developments	(ii)	753	418
Receivables and other	(iii)	914	842
Intangible assets		853	125
Restricted cash and deposits		507	316
Marketable securities		—	58
Cash and cash equivalents		188	64
Assets held for sale		64	69
Total assets under US GAAP		\$ 18,906	\$ 9,141
Liabilities			
Commercial property debt		\$ 11,185	\$ 5,216
Accounts payable and other liabilities	(v)	893	468
Intangible liabilities		919	126
Deferred tax liabilities	(iv)	488	92
Liabilities related to assets held for sale		36	51
Capital securities – corporate	(vi)	171	172
Capital securities – fund subsidiaries	(vii)	257	—
Minority interests – fund subsidiaries		266	—
Minority interests – other subsidiaries	(viii)	72	64
Redeemable equity interests	(vii)	546	—
Preferred equity - subsidiaries		326	329
Shareholders' equity			
Preferred equity - corporate	(ix)	855	855
Common equity	(x)	2,892	1,768
Total liabilities and shareholders' equity under US GAAP		\$ 18,906	\$ 9,141

Significant differences between Canadian GAAP and US GAAP are as follows:

(i) Commercial properties

There are two principal differences between Canadian GAAP and US GAAP affecting the carrying value of commercial properties. The first difference relates to historical differences in the method of depreciation to be applied to depreciable assets as described in Note 24(a)(ii). At December 31, 2006, this would result in a cumulative adjustment of \$395 million (2005 - \$405 million). The second difference relates to the method of accounting for joint ventures. Under Canadian GAAP, the accounts of all incorporated and unincorporated joint ventures are proportionately consolidated according to the company's ownership interest. Under US GAAP, the equity method of accounting is applied. In circumstances where a joint venture is an operating entity and the significant financial and operating policies are, by contractual arrangement, jointly controlled by all parties having an equity interest in the entity, SEC regulations do not require adjustment to equity account the joint ventures. As a result, presentation of the company's joint ventures has not been adjusted to the equity method.

(Millions)	2006	2005
Commercial properties under Canadian GAAP	\$ 15,287	\$ 7,430
Additional accumulated depreciation under US GAAP	(395)	(405)
Commercial properties under US GAAP	\$ 14,892	\$ 7,025

(ii) Residential developments

The impact on residential developments related to differences described in Note 24(a)(v) is as follows:

(Millions)	2006	2005
Residential developments under Canadian GAAP	\$ 706	\$ 391
Residential inventory adjustment	47	27
Residential developments under US GAAP	\$ 753	\$ 418

(iii) Receivables and other

The principal differences in the accounting for receivables and other under US GAAP is the inclusion of a straight-line rent receivable had the company always straight-lined its revenue, the reclassification of share issue costs of preferred shares classified as liabilities under Canadian GAAP and the deferral of residential income. Refer to Notes 24(a)(i), 24(a)(iv) and 24(a)(vi).

(Millions)	2006	2005
Receivables and other under Canadian GAAP	\$ 974	\$ 830
Straight-line rent receivable adjustment	55	76
Preferred share issue costs reclassified to preferred shares	(10)	(10)
Residential receivable adjustment	(105)	(54)
Receivables and other under US GAAP	\$ 914	\$ 842

(iv) Deferred tax liabilities

The deferred tax liabilities under US GAAP is calculated as follows:

(Millions)	2006	2005
Tax assets related to net operating and capital losses	\$ (459)	\$ (489)
Tax liabilities related to differences in tax and book basis	820	442
Valuation allowance	127	139
Deferred tax liabilities under US GAAP	\$ 488	\$ 92

(v) Accounts payable and other liabilities

The principal difference under US GAAP relates to deferred income relating to a lease transaction at One World Financial Center in New York (refer to Note 24(a)(iii)). The accounts payable and other liabilities under US GAAP is as follows:

(Millions)	2006	2005
Accounts payable and other liabilities under Canadian GAAP	\$ 923	\$ 500
Tenant inducement	(30)	(32)
Accounts payable and other liabilities under US GAAP	\$ 893	\$ 468

(vi) Capital securities – corporate

Under US GAAP, only the company's Class AAA Series E preferred shares are classified as liabilities, under the caption capital securities – corporate, while under Canadian GAAP, all of the company's Class AAA preferred shares are included in this caption. Capital securities – corporate under US GAAP is as follows:

(Millions)	2006	2005
Capital securities – corporate under Canadian GAAP	\$ 1,093	\$ 1,101
Classification of capital securities to preferred equity	(922)	(929)
Preferred shares – corporate under US GAAP	\$ 171	\$ 172

(vii) Capital securities – fund subsidiaries

For US GAAP purposes \$546 of the company's capital securities - fund subsidiaries are classified as redeemable equity interests whereas for Canadian GAAP these are classified as liabilities under the caption - capital securities - fund subsidiaries. There is no overall income statement effect, however for Canadian GAAP purposes the minority interest expense is treated as interest expense.

