



Brookfield Properties
2009 ANNUAL REPORT

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REPORT

BROOKFIELD PROPERTIES CORPORATION

Brookfield Properties owns, manages and develops premier office properties in North America's most dynamic and resilient markets whose economies are driven by financial service, government, and energy sector tenants.

Brookfield Properties' portfolio is composed of 110 office properties comprising 75 million square feet in the downtown cores of such gateway cities as New York, Washington, D.C., Houston, Los Angeles, Toronto, Calgary and Ottawa. With high occupancy levels, long-term leases, a disciplined and experienced management team and financing structures that minimize risk, Brookfield Properties is positioned well for these economic times.

HIGH GROWTH MARKETS

MARKET TOTALS IN MILLIONS OF SQUARE FEET



SELECTED FINANCIAL HIGHLIGHTS

ALL AMOUNTS EXPRESSED IN US DOLLARS UNLESS OTHERWISE NOTED

RESULTS OF OPERATIONS (MILLIONS, EXCEPT PER SHARE INFORMATION)

| | 2009 | 2008 | 2007 |
|--|--------|--------|--------|
| Funds From Operations Excluding Lease Termination Income and Gains | \$ 648 | \$ 626 | \$ 629 |
| Net Income ¹ | 317 | 700 | 240 |
| Commercial Property Net Operating Income | 1,322 | 1,308 | 1,240 |

PER DILUTED COMMON SHARE

| | | | |
|---------------------------------------|---------|---------|---------|
| Funds From Operations Excluding Gains | \$ 1.48 | \$ 1.59 | \$ 1.57 |
| Net Income ¹ | 0.72 | 1.77 | 0.59 |
| Dividends Paid | 0.56 | 0.56 | 0.55 |
| Closing Market Price-NYSE | 12.12 | 7.73 | 19.25 |

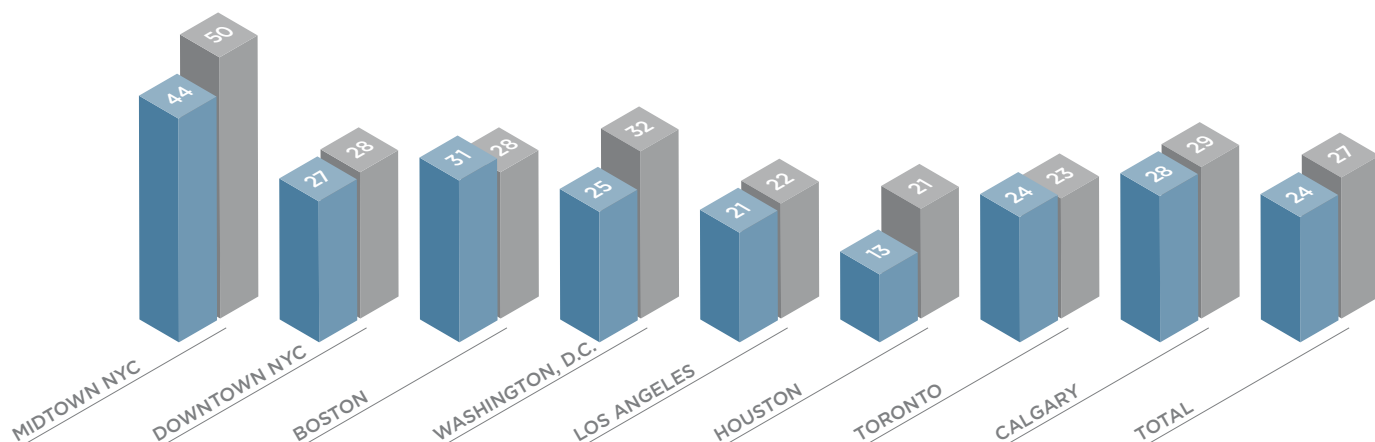
FINANCIAL POSITION

| | | | |
|-----------------------|-----------|-----------|-----------|
| Total Assets | \$ 20,570 | \$ 19,440 | \$ 20,473 |
| Shareholders' Equity | 4,826 | 3,410 | 3,078 |
| Market Capitalization | 6,077 | 3,023 | 7,562 |

¹ The year ended December 31, 2008 includes a gain of \$479 million on the conversion of U.S. operations to an internal REIT

IN-PLACE VERSUS MARKET RENTS

DOLLAR PER SQUARE FOOT BASED ON Q409 REPORTS EXCLUDING NON-MANAGED PROPERTIES



MARKET RENTAL RATES
BPO'S IN-PLACE RENTAL RATES

NET OPERATING INCOME BY MARKET

EXCLUDING NON-MANAGED PROPERTIES

33% DOWNTOWN NYC

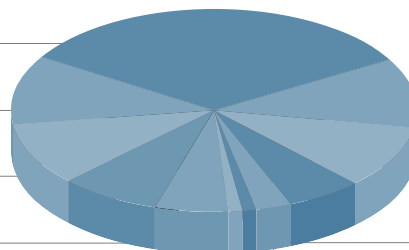
11% WASHINGTON, D.C.

10% MIDTOWN NYC

8% LOS ANGELES

6% BOSTON

1% OTTAWA



11% HOUSTON

10% TORONTO

6% CALGARY

3% DENVER

1% VANCOUVER | EDMONTON

DEAR SHAREHOLDERS

The events preceding 2009 set the stage for what we believed would be a very challenging operating environment. Many important pillars of our financial system – and large consumers of office space – were at or near collapse. As the stability of the global financial system was in question, business psychology shifted, yielding dramatically diminished leasing demand, downward pressure on economic fundamentals, and frozen capital and debt markets. The impact of these negative conditions were prevalent throughout the early months of 2009.

Notwithstanding the troubled economic environment, thanks to a sound strategy rooted in a healthy respect for the cyclical nature of real estate and financial markets, disciplined employees and a supportive investor base, I'm pleased to report that 2009 was an active and productive year for Brookfield Properties, one in which we recorded solid financial and operating results, accomplished our principal priorities, and set the stage for future growth.

Here are a few of the highlights for the year, together with our outlook, growth prospects and priorities for 2010.