(viii) Minority interests – other subsidiaries

Minority interests – other subsidiaries includes the effect of adjustments relating non-wholly owned subsidiaries.

(ix) Preferred equity – corporate

Under US GAAP, the company's Class AAA preferred shares, with the exception of Series E, are included in preferred equity – corporate. Effective January 1, 2005, the company reclassified certain of these shares to liabilities under the caption “capital securities - corporate” under Canadian GAAP in accordance with CICA Handbook Section 3861. Preferred equity – corporate under US GAAP is as follows:

(Millions)	2006	2005
Preferred equity – corporate under Canadian GAAP	\$ 45	\$ 45
Classification of capital securities as preferred equity, net of issue costs	810	810
Preferred equity – corporate under US GAAP	\$ 855	\$ 855

(x) Common shareholders' equity

The cumulative impact of US GAAP adjustments to common shareholders' equity is as follows:

(Millions)	2006	2005
Common shareholders' equity under Canadian GAAP	\$ 3,067	\$ 1,898
Adjustment to accumulated depreciation under US GAAP	(403)	(411)
Adjustment to accounts payable and other liabilities under US GAAP	30	32
Adjustment to deferred income tax asset under US GAAP	101	95
Rental revenue adjustments under US GAAP	53	74
Residential revenue adjustment under US GAAP	(56)	(27)
Foreign currency translation adjustments ⁽¹⁾	100	107
Common shareholders' equity under US GAAP	\$ 2,892	\$ 1,768

⁽¹⁾ Includes foreign currency effects related to all other US GAAP adjustments

As a result of the above adjustments, the components of common equity under US GAAP are as follows:

(Millions)	2006	2005
Common shares	\$ 2,168	\$ 1,159
Additional paid-in capital	242	236
Accumulated other comprehensive income	(22)	(5)
Retained earnings	504	378
Common shareholders' equity under US GAAP	\$ 2,892	\$ 1,768

(d) Cashflow statement differences

The statement of cashflow prepared under US GAAP differs from Canadian GAAP because dividends paid on capital securities are classified as operating items for Canadian GAAP and as financing items for US GAAP. As a result, the summarized cashflow statement under US GAAP is as follows:

(Millions)	2006	2005
Cash provided from (used in) the following activities		
Operating	\$ 118	\$ 279
Financing	6,061	3
Investing	(6,055)	(330)
Increase (decrease) in cash	\$ 124	\$ (48)

(e) Change in accounting policies

(i) SFAS 123R, "Share-Based Payment"

Effective January 1, 2006, the company adopted SFAS 123R, "Share-Based Payment" ("SFAS 123R"), which establishes accounting standards for all transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R focuses primarily on accounting for transactions with employees, and carries forward without changing prior guidance for share-based payments for transactions with non-employees.

SFAS 123R eliminates the intrinsic value measurement objective in APB Opinion 25 and generally requires the company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost must be recognized over the period during which an employee is required to provide service in exchange for the award. The standard also requires the company to estimate the number of instruments that will ultimately be issued, rather than accounting for forfeitures as they occur. The company has historically applied the measurement provisions of FAS 123, therefore the adoption of this standard did not have a material impact on the company.

(ii) Staff Accounting Bulletin ("SAB") 108

In September 2006, the SEC issued SAB No. 108 ("SAB 108"), which expresses the SEC Staff's views regarding the process for quantifying financial statement misstatements. The interpretations in SAB 108 are intended to address diversity in practice in quantifying financial statement misstatements and the potential under current practice for the build-up of improper balance sheet amounts. The application of SAB 108 is effective for financial statements issued for years after November 15, 2006. The adoption of this standard had no impact on the results of operations.

(f) Future accounting policy changes

(i) FASB Interpretation no. 48

As of January 1, 2007, the company will be required to adopt, for purposes of US GAAP, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This interpretation clarifies financial statement recognition and disclosure requirements for uncertain tax positions taken or expected to be taken in a tax return. Guidance is also provided on the derecognition of previously recognized tax benefits and the classification of tax liabilities on the balance sheet. The company is assessing the impact this interpretation will have on its consolidated financial statements.

(ii) SFAS 157

As of January 1, 2008, the company will be required to adopt, for purposes of US GAAP, SFAS 157, "Fair Value Measurements." SFAS 157 provides a common definition of fair value, establishes a framework for measuring fair value under US GAAP and expands disclosures about fair value measurements. This statement applies when other accounting pronouncements require fair value measurements and does not require new fair value measurements. The company is assessing the impact this interpretation will have on its consolidated financial statements.

NOTE 25: GUARANTEES, CONTINGENCIES AND OTHER

(a) 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, sales of services, securitization agreements and underwriting and agency agreements. In particular, the company provided income guarantees to the co-owners in connection with the sale of certain properties in prior years. These guarantees are based on a specified level of contractual occupancy until July 2007. The company's maximum potential loss is \$3 million; however, based on estimated levels of occupancy, the company does not expect to make any payments.

In the ordinary course of the company's residential development business, the company's subsidiaries have provided guarantees in the form of letters of credit and performance bonds. As at December 31, 2006, these guarantees amounted to \$73 million, which have not been recognized in the financial statements. Such guarantees are required by the municipalities in which the business unit operates before construction permission is granted. The scope of these guarantees cover specific construction obligations of individual projects as they are developed, and the term of these guarantees span the life of the project, which range from three to eight years. The values of the guarantees are reduced as completion milestones are achieved on the projects. These guarantees are terminated only when the municipality has issued conditions to release a Final Acceptance Certificate to the business unit, which verifies that the business unit has fulfilled all its contractual obligations. Payment of the guarantees is triggered in the event of expired letters of credit or when performance bonds are not renewed and the contractual obligations have not been fulfilled.

During the year the company has provided guarantees which, as at December 31, 2006, amounted to \$27 million, which has not been recognized in the financial statements. These guarantees arose from the issuance of tax-exempt municipal bonds for infrastructure construction in the company's Denver, Colorado communities. The term of the guarantees span the life of the projects, which range from six to twelve years. The value of the guarantees is reduced as completion milestones are achieved on the projects and are terminated on or before build out. Payment of the guarantees is triggered in the event that the debt payments to the bondholders are not fulfilled. The company has not been required to make any payments under these municipal bonds.

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

Brookfield Properties does not conduct its operations, other than equity-accounted investments, through entities that are not fully or proportionately consolidated in its consolidated financial statements, and has not guaranteed or otherwise contractually committed to support any material financial obligations not reflected in its consolidated financial statements.

(b) The company and its operating subsidiaries are contingently liable with respect to litigation and claims that arise from time to time in the normal course of business. The outcome of such claims is not determinable. In the opinion of management, any liability which may arise from such contingencies would have a materially adverse effect on the consolidated financial statements of the company.

(c) In response to the uncertainty in the insurance market following the terrorist attacks of September 11, 2001, the Terrorism Risk Insurance Act of 2002 ("TRIA") was enacted in November 2002, which established the Terrorism Risk Insurance Program to mandate that insurance carriers offer insurance covering physical damage from terrorist incidents certified by the U.S. government as foreign terrorist acts. Under TRIA, the federal government shares in the risk of loss associated with certain future terrorist acts. TRIA was scheduled to expire on December 31, 2005. However, on December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 was enacted, which

extended the duration of TRIA until December 31, 2007, while expanding the private sector role and reducing the amount of coverage that the U.S. government is required to provide for insured losses.

The company's terrorism insurance program consists of coverage from third-party commercial insurers up to \$500 million, as well as a wholly-owned subsidiary that the company has formed, Realrisk Insurance Corporation ("Realrisk") to act as a captive insurance company. Realrisk provides limits for terrorism in two ways. For non-NBCR (Nuclear, Biological, Chemical and Radioactive) events that qualify under TRIA, limits of \$1 billion per occurrence are granted above the \$500 million provided by third-party insurers. For NBCR events that qualify under TRIA, Realrisk provides for limits up to \$1 billion per occurrence. For any TRIA certified event, Realrisk is responsible for a deductible equal to \$400,000 plus 15% of the loss above such deductible. Since the limit with respect to our portfolio may be less than the value of the affected properties, terrorist acts could result in property damage that exceeds the limits available in our current coverage, which could result in significant financial losses to us due to the loss of capital invested in the property.