FINANCIAL & OPERATIONAL PERFORMANCE

During 2009, we recorded Funds from Operations (FFO) of \$648 million, a 4% increase over 2008. FFO from our office operations increased by 11% to \$534 million due to previously completed leasing and new development coming on line and the achievement of higher rental rates on leases signed versus those in place at lease expiry. Irrespective of the downward pressure on fundamentals, average market rental rates are 12% greater than the average in-place rental rates within our portfolio. This gives us the ability to further increase FFO as our leases mature.

For the year, within our managed portfolio, we signed 4.6 million square feet of leases, a considerable amount given the dearth of market leasing activity during the early part of the year. We ended 2009 with an overall occupancy of 95%, a high level relative to the industry average and our peers but down 130 basis points for the year.

The majority of our leasing for 2009, 3.1 million square feet (68% of overall), was in the form of lease renewals with our existing tenants. History shows that softer market conditions create a situation where landlords and tenants put a premium on capital conservation. Stay-in-place renewals give both parties the opportunity to avoid unnecessary capital expenditures. Those that do move during these times typically migrate to higher-quality properties, such as ours, so we were able to secure 1.5 million square feet of new tenants as well.

During the year, we successfully completed our final two active development projects, Bay Adelaide Centre in Toronto and Bankers Court in Calgary. Prior to commencing construction, these properties were 34% pre-leased and opened with a 78% occupancy. Owing to their high quality, we are experiencing considerable current interest in the remaining available space. It was my pleasure to be in Toronto in September when we opened Bay Adelaide Centre for business and dedicated the outdoor plaza to our Chairman, Gordon Arnell, a 50-year veteran of the real estate industry and a recent recipient of the Order of Canada.

Consistent with our commitment to best practices in environmental sustainability, both developments were built to achieve a LEED Gold certification. We have not limited our initiatives in this regard to new development, and during 2009, we achieved several milestones within our existing portfolio, including a LEED Platinum certification at 1225 Connecticut Avenue in Washington, D.C., the first redeveloped building in the Eastern U.S. to achieve the highest certification for green buildings. As of early 2010, we had nine LEED certifications within our portfolio and have over 30 buildings currently under review for certification. There were many more accomplishments in this regard during 2009, and I invite you to visit the Corporate Social Responsibility section of this report and our website for more details.

Our residential operating division exceeded our beginning-of-the-year expectations and achieved net operating income for the year of \$114 million for a 13% return on equity, a meaningful achievement given the over-supply and soft market conditions that prevailed at the start of 2009.

¹ Managed portfolio



12

MARKETS

95%

OCCUPANCY¹

110

PREMIER OFFICE
PROPERTIES

75

MILLION
SQUARE FEET

STRATEGY

Brookfield Properties is committed to building shareholder value through investment in premier-quality office properties in high-growth, and high barrier-to-entry markets whose tenant base consists of some of the most dynamic and well-capitalized participants in the global economy. Whether it is through direct investment, investment with partners in individual assets, or leveraging our operating platforms through the creation of private-equity opportunities for the institutional market, our approach remains focused on the creation of sustainable, growing streams of cash flow.

Brookfield recognizes that the commercial property business is inherently cyclical, and mitigates earnings and cash flow volatility through acquiring and developing premium-quality office properties as defined by their location, physical qualities, and most importantly, their appeal to the highest quality tenants.

To maximize the sustainability of the cash flow from the assets, our asset management teams maintain strong tenant relationships to understand their needs and growth plans, and sign long-term leases with contractual rental increases for the duration of the lease. This focus on quality and cash flow sustainability in turn allows Brookfield to apply financing strategies which limit financial recourse to the corporation, and the potential impact of any cash flow erosion at the individual asset level.

When assets reach a level of maturity and capital redeployment is seen as a greater opportunity to enhance returns, Brookfield will sell or refinance the asset to generate capital for reallocation to higher-yielding opportunities, or return capital to shareholders to maximize returns on capital employed – a key metric which guides all of our investment activities.

TOP RIGHT
SUNCOR ENERGY CENTRE
CALGARY

BOTTOM RIGHT
1225 CONNECTICUT AVENUE
WASHINGTON, D.C.

LIQUIDITY

In light of the illiquid economic environment that existed at the beginning of the year and uncertainty as to when this would change, there was probably no greater concern in the minds of real estate investors than the condition of a company's balance sheet. Hence a major priority for us was to preserve and enhance our liquidity and to bolster our balance sheet. During 2009, we executed on a number of initiatives in this regard, raising our cash and undrawn lines from roughly \$700 million to \$1.8 billion by year end. We did this by rolling over or refinancing approximately \$1.2 billion of property and corporate level debt maturing in 2009, by raising \$103 million in net proceeds from the monetization of a joint venture interest in 1625 Eye Street and the sale of One Bethesda Center, both in Metro Washington, D.C., and by raising \$1.3 billion through secondary common stock and preferred security offerings. Subsequent to year end, we issued an additional \$300 million of preferred shares, further enhancing our liquidity to \$2.1 billion.

Entering 2010, we are in solid financial shape with no meaningful debt maturities during the year.

OUTLOOK

Looking back on the second half of 2009, we began to see signs of optimism for the direction of the overall economy. Sensing that the market had bottomed, tenants began to transact and many of our largest tenants – and almost all of our financial services tenants – have indicated that they have begun to hire again or expect to do so soon. As no lasting recovery can take hold without job growth, this is an encouraging sign for our business.

The capital markets have made a rapid recovery from the low points of 2008 and early 2009. Equity markets are open to quality companies. During 2009, there were substantial secondary equity offerings and corporate bond issuances completed. Debt markets have opened up as well, although at more conservative loan-to-value levels.

Within the residential land development sector of our business, the demand for new houses in Western

Canada has exceeded our beginning-of-the-year expectations and the over-supply issues that had been prevalent in this market have begun to sort themselves out.

All of this leads us to believe that the worst is behind us and that we are in the early stages of a recovery. As this recovery takes hold, we believe it will do so at a slow pace and with uncertainty, leaving the capital and debt markets choppy with moments of opportunity. We expect to achieve net operating income growth from our office and residential divisions during 2010 and will keep shareholders updated as to our best guess at guidance as the year progresses.