As a result of the merger with Trizec the company acquired two wholly-owned captive insurance companies: Chapman Insurance LLC and Concordia Insurance LLC. The terrorism program for those buildings that we manage is contained in the applicable terrorism insurance program available from third party insurers, for limits of \$100 million. This program also provides for a total of \$200 million of coverage for non-certified acts of terrorism. Chapman and Concordia provide \$400 million of TRIA coverage in addition to the \$100 million mentioned above. For NBCR events that qualify under TRIA, Chapman and Concordia provides for limits up to \$400 million per occurrence. For any TRIA certified event, Chapman and Concordia are responsible for their respective deductibles of \$82,738 and \$338,389 deductible equal to \$400,000 plus 15% of the loss above such deductible.

NOTE 26: OTHER INFORMATION

(a) At December 31, 2006, the company had foreign exchange contracts to sell a notional amount of C\$900 million at a weighted average exchange rate of C\$1.00 = US\$0.86, maturing in March 2007, designated as hedges for accounting purposes to manage the company's foreign exchange risk in respect to its Canadian-denominated net investments. The fair value of these contracts at December 31, 2006 was a gain of \$3.2 million which is reflected in the cumulative translation adjustment account and in receivables and other in the consolidated balance sheet. The company's self-sustaining subsidiaries also had foreign exchange contracts to sell a notional amount of US\$21 million at a weighted average exchange rate of US\$1.00 = C\$1.16, maturing in March 2007, which have not been designated as hedges for financial reporting purposes. The aggregate fair value of these contracts at December 31, 2006 was a loss of \$0.2 million.

(b) In 2006, the company entered into a series of interest rate cap contracts that are designated as hedges of interest rate exposure associated with variable rate debt issued in October 2006 in connection with the acquisition of Trizec Properties. At December 31, 2006, there were contracts outstanding to cap the interest rate on a notional \$3.1 billion of variable rate debt at 6% and \$600 million of variable rate debt at 7% for a period of two years. The contracts have been recorded at cost in Receivables and other. The contract cost and any accrued gains from exercise of the cap will be recorded as an adjustment to interest expense in the period the hedged interest payment occurs. The fair value of the contracts at December 31, 2006 was \$1 million. The cost of these contracts was \$3 million.

(c) As at December 31, 2006, Brookfield Properties had approximately \$345 million (December 31, 2005 - \$397 million) of indebtedness outstanding to Brookfield Asset Management Inc. and its affiliate, \$171 million of which is included in the company's capital securities (2005 - \$172 million) and the remainder of the indebtedness balance which consists of floating rate debt included in the company's commercial property debt. The details of this floating rate debt are as follows:

(Millions)	Maturity	Rate	Balance at Dec. 31, 2006
West 31 st Street	2007	6 Month LIBOR + 200bps	\$ 102
O&Y acquisition debt	2007	5.09%	57
O&Y acquisition debt	2007	5.44%	15
Total			\$ 174

Interest expense related to indebtedness, including preferred share dividends reclassified to interest expense, totaled \$35 million for the year ended December 31, 2006 compared to \$12 million for the same period in 2005, and were recorded at the exchange amount.

(d) Included in receivables and other is \$30 million of short-term deposits with Brookfield Asset Management, repayable on demand.

(e) Included in rental revenues are amounts received from the company's parent company, Brookfield Asset Management Inc., and its affiliates for the rental of office premises of \$4 million for the year ended December 31, 2006 (2005 - \$5 million). These amounts have been recorded at the exchange amount.

(f) The financial assets of the company are generally short-term floating rate loans receivable of a trade nature. At December 31, 2006, the fair value of mortgages receivable exceeded their book value by \$2 million (2005 - \$1 million). The fair value of mortgages and loans payable is determined by references to current market rates for debt with similar terms and risks. As at December 31, 2006, the fair value

of advances, commercial property debt and other loans payable exceeds the book value of these obligations by \$98 million (2005 - \$201 million). The carrying value of accounts receivable and accounts payable approximate fair value due to their short-term nature.