GROWTH PROSPECTS AND 2010 PRIORITIES

In our experience, periods of economic uncertainty yield the best investment opportunities from a value and return perspective. Having strengthened our balance sheet in 2009, we expect to turn our attention to putting some of our \$2.1 billion of liquidity to work on accretive acquisitions during 2010. Additionally, indicative of our growth initiatives and further enhancing our available capital resources, during 2009, we announced our participation in a \$5 billion investor consortium which has been organized to pursue distressed opportunities that should arise in this market environment. In this consortium, Brookfield Properties and its affiliate Brookfield Asset Management have entered into arrangements with some of the world's most sophisticated, geographically diverse and leading institutional investors and sovereign wealth funds. Brookfield Properties and Brookfield Asset Management have collectively pledged about \$1 billion to this consortium with opportunities in the office sector being sponsored and funded by Brookfield Properties at our option. Although past office transactions outside of North America have been funded by Brookfield Asset Management, there are no geographic limitations to Brookfield Properties' investment should appropriate transactions avail themselves.

In addition to this focus on external growth for 2010, there are a number of internal priorities that we have turned our attention to. As mentioned earlier,



we have positioned the company with minimal debt maturities in 2010 which allow us to focus on our \$1.6 billion share of the non-recourse debt used to finance the privatization of Trizec into our U.S. Office Fund, almost two years ahead of its maturity. In the three years in which we have owned this investment, we have greatly enhanced net operating income which puts us in a good position to refinance this October 2011 debt maturity. If warranted, Brookfield Properties is well-capitalized to fund any shortfall. Positioning this investment to successfully complete a refinancing in 2011 is a major area of focus for us in 2010.

Although we have yet to be advised of how much space that Bank of America/Merrill Lynch may require at the World Financial Center upon the expiry of their lease in October 2013, we are already in an active dialogue with them and all of their subtenants. Marking progress in these discussions is another principal priority for 2010. Mitigating any vacancy that may come out of this process, all of the debt on Four World Financial Center and the majority of the debt (all but \$70 per square foot) on Two World Financial Center will be fully amortized when Merrill Lynch's lease expires. Merrill Lynch's 49% partnership interest in Four World Financial Center will likely weigh into their decision-making process as well.

Our final priority for 2010 is to continue to operate Brookfield Properties as a world-class property and asset manager, maximizing value within our existing office portfolio while concentrating our investments in the high-quality office property sector.

IN CLOSING

Against the backdrop of a challenging and uncertain economy during 2009, we made great progress toward our goals, achieving positive financial and operational results. Our common shares experienced a strong recovery and increased by 57% for the year and outperformed industry indices such as the NAREIT Index, which experienced an overall recovery of 27% for 2009. Even though our common shares are still well below peak levels and our view of value, an investor in Brookfield Properties common shares (NYSE) would have realized a 14% total return over the preceding ten-year period versus an S&P 500



and Dow Jones REIT Index total return of -1% and 10%, respectively. We were proud to be one of the few real estate companies over the past two years that did not decrease, suspend or replace their dividend with common share distributions.

Our strategy of owning high-quality, well-located assets in dynamic and resilient markets has helped minimize our exposure to vacancy, lease rollovers and rental rate declines during the downward part of economic cycles. In fact, the Class AA and A office assets that we own benefit from a flight-to-quality in distressed market conditions. Our high quality tenant base, 95% occupancy rate and low average annual lease rollover exposure for the next few years positions us well to ride out any prolonged impact of an economic downturn.

Our primary objective is to continue to deliver reliable and increasing streams of cash flow and to continue to enhance value on a per share basis. The internal and external steps that we have taken during 2009, and our principal priorities for the future, should position us well for future growth.

On behalf of all dedicated Brookfield Properties employees and our Board of Directors, I thank you for your continued support.

Sincerely,

Richard B. Clark
Chief Executive Officer

March 5, 2010

Portfolio

| | NUMBER OF PROPERTIES | LEASED % | (SQUARE FEET IN 000S) | | | (SQUARE FEET IN 000S) | | OWNED INTEREST % | BROOKFIELD PROPERTIES OWNED INTEREST ⁽¹⁾ | OTHER SHAREHOLDERS' INTEREST | BROOKFIELD PROPERTIES NET OWNED INTEREST |
|-----------------------------------|----------------------|-------------|-----------------------|--------------|----------------|-----------------------|---------------|------------------|---|------------------------------|--|
| | | | OFFICE | RETAIL | TOTAL LEASABLE | PARKING | TOTAL AREA | | | | |
| DIRECT | | | | | | | | | | | |
| New York | | | | | | | | | | | |
| World Financial Center | | | | | | | | | | | |
| One | 1 | 99.4 | 1,603 | 52 | 1,655 | 58 | 1,713 | 100 | 1,713 | (10) | 1,703 |
| Two | 1 | 100.0 | 2,671 | 35 | 2,706 | — | 2,706 | 100 | 2,706 | (16) | 2,690 |
| Three | 1 | 95.3 | 1,254 | — | 1,254 | 53 | 1,307 | 100 | 1,307 | (8) | 1,299 |
| Four | 1 | 100.0 | 1,861 | 43 | 1,904 | 48 | 1,952 | 51 | 996 | (6) | 990 |
| Retail | | 80.3 | — | 168 | 168 | 122 | 290 | 100 | 290 | (2) | 288 |
| One Liberty Plaza | 1 | 99.5 | 2,327 | 20 | 2,347 | — | 2,347 | 100 | 2,347 | (14) | 2,333 |
| 245 Park Avenue | 1 | 94.0 | 1,719 | 68 | 1,787 | — | 1,787 | 51 | 911 | (5) | 906 |
| 300 Madison Avenue | 1 | 100.0 | 1,089 | 5 | 1,094 | — | 1,094 | 100 | 1,094 | (6) | 1,088 |
| | 7 | 98.3 | 12,524 | 391 | 12,915 | 281 | 13,196 | | 11,364 | (67) | 11,297 |
| Boston | | | | | | | | | | | |
| 53 State Street | 1 | 88.6 | 1,164 | 30 | 1,194 | 41 | 1,235 | 100 | 1,235 | (8) | 1,227 |
| 75 State Street | 1 | 85.3 | 771 | 25 | 796 | 235 | 1,031 | 100 | 1,031 | (6) | 1,025 |
| | 2 | 87.3 | 1,935 | 55 | 1,990 | 276 | 2,266 | | 2,266 | (14) | 2,252 |
| Washington, D.C. | | | | | | | | | | | |
| 1625 Eye Street | 1 | 100.0 | 370 | 16 | 386 | 185 | 571 | 10 | 57 | — | 57 |
| 77 K Street | 1 | 52.0 | 307 | 19 | 326 | — | 326 | 50 | 163 | (1) | 162 |
| 701 9th Street | 1 | 100.0 | 340 | 24 | 364 | 183 | 547 | 100 | 547 | (3) | 544 |
| Potomac Tower | 1 | 100.0 | 238 | — | 238 | 203 | 441 | 100 | 441 | (3) | 438 |
| 601 South 12th Street | 1 | 100.0 | 309 | — | 309 | — | 309 | 100 | 309 | — | 309 |
| 701 South 12th Street | 1 | 100.0 | 253 | — | 253 | — | 253 | 100 | 253 | — | 253 |
| | 6 | 91.7 | 1,817 | 59 | 1,876 | 571 | 2,447 | | 1,770 | (7) | 1,763 |
| Houston | | | | | | | | | | | |
| 1201 Louisiana Street | 1 | 93.3 | 836 | 8 | 844 | 48 | 892 | 100 | 892 | — | 892 |
| | 1 | 93.3 | 836 | 8 | 844 | 48 | 892 | | 892 | — | 892 |
| Denver | | | | | | | | | | | |
| Republic Plaza | 1 | 95.4 | 1,276 | 51 | 1,327 | 503 | 1,830 | 100 | 1,830 | — | 1,830 |
| | 1 | 95.4 | 1,276 | 51 | 1,327 | 503 | 1,830 | | 1,830 | — | 1,830 |
| Minneapolis | | | | | | | | | | | |
| 33 South Sixth Street | 2 | 91.8 | 1,108 | 370 | 1,478 | 325 | 1,803 | 100 | 1,803 | — | 1,803 |
| RBC Plaza | 2 | 92.6 | 610 | 442 | 1,052 | 196 | 1,248 | 100 | 1,248 | — | 1,248 |
| | 4 | 92.1 | 1,718 | 812 | 2,530 | 521 | 3,051 | | 3,051 | — | 3,051 |
| Direct U.S. Properties | 21 | 95.6 | 20,106 | 1,376 | 21,482 | 2,200 | 23,682 | | 21,173 | (88) | 21,085 |
| Toronto | | | | | | | | | | | |
| Brookfield Place | | | | | | | | | | | |
| Bay Wellington Tower | 1 | 99.0 | 1,299 | 41 | 1,340 | — | 1,340 | 100 | 1,340 | — | 1,340 |
| Retail and Parking | 1 | 97.9 | — | 53 | 53 | 690 | 743 | 70 | 520 | — | 520 |
| 22 Front Street | 1 | 100.0 | 136 | 8 | 144 | — | 144 | 100 | 144 | (15) | 129 |
| Exchange Tower | 1 | 98.6 | 963 | 66 | 1,029 | 131 | 1,160 | 50 | 580 | (64) | 516 |
| 105 Adelaide | 1 | 99.5 | 176 | 7 | 183 | 49 | 232 | 100 | 232 | (25) | 207 |
| Hudson's Bay Centre | 1 | 97.4 | 536 | 261 | 797 | 295 | 1,092 | 100 | 1,092 | (121) | 971 |
| Queen's Quay Terminal | 1 | 98.5 | 429 | 75 | 504 | — | 504 | 100 | 504 | (56) | 448 |
| HSBC Building | 1 | 100.0 | 188 | 6 | 194 | 31 | 225 | 100 | 225 | (25) | 200 |
| | 8 | 98.6 | 3,727 | 517 | 4,244 | 1,196 | 5,440 | | 4,637 | (306) | 4,331 |
| Calgary | | | | | | | | | | | |
| Bankers Hall | 3 | 99.9 | 1,944 | 224 | 2,168 | 409 | 2,577 | 50 | 1,289 | (142) | 1,147 |
| Bankers Court | 1 | 100.0 | 255 | 7 | 262 | 62 | 324 | 50 | 162 | (18) | 144 |
| Suncor Energy Centre | 2 | 100.0 | 1,710 | 22 | 1,732 | 220 | 1,952 | 50 | 976 | (107) | 869 |
| Fifth Avenue Place | 2 | 99.5 | 1,428 | 47 | 1,475 | 206 | 1,681 | 50 | 841 | (93) | 748 |
| | 8 | 99.8 | 5,337 | 300 | 5,637 | 897 | 6,534 | | 3,268 | (360) | 2,908 |
| Vancouver | | | | | | | | | | | |
| Royal Centre | 1 | 94.1 | 494 | 95 | 589 | 264 | 853 | 100 | 853 | (94) | 759 |
| | 1 | 94.1 | 494 | 95 | 589 | 264 | 853 | | 853 | (94) | 759 |
| Other | | | | | | | | | | | |
| Other | 1 | 96.2 | 70 | 3 | 73 | — | 73 | 100 | 73 | — | 73 |
| | 1 | 96.2 | 70 | 3 | 73 | — | 73 | | 73 | — | 73 |
| Direct Canadian Properties | 18 | 99.0 | 9,628 | 915 | 10,543 | 2,357 | 12,900 | | 8,831 | (760) | 8,071 |
| TOTAL DIRECT | 39 | 96.7 | 29,734 | 2,291 | 32,025 | 4,557 | 36,582 | | 30,004 | (848) | 29,156 |