(g) Supplemental cashflow information

Years ended December 31 (Millions)	2006	2005
Acquisition of Trizec ⁽¹⁾	\$ (5,666)	—
Cash and cash equivalents acquired	325	—
Net acquisition of Trizec	\$ (5,341)	—
Acquisitions of real estate	\$ (667)	\$ (653)
Mortgages and other balances assumed on acquisition	98	287
Net acquisitions	\$ (569)	\$ (366)
Dispositions of real estate	\$ 169	\$ 19
Mortgages assumed by purchasers	(87)	(12)
Net dispositions	\$ 82	\$ 7
Cash taxes paid	\$ 5	\$ 9
Cash interest paid (excluding dividends paid on capital securities)	\$ 452	\$ 265

⁽¹⁾ Refer to Note 4

(h) There was no reduction to cash from foreign exchange on cash held in foreign currencies in 2006 (2005 – a reduction to cash of \$1 million included in operating cashflows).

(i) 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.

(j) In 2006, the company recorded amortization of deferred financing costs of \$8 million in depreciation and amortization expense (2005 - \$12 million).

(k) In 2006, the company recorded income from equity accounted investments of \$4 million (2005 - \$12 million). Of this amount, \$3 million was recorded in net operating income from commercial property operations and \$1 million was recorded in interest and other income (2005 - \$6 million and \$6 million, respectively).

NOTE 27: SUBSEQUENT EVENTS

In February, 2007, the company announced that subject to receipt of all necessary regulatory and shareholder approvals, it will proceed with a stock split of the company's common shares and voting preferred shares. Shareholders will receive one Brookfield Properties common share for each two common shares held. Fractional shares will be paid in cash at the prevailing market price. The stock split will be subject to approval of the company's shareholders at the forthcoming meeting of shareholders to be held on April 26, 2007. Upon approval, the number of common shares will increase by one-half and the earnings per share will decrease by one-third. The stock split will not change the economic value of the common shares issued and outstanding.

In February, 2007, the company announced that it had disposed of three of its properties that were classified as held for sale: Atrium on Bay in Toronto and 2200 and 2204 Walkley in Ottawa. Atrium on Bay was sold for C\$250 million and the Walkley properties were sold for C\$25 million.

NOTE 28: SEGMENTED INFORMATION

The company and its subsidiaries operate in the United States and Canada within the commercial property business and the residential development business. The following summary presents segmented financial information for the company's principal areas of business:

(Millions)	Commercial				Residential Development		Total	
	United States		Canada					
	2006	2005	2006	2005	2006	2005	2006	2005
Assets								
Commercial properties	\$13,136	\$5,289	\$2,151	\$2,141	\$ —	\$ —	\$15,287	\$7,430
Development properties	433	29	302	195	706	391	1,441	615
Receivables and other	516	337	213	320	245	173	974	830
Intangible assets	799	70	54	55	—	—	853	125
Restricted cash and deposits	497	314	10	2	—	—	507	316
Marketable securities	—	—	—	58	—	—	—	58
Cash and cash equivalents	166	33	21	25	1	6	188	64
Assets held for sale	—	75	64	—	—	—	64	75
Total	\$15,547	\$6,147	\$2,815	\$2,796	\$ 952	\$ 570	\$19,314	\$9,513

The carrying amounts of properties located in the United States and Canada at December 31, 2006 were \$13,626 million and \$3,102 million, respectively (2005 - \$5,373 million and \$2,672 million, respectively).

	Commercial				Residential Development		Total	
	United States		Canada					
(Millions)	2006	2005	2006	2005	2006	2005	2006	2005
Revenues	\$ 994	\$ 787	\$ 425	\$ 316	\$ 460	\$ 389	\$ 1,879	\$1,492
Expenses	400	297	179	132	316	283	895	712
	594	490	246	184	144	106	984	780
Other revenues	19	5	16	28	9	4	44	37
Net operating income from continuing operations	613	495	262	212	153	110	1,028	817
Interest expense								
Commercial property debt	317	178	107	95	—	—	424	273
Capital securities – corporate	59	54	—	—	—	—	59	54
Capital securities – fund subsidiaries	(19)	—	—	—	—	—	(19)	—
General and administrative	34	28	33	20	—	—	67	48
Transaction costs	15	—	—	—	—	—	15	—
Non-controlling interests								
Fund subsidiaries	(14)	—	—	—	—	—	(14)	—
Other subsidiaries	1	—	20	16	—	—	21	16
Depreciation and amortization	202	124	78	37	1	—	281	161
Income before unallocated costs	18	111	24	44	152	110	194	265
Future income taxes							91	103
Net income from continuing operations							\$ 103	\$ 162
Discontinued operations							32	2
Net income							\$ 135	\$ 164
Acquisition of Trizec, net	\$ 5,341	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,341	\$ —
Acquisitions of real estate, net	420	—	149	366	—	—	569	366
Dispositions of real estate, net	(61)	(7)	(21)	—	—	—	(82)	(7)
Commercial property tenant improvements	47	96	8	12	—	—	55	108
Development and redevelopment	29	41	50	9	—	—	79	50
Capital expenditures	12	8	13	13	—	—	25	21

Total revenues earned in the United States and Canada for the year ended December 31, 2006 were \$1,016 million and \$907 million, respectively (2005 - \$794 million and \$735 million, respectively).

Selected Financial Information

December 31 (US Millions, except per share information)	2006	2005	2004	2003	2002
Financial results⁽¹⁾					
Commercial property net operating income ⁽²⁾	\$ 850	\$ 691	\$ 683	\$ 586	\$ 589
Funds from operations	443	435	403	343	314
Net income	135	164	138	232	236
Total assets	19,314	9,513	8,800	8,382	7,450
Shareholders' equity	3,112	1,943	1,992	1,938	2,093
Per diluted common share⁽¹⁾					
Common shares outstanding	232.4	231.2	233.4	234.3	240.6
Fully diluted shares outstanding	235.3	235.9	238.1	239.4	245.9
Funds from operations and gains	\$ 2.06	\$ 1.85	\$ 1.95	\$ 1.85	\$ 1.45
Funds from operations excluding lease termination income and gains	1.87	1.85	1.70	1.43	1.25
Net income	0.56	0.69	0.58	0.96	0.89
Dividends paid	0.75	0.65	0.42	0.34 ⁽³⁾	0.28
Shareholders' equity – book value	11.27	8.35	8.41	8.12	7.38
Common share price at year end	39.33	29.42	24.93	19.13	18.20
Operating data—Commercial properties					
Number of commercial properties	116	66	40	42	44
Rentable area (millions of sq. ft.)	76	48	38	38	38
Effective interest (millions of sq. ft.)	58	29	30	30	30
Average occupancy (%)	95.1	94.6	92.7	94.1	95.5

⁽¹⁾ Excludes the assets, liabilities and results of operations of Brookfield Homes Corporation

⁽²⁾ Includes net operating income from discontinued operations

⁽³⁾ Excludes the distribution of Brookfield Homes Corporation

Strengthening Corporate Governance

Brookfield Properties' board of directors is strongly committed to sound corporate governance practices. The board continuously reviews its corporate governance policies and benchmarks them against evolving legislation and acknowledged leaders in the area. During 2006, the company continued a number of initiatives to further improve its corporate governance practices, the most significant of which is that investors are now represented by a majority of independent directors on the board.

Governance Policies

Brookfield Properties' shareholder-friendly corporate governance policies include:

- The board has a majority of independent directors and a lead independent director
- The full board is elected annually; shareholders have cumulative voting rights in director elections
- The company does not have a poison pill in place
- The company expenses stock option grants on its income statement
- The positions of CEO and Chairman are separated
- The company has publicly-disclosed board guidelines
- Outside directors meet without the CEO or management present
- The audit committee is comprised solely of independent directors

NYSE Rules

The charters for the board of directors and each of the standing committees are in compliance with New York Stock Exchange rules on corporate governance, the provisions of the Sarbanes-Oxley Act of 2002 and Canadian securities laws. Brookfield Properties, a Canadian company, has chosen to comply with NYSE rules as they apply to U.S. domestic companies and we have filed with the New York Stock Exchange the most recent Annual CEO Certification as required by section 303A.12(a) of the NYSE Listed Company Manual. However, the company has elected to rely on an exemption from the NYSE rules with respect to certain independence requirements for some of its committees. The board believes that it has an appropriate mix of directors on its committees to effectively oversee the business plan and management's performance.

The board endeavors to maintain a watchful eye on governance developments as the regulatory and business climates continue to evolve, and to adopt measures as appropriate in order to ensure that the company's commitment to good corporate governance remains effective and strong.