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

| | NUMBER OF PROPERTIES | | (SQUARE FEET IN 000S) | | TOTAL LEASABLE | | | OWNED INTEREST% | BROOKFIELD PROPERTIES OWNED INTEREST ⁽¹⁾ | OTHER SHAREHOLDERS' INTEREST | BROOKFIELD PROPERTIES NET OWNED INTEREST |
|-----------------------------|----------------------|----------|-----------------------|--------|----------------|---------|------------|-----------------|---|------------------------------|--|
| | | LEASED % | OFFICE | RETAIL | | PARKING | TOTAL AREA | | | | |
| U.S. FUND | | | | | | | | | | | |
| Managed Properties | | | | | | | | | | | |
| New York | | | | | | | | | | | |
| The Grace Building | 1 | 93.8 | 1,537 | 20 | 1,557 | — | 1,557 | 49.9 | 777 | (416) | 361 |
| One New York Plaza | 1 | 99.2 | 2,554 | 31 | 2,585 | — | 2,585 | 100 | 2,585 | (1,383) | 1,202 |
| Newport Tower | 1 | 91.2 | 1,059 | 41 | 1,100 | — | 1,100 | 100 | 1,100 | (589) | 511 |
| | 3 | 95.9 | 5,150 | 92 | 5,242 | — | 5,242 | | 4,462 | (2,388) | 2,074 |
| Washington, D.C. | | | | | | | | | | | |
| 1200 K Street | 1 | 99.5 | 366 | 24 | 390 | 44 | 434 | 100 | 434 | (232) | 202 |
| 1250 23rd Street | 1 | 41.9 | 128 | — | 128 | 16 | 144 | 100 | 144 | (77) | 67 |
| 1250 Connecticut Avenue | 1 | 79.2 | 163 | 21 | 184 | 26 | 210 | 100 | 210 | (113) | 97 |
| 1400 K Street | 1 | 95.6 | 178 | 12 | 190 | 34 | 224 | 100 | 224 | (120) | 104 |
| 2000 L Street | 1 | 86.4 | 308 | 75 | 383 | — | 383 | 100 | 383 | (205) | 178 |
| 2001 M Street | 1 | 99.6 | 190 | 39 | 229 | 35 | 264 | 98 | 259 | (139) | 120 |
| 2401 Pennsylvania Avenue | 1 | 91.3 | 58 | 19 | 77 | 16 | 93 | 100 | 93 | (50) | 43 |
| Bethesda Crescent | 3 | 88.9 | 241 | 27 | 268 | 68 | 336 | 100 | 336 | (180) | 156 |
| One Reston Crescent | 1 | 100.0 | 185 | — | 185 | — | 185 | 100 | 185 | (99) | 86 |
| Silver Spring Metro Plaza | 3 | 83.8 | 640 | 47 | 687 | 84 | 771 | 100 | 771 | (413) | 358 |
| Sunrise Tech Park | 4 | 95.8 | 315 | 1 | 316 | — | 316 | 100 | 316 | (169) | 147 |
| Two Reston Crescent | 1 | 96.3 | 182 | 3 | 185 | — | 185 | 100 | 185 | (99) | 86 |
| Two Ballston Plaza | 1 | 97.5 | 204 | 19 | 223 | — | 223 | 100 | 223 | (119) | 104 |
| Victor Building | 1 | 81.7 | 302 | 45 | 347 | — | 347 | 49.9 | 173 | (92) | 81 |
| 1550 & 1560 Wilson Blvd | 2 | 99.6 | 248 | 35 | 283 | 76 | 359 | 100 | 359 | (192) | 167 |
| | 23 | 89.8 | 3,708 | 367 | 4,075 | 399 | 4,474 | | 4,295 | (2,299) | 1,996 |
| Los Angeles | | | | | | | | | | | |
| 601 Figueroa | 1 | 77.0 | 1,037 | 2 | 1,039 | 123 | 1,162 | 100 | 1,162 | (622) | 540 |
| Bank of America Plaza | 1 | 94.8 | 1,383 | 39 | 1,422 | 343 | 1,765 | 100 | 1,765 | (944) | 821 |
| Ernst & Young Tower | 1 | 73.1 | 910 | 335 | 1,245 | 391 | 1,636 | 100 | 1,636 | (875) | 761 |
| Landmark Square | 1 | 91.7 | 420 | 23 | 443 | 212 | 655 | 100 | 655 | (350) | 305 |
| Marina Towers | 2 | 87.9 | 356 | 25 | 381 | 87 | 468 | 50 | 234 | (125) | 109 |
| | 6 | 83.9 | 4,106 | 424 | 4,530 | 1,156 | 5,686 | | 5,452 | (2,916) | 2,536 |
| Houston | | | | | | | | | | | |
| Allen Center | | | | | | | | | | | |
| One Allen Center | 1 | 98.2 | 914 | 79 | 993 | — | 993 | 100 | 993 | (531) | 462 |
| Two Allen Center | 1 | 98.5 | 987 | 9 | 996 | — | 996 | 100 | 996 | (533) | 463 |
| Three Allen Center | 1 | 92.8 | 1,173 | 22 | 1,195 | — | 1,195 | 100 | 1,195 | (639) | 556 |
| 1400 Smith Street | 1 | 100.0 | 1,229 | 38 | 1,267 | — | 1,267 | 100 | 1,267 | (678) | 589 |
| Cullen Center | | | | | | | | | | | |
| Continental Center I | 1 | 95.0 | 1,048 | 50 | 1,098 | 411 | 1,509 | 100 | 1,509 | (807) | 702 |
| Continental Center II | 1 | 85.6 | 428 | 21 | 449 | 81 | 530 | 100 | 530 | (284) | 246 |
| KBR Tower | 1 | 80.5 | 985 | 63 | 1,048 | 254 | 1,302 | 50 | 651 | (348) | 303 |
| 500 Jefferson Street | 1 | 95.4 | 351 | 39 | 390 | 44 | 434 | 100 | 434 | (232) | 202 |
| | 8 | 93.8 | 7,115 | 321 | 7,436 | 790 | 8,226 | | 7,575 | (4,052) | 3,523 |
| U.S. Fund - Managed | 40 | 91.5 | 20,079 | 1,204 | 21,283 | 2,345 | 23,628 | | 21,784 | (11,655) | 10,129 |
| Non-Managed Properties | | | | | | | | | | | |
| New York | | | | | | | | | | | |
| 1065 Avenue of the Americas | 1 | 82.5 | 642 | 40 | 682 | — | 682 | 99 | 675 | (361) | 314 |
| 1411 Broadway | 1 | 75.7 | 1,149 | 38 | 1,187 | 36 | 1,223 | 49.9 | 610 | (326) | 284 |
| 1460 Broadway | 1 | 99.1 | 211 | 9 | 220 | — | 220 | 49.9 | 110 | (59) | 51 |
| | 3 | 80.4 | 2,002 | 87 | 2,089 | 36 | 2,125 | | 1,395 | (746) | 649 |
| Los Angeles | | | | | | | | | | | |
| 5670 Wilshire Center | 1 | 71.2 | 426 | 19 | 445 | — | 445 | 100 | 445 | (238) | 207 |
| 6060 Center Drive | 1 | 89.2 | 253 | 15 | 268 | 113 | 381 | 100 | 381 | (204) | 177 |
| 6080 Center Drive | 1 | 96.9 | 316 | — | 316 | 163 | 479 | 100 | 479 | (256) | 223 |
| 6100 Center Drive | 1 | 84.1 | 294 | — | 294 | 168 | 462 | 100 | 462 | (247) | 215 |
| 701 B Street | 1 | 83.6 | 523 | 37 | 560 | — | 560 | 100 | 560 | (299) | 261 |
| 707 Broadway | 1 | 70.1 | 187 | — | 187 | 128 | 315 | 100 | 315 | (168) | 147 |
| 9665 Wilshire Blvd | 1 | 89.4 | 171 | — | 171 | 64 | 235 | 100 | 235 | (127) | 108 |
| Howard Hughes Spectrum | 1 | 100.0 | 37 | — | 37 | — | 37 | 100 | 37 | (20) | 17 |
| Howard Hughes Tower | 1 | 70.8 | 334 | 2 | 336 | 141 | 477 | 100 | 477 | (255) | 222 |
| Northpoint | 1 | 75.9 | 105 | — | 105 | 45 | 150 | 100 | 150 | (80) | 70 |
| Arden Towers at Sorrento | 4 | 87.1 | 564 | 54 | 618 | — | 618 | 100 | 618 | (330) | 288 |
| Westwood Center | 1 | 88.1 | 304 | 25 | 329 | — | 329 | 100 | 329 | (176) | 153 |
| Wachovia Center | 1 | 88.4 | 486 | 14 | 500 | 161 | 661 | | 661 | (353) | 308 |
| | 16 | 83.7 | 4,000 | 166 | 4,166 | 983 | 5,149 | | 5,149 | (2,753) | 2,396 |
| U.S. Fund – Non-Managed | 19 | 82.6 | 6,002 | 253 | 6,255 | 1,019 | 7,274 | | 6,544 | (3,499) | 3,045 |
| TOTAL U.S. FUND | 59 | 89.4 | 26,081 | 1,457 | 27,538 | 3,364 | 30,902 | | 28,328 | (15,154) | 13,174 |