Committee Membership

Audit Committee	Governance & Nominating Committee	Human Resources & Compensation Committee
Paul D. McFarlane, Chair William T. Cahill Allan S. Olson Robert L. Stelzl	Allan S. Olson*, Chair William T. Cahill Roderick D. Fraser Samuel P.S. Pollock	Jack L. Cockwell, Chair Paul D. McFarlane Linda D. Rabbitt William C. Wheaton

* *Lead independent director*

Board of Directors



Gordon E. Arnell
London, United Kingdom
Chairman
Brookfield Properties Corporation

Chairman of Brookfield Properties since 1995; President 1990-1995; CEO 1990-2000; previously held senior executive roles at Oxford Development Group Ltd. and Trizec Corporation Ltd.



J. Bruce Flatt
Toronto, Ontario
Managing Partner and CEO
Brookfield Asset Management Inc.

Current position since 2002; President and CEO of Brookfield Properties Corporation 2000-2001; President and COO 1995-2000; held other senior management positions since 1992.



William T. Cahill
Ridgefield, Connecticut
Senior Credit Officer
Citibank Community Development

Current position since 2002. Previous positions include Managing Director, Citigroup Real Estate Inc., OREO 1996-2002 and Senior Asset Manager 1991-1996. Vice President and Senior Asset Manager, Mellon Real Estate Investment Advisors Inc., 1983-1991.



Roderick D. Fraser, Ph.D., O.C.
Edmonton, Alberta
President Emeritus
University of Alberta

President and Vice-Chancellor, University of Alberta 1995-2005; Dean of the Faculty of Arts and Science and Vice-Principal (Resources), Queen's University, Kingston. Officer of the Order of Canada. Director, Canada-U.S. Fulbright Program, the Aga Khan University and the Alberta Ballet.



Richard B. Clark
New York, New York
President and CEO
Brookfield Properties Corporation

Current position since 2002; President and CEO of U.S. operations 2000-2002; senior positions for Brookfield Properties and predecessor companies including COO, EVP and Director of Leasing. NAREIT and REBNY Executive Committee; Former Chairman, Real Estate Roundtable Tax Policy Advisory Committee.



Paul D. McFarlane
Mississauga, Ontario
Corporate Director

Retired from CIBC in 2002 after more than 40 years' service in numerous branch, regional and head office positions, most recently as Senior Vice President, Special Loans, Head Office, from 1994 until retirement.



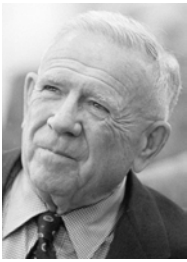
Jack L. Cockwell
Toronto, Ontario
Group Chairman
Brookfield Asset Management Inc.

Current position since 2002; President and CEO 1991-2001; senior executive of predecessor companies from 1969. Governor, Royal Ontario Museum and Ryerson University; Director, C.D. Howe Institute and Astral Media Inc.



Allan S. Olson
Edmonton, Alberta
President and CEO
First Industries Corporation

Current position since 1991. President and CEO, Churchill Corp. 1989-1990 and Banister Construction Group 1990-1991. Various positions at Stuart Olson Construction including President and CEO 1965-1989. Chairman, Summit REIT and Director, Ipsco Steel.



Samuel P.S. Pollock, O.C.

Toronto, Ontario

President of 96345 Canada Inc.

Chairman, Toronto Blue Jays 1995–2000; Chairman, John Labatt Ltd. 1991–1995; President, Carena Investments 1978–1991; Vice President and General Manager, Montreal Canadiens 1964–1978. Officer, Order of Canada and Member, Order of Quebec. Inducted to Hockey Hall of Fame and Canadian Sports Hall of Fame. Named Great Montrealer in 1978.



Robert L. Stelzl

Los Angeles, California

Retired from Colony Capital after 14 years of service as principal and member of the investment committee. President, Bren Investment Properties 1982–1989; senior management positions with several international real estate companies including Cadillac Fairview and Cabot, Cabot and Forbes. Former Chairman, Aman Hotels.



Linda Rabbitt

Bethesda, Maryland

*CEO, Founder and Chairman
Rand Construction Corporation*

Current position since 1989. Executive Vice President, co-founder and co-owner Hart Construction Co., 1985–1989. Director, Washington Performing Arts Society, Greater Washington Board of Trade and Watson Wyatt & Co. Holdings. Trustee, George Washington University and Federal City Council.



William C. Wheaton, Ph.D.

Hamilton, Massachusetts

*Professor of Economics
Massachusetts Institute of Technology*

MIT faculty member since 1972; Research Director MIT Center for Real Estate, 1992–2005, founded by Mr. Wheaton in 1984; Principal and Co-Founder, Torto Wheaton Research. Co-author, *Urban Economics and the Real Estate Markets* (1996).