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

| | NUMBER OF PROPERTIES | LEASED % | (SQUARE FEET IN 000S) | | TOTAL LEASABLE | PARKING | TOTAL AREA | OWNED INTEREST% | BROOKFIELD PROPERTIES OWNED INTEREST ⁽¹⁾ | OTHER SHAREHOLDERS' INTEREST | BROOKFIELD PROPERTIES NET OWNED INTEREST |
|-------------------------------|----------------------|----------|-----------------------|-------|----------------|---------|------------|-----------------|---|------------------------------|--|
| CANADIAN FUND | | | | | | | | | | | |
| Toronto | | | | | | | | | | | |
| First Canadian Place | 1 | 96.1 | 2,379 | 232 | 2,611 | 170 | 2,781 | 25 | 695 | (76) | 619 |
| 151 Yonge Street | 1 | 97.8 | 289 | 10 | 299 | 72 | 371 | 25 | 93 | (10) | 83 |
| 2 Queen Street East | 1 | 98.6 | 448 | 16 | 464 | 81 | 545 | 25 | 136 | (15) | 121 |
| | 3 | 96.6 | 3,116 | 258 | 3,374 | 323 | 3,697 | | 924 | (101) | 823 |
| Calgary | | | | | | | | | | | |
| Altius Centre | 1 | 99.4 | 303 | 3 | 306 | 72 | 378 | 25 | 95 | (11) | 84 |
| | 1 | 99.4 | 303 | 3 | 306 | 72 | 378 | | 95 | (11) | 84 |
| Ottawa | | | | | | | | | | | |
| Place de Ville I | 2 | 99.8 | 569 | 14 | 583 | 502 | 1,085 | 25 | 271 | (30) | 241 |
| Place de Ville II | 2 | 100.0 | 598 | 12 | 610 | 433 | 1,043 | 25 | 261 | (29) | 232 |
| Jean Edmonds Towers | 2 | 100.0 | 541 | 13 | 554 | 95 | 649 | 25 | 162 | (18) | 144 |
| | 6 | 99.9 | 1,708 | 39 | 1,747 | 1,030 | 2,777 | | 694 | (77) | 617 |
| Edmonton | | | | | | | | | | | |
| Canadian Western Bank | 1 | 98.2 | 371 | 36 | 407 | 91 | 498 | 25 | 125 | (14) | 111 |
| Enbridge Tower | 1 | 100.0 | 184 | — | 184 | 30 | 214 | 25 | 54 | (7) | 47 |
| | 2 | 98.8 | 555 | 36 | 591 | 121 | 712 | | 179 | (21) | 158 |
| TOTAL CANADIAN FUND | 12 | 97.9 | 5,682 | 336 | 6,018 | 1,546 | 7,564 | | 1,892 | (210) | 1,682 |
| | | | | | | | | | | | |
| TOTAL PROPERTIES | 110 | 93.8 | 61,497 | 4,084 | 65,581 | 9,467 | 75,048 | | 60,224 | (16,212) | 44,012 |
| Development and Redevelopment | — | — | 15,353 | — | 15,353 | — | 15,353 | | 14,427 | (2,202) | 12,225 |
| TOTAL PORTFOLIO | 110 | 93.8 | 76,850 | 4,084 | 80,934 | 9,467 | 90,401 | | 74,651 | (18,414) | 56,237 |
| TOTAL EXCLUDING NON-MANAGED | 91 | 95.0 | 70,848 | 3,831 | 74,679 | 8,448 | 83,127 | | 68,107 | (14,915) | 53,192 |

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

Management's Discussion and Analysis of Financial Results

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FORWARD-LOOKING STATEMENTS

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

Management's Discussion and Analysis of Financial Results

March 5, 2010

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, 2009 includes material information up to March 5, 2010. 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 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 consolidated financial statements and appended notes, which begin on page 78 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, depreciation and amortization and income tax expenses. Funds from operations is defined as net income prior to extraordinary items, one-time transaction costs, income taxes, depreciation and amortization and certain other non-cash items. Net operating income is an important measure that we use to assess operating performance, and funds from operations is a relevant measure in analyzing real estate, as commercial properties generally do not depreciate in value systematically, but fluctuate in value according to market conditions. We provide the components of net operating income on page 44 and a full reconciliation from net income to funds from operations on page 43. 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. Since 2005, we have established and fully invested two core office funds for the purpose of enhancing our position as a leading real estate asset manager. The U.S. Office Fund (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. Throughout our MD&A, we use the term "proportional" (as shown in *italics*) to reflect a proportionate consolidation of our 47% effective interest in the U.S. Office Fund. Proportionate amounts disclosed are non-GAAP financial measures and are based on our calculations.

At December 31, 2009, the book value of Brookfield Properties' assets was \$20.6 billion. During 2009, we generated \$317 million of net income (\$0.72 per diluted share) and \$648 million of funds from operations (\$1.48 per diluted share).

FINANCIAL HIGHLIGHTS

Brookfield Properties' financial results are as follows:

| (Millions, except per share amounts) | 2009 | 2008 | 2007 |
|---|----------|----------|----------|
| Results of operations | | | |
| Total revenue | \$ 2,676 | \$ 2,773 | \$ 2,810 |
| Net income | 317 | 700 | 240 |
| Net income per share - diluted | 0.72 | 1.77 | 0.59 |
| Common share dividends paid per share | 0.56 | 0.56 | 0.55 |
| Funds from operations | 648 | 626 | 629 |
| Funds from operations per share - diluted | 1.48 | 1.59 | 1.57 |
| Balance sheet data | | | |
| Total assets | 20,570 | 19,440 | 20,473 |
| Commercial properties ⁽¹⁾ | 15,230 | 15,172 | 15,889 |
| Commercial property debt ⁽¹⁾ | 11,475 | 11,704 | 12,125 |
| Shareholders' equity | 4,826 | 3,410 | 3,078 |
| Book value per share | 9.14 | 8.75 | 7.84 |

⁽¹⁾ Includes assets and liabilities related to discontinued operations

COMMERCIAL PROPERTY OPERATIONS

Our commercial property portfolio consists of interests in 110 properties totaling 75 million square feet, including 9 million square feet of parking. Our development/redevelopment portfolio comprises interests in 13 sites totaling 15 million square feet. Our primary markets are the financial, energy and government center cities of New York, Boston, Washington, D.C., Houston, Los Angeles, Toronto, Calgary and Ottawa. We intend to continue our strategy of maintaining a meaningful presence in a select number of North American cities with attractive tenant bases.

We remain focused on the following strategic priorities:

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

The following table summarizes our investment by market:

| Region | Number of Properties | Total Area (000's Sq. Ft.) | Brookfield Properties' Owned Interest (000's Sq. Ft.) ⁽¹⁾ | Book Value (Millions) | Debt (Millions) | Net Book Equity (Millions) |
|--|----------------------|----------------------------|--|-----------------------|-----------------|----------------------------|
| Direct | | | | | | |
| Midtown New York, New York | 2 | 2,881 | 2,005 | \$ 870 | \$ 663 | \$ 207 |
| Downtown New York, New York | 5 | 10,315 | 9,359 | 2,880 | 1,773 | 1,107 |
| Boston, Massachusetts | 2 | 2,266 | 2,266 | 824 | 577 | 247 |
| Washington, D.C. | 6 | 2,447 | 1,770 | 513 | 356 | 157 |
| Toronto, Ontario | 8 | 5,440 | 4,637 | 1,055 | 564 | 491 |
| Calgary, Alberta | 8 | 6,534 | 3,268 | 523 | 473 | 50 |
| Denver, Colorado | 1 | 1,830 | 1,830 | 270 | 159 | 111 |
| Houston, Texas | 1 | 892 | 892 | 153 | 100 | 53 |
| Other | 2 | 926 | 926 | 110 | 112 | (2) |
| Corporate debt | — | — | — | — | 100 | (100) |
| | 35 | 33,531 | 26,953 | 7,198 | 4,877 | 2,321 |
| U.S. Office Fund | | | | | | |
| Midtown New York, New York | 1 | 1,557 | 777 | 638 | 187 | 451 |
| Downtown New York, New York | 2 | 3,685 | 3,685 | 1,274 | 390 | 884 |
| Washington, D.C. | 23 | 4,474 | 4,295 | 1,165 | 365 | 800 |
| Los Angeles, California | 6 | 5,686 | 5,452 | 1,261 | 356 | 905 |
| Houston, Texas | 8 | 8,226 | 7,575 | 1,115 | 240 | 875 |
| U.S. Office Fund - Managed | 40 | 23,628 | 21,784 | 5,453 | 1,538 | 3,915 |
| Midtown New York, New York | 3 | 2,125 | 1,395 | 595 | 119 | 476 |
| Los Angeles, California | 16 | 5,149 | 5,149 | 1,326 | 57 | 1,269 |
| U.S. Office Fund – Non-Managed- | 19 | 7,274 | 6,544 | 1,921 | 176 | 1,745 |
| Corporate Fund debt | — | — | — | — | 3,963 | (3,963) |
| | 59 | 30,902 | 28,328 | 7,374 | 5,677 | 1,697 |
| Canadian Office Fund | | | | | | |
| Toronto, Ontario | 3 | 3,697 | 924 | 253 | 110 | 143 |
| Calgary, Alberta | 1 | 378 | 95 | 18 | 19 | (1) |
| Ottawa, Ontario | 6 | 2,777 | 694 | 93 | 22 | 71 |
| Other | 2 | 712 | 179 | 17 | 20 | (3) |
| | 12 | 7,564 | 1,892 | 381 | 171 | 210 |
| Continuing Operations | 106 | 71,997 | 57,173 | \$ 14,953 | \$ 10,725 | \$ 4,228 |
| Discontinued Operations ⁽²⁾ | 4 | 3,051 | 3,051 | 277 | 156 | 121 |
| | 110 | 75,048 | 60,224 | \$ 15,230 | \$ 10,881 | \$ 4,349 |
| Office development sites | | 15,084 | 14,158 | 1,135 | 594 | 541 |
| Redevelopment sites | | 269 | 269 | 178 | — | 178 |
| Total | | 90,401 | 74,651 | \$ 16,543 | \$ 11,475 | \$ 5,068 |