John E. Zuccotti

New York, New York

*Co-Chairman
Brookfield Properties Corporation*

Current position since 2002. Chairman, Real Estate Board of New York 2004–2006; Senior Counsel, Weil, Gotshal and Manges since 1998; Deputy Chairman Brookfield Properties 1999–2002; President and CEO, Olympia & York Companies U.S.A. 1990–1996; Partner, Brown & Wood 1986–1990 and Tufo & Zuccotti 1978–1986. First Deputy Mayor of the City of New York 1975–1977. Chairman, New York City Planning Commission 1973–1975. Trustee Emeritus, Columbia University.

Officers

CORPORATE

Richard B. Clark
President and Chief Executive Officer

Lawrence F. Graham
Executive Vice President, Development

G. Mark Brown
Senior Vice President, Finance

Kathleen G. Kane
Senior Vice President and General Counsel and Secretary

Craig J. Laurie
Senior Vice President and Chief Financial Officer

Melissa J. Coley
Vice President, Investor Relations and Communications

Rael L. Diamond
Vice President and Controller

P. Keith Hyde
Vice President, Taxation

Stephanie A. Schembari
Vice President, Human Resources

PROPERTY OPERATIONS

UNITED STATES

Dennis H. Friedrich
President and Chief Operating Officer

Edward F. Beisner
Senior Vice President and Controller

Brett M. Fox
Senior Vice President and Corporate Counsel

James E. Hedges
Senior Vice President, Acquisitions and Dispositions

Sabrina L. Kanner
Senior Vice President, Design and Construction

Daniel M. Kindbergh
Senior Vice President, Operations

Jeremiah B. Larkin
Senior Vice President, Director of Leasing

Paul H. Layne
Executive Vice President, Houston

Anthony J. Manos
Senior Vice President, Southern California

Sarah B. Queen
Senior Asset Manager

Paul L. Schulman
Senior Vice President, Leasing and Asset Management, Washington, D.C.

Joshua J. Sirefman
Senior Vice President, Development

David Sternberg
Senior Vice President, Midwest and Mountain Region

Andrew W. Osborne
Vice President, Acquisitions and Dispositions

CANADA

Thomas F. Farley
President and Chief Operating Officer

Stefan J. Dembinski
Senior Vice President, Asset Management

Robert K. MacNicol
Senior Vice President, Office Leasing, Eastern

Ian D. Parker
Senior Vice President, Asset Management, Western

Deborah R. Rogers
Senior Vice President, Legal, Eastern

Ryk Stryland
Senior Vice President, Development

T. Jan Sucharda
Senior Vice President, Investments

T. Nga Trinh
Senior Vice President and Controller

N. Dwight Jack
Vice President, Office Leasing, Western

RESIDENTIAL OPERATIONS

Alan Norris
President and Chief Executive Officer

BROOKFIELD PROPERTIES CORPORATE INFORMATION

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Fax: 416.369.2301

TRANSFER AGENT

CIBC Mellon Trust Company
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Fax: 416.643.5501
Web site: www.cibcmellon.com
E-mail: inquiries@cibcmellon.com

STOCK EXCHANGE LISTINGS

	Stock Symbol	Exchange	Record Date	Payment Date
Common shares	BPO	NYSE, TSX	First day of March, June, September and December	Last business day of March, June, September and December
Class A Preferred Shares				
Series A	Not listed	—	First day of March and September	15th day of March and September
Series B	Not listed	—		
Class AA Preferred Shares				
Series E	Not listed	—	15th day of March, June, September and December	Last business day of March, June, September and December
Class AAA Preferred Shares				
Series F	BPO.PR.F	TSX	15th day of March, June, September and December	Last business day of March, June, September and December
Series G	BPO.PR.U	TSX		
Series H	BPO.PR.H	TSX		
Series I	BPO.PR.I	TSX		
Series J	BPO.PR.J	TSX		
Series K	BPO.PR.K	TSX		

SHAREHOLDER INFORMATION WWW.BROOKFIELDPROPERTIES.COM

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 mcoley@brookfieldproperties.com.

Shareholder questions relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent, CIBC Mellon Trust, as listed above.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders will be held in New York City at Three World Financial Center, 26th floor at 10 a.m. on Thursday, April 26, 2007. Shareholders may also participate in the meeting by webcast through Brookfield Properties' Website at www.brookfieldproperties.com.



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