⁽¹⁾ Represents consolidated interest before non-controlling interests

⁽²⁾ RBC Plaza and 33 South Sixth Street in Minneapolis 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, we also consider opportunities to pursue the acquisition of individual assets and portfolios through joint venture fund vehicles. In 2005 we formed our Canadian Office Fund to acquire the O&Y portfolio and in 2006 we formed our U.S. Office Fund to consummate the acquisition of the Trizec portfolio. Of our 110 commercial office properties, 25 are wholly owned, 14 are held in property-level joint ventures or co-tenancies, and 71 are held in our funds.

Our Canadian Office Fund consists of a consortium of institutional investors, led and managed by us. Affiliates of the consortium members own direct interests in property-level joint ventures and have entered into several agreements relating to property management, fees, transfer rights and other material issues associated with the operation of the properties. We proportionately consolidate our interest in this Fund. Our U.S. Office Fund consists of a consortium of institutional investors, which we lead and manage, investing through direct and indirect investment vehicles that have also entered into several agreements relating to property management, fees, transfer rights and other material issues associated with the operation of the properties. We 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, ongoing services.
- **Transaction** Development, redevelopment and leasing activities conducted on behalf of these funds.
- **Performance** Earned when certain predetermined benchmarks are exceeded. Performance fees, which can add considerably to fee revenue, typically arise later in a fund's life cycle and are therefore not fully reflected in current results.

An important characteristic of our portfolio is the strong credit quality of our tenants. We direct special attention to credit quality, particularly in the current economic environment, in order to ensure the long-term sustainability of rental revenues through economic cycles. Major tenants with over 1,000,000 square feet of space in the portfolio include Bank of America/Merrill Lynch, U.S. and Canadian governments and government agencies, Chevron U.S.A., Wells Fargo/Wachovia, CIBC, RBC Financial Group, Bank of Montreal and Suncor Energy. A detailed list of major tenants is included in Part V ("Risks and Uncertainties") of this MD&A, which begins on page 59.

Our strategy is to sign long-term leases in order to mitigate risk and reduce our overall retensing costs. We typically commence discussions with tenants regarding their space requirements well in advance of the contractual expiration, and although each market is different, the majority of our leases, when signed, extend between 10- and 20-year terms. As a result of this strategy, less than 9% of our leases, on average, mature annually over the next five years and excluding Bank of America/Merrill Lynch, our largest tenant, approximately 7% of our leases, on average, mature annually over the next five years.

Our average lease term is seven years. The following is a breakdown of lease maturities by region with associated in-place rental rates:

| Total Portfolio | | | | Midtown New York | | | Downtown New York | | | Boston | | |
|---------------------------|---------|----------|----------------------------|------------------|----------|----------------------------|-------------------|----------|----------------------------|--------|----------|----------------------------|
| Year of Expiry | 000's | Net Rent | | 000's | Net Rent | | 000's | Net Rent | | 000's | Net Rent | |
| | Sq. Ft. | % | per Sq. Ft. ⁽¹⁾ | | % | per Sq. Ft. ⁽¹⁾ | | % | per Sq. Ft. ⁽¹⁾ | | % | per Sq. Ft. ⁽¹⁾ |
| Currently available | 4,084 | 6.2 | | 612 | 9.4 | | 232 | 1.7 | | 253 | 12.7 | |
| 2010 | 2,905 | 4.4 | \$ 23 | 361 | 5.5 | \$ 28 | 205 | 1.5 | \$ 18 | 150 | 7.5 | \$ 30 |
| 2011 | 4,608 | 7.0 | 26 | 132 | 2.0 | 36 | 681 | 5.0 | 35 | 454 | 22.8 | 43 |
| 2012 | 5,627 | 8.6 | 21 | 479 | 7.3 | 30 | 553 | 4.0 | 12 | 48 | 2.4 | 24 |
| 2013 | 11,393 | 17.4 | 29 | 704 | 10.8 | 34 | 4,771 | 34.8 | 35 | 32 | 1.6 | 28 |
| 2014 | 4,015 | 6.1 | 25 | 296 | 4.5 | 27 | 387 | 2.8 | 36 | 46 | 2.3 | 37 |
| 2015 | 7,268 | 11.1 | 22 | 389 | 6.0 | 29 | 2,173 | 15.8 | 20 | 3 | 0.2 | 45 |
| 2016 | 3,291 | 5.0 | 27 | 310 | 4.7 | 35 | 96 | 0.7 | 37 | 464 | 23.3 | 31 |
| 2017 & beyond | 22,390 | 34.2 | 31 | 3,244 | 49.8 | 52 | 4,621 | 33.7 | 34 | 540 | 27.2 | 32 |
| Parking | 9,467 | — | — | 36 | — | — | 281 | — | — | 276 | — | — |
| | 75,048 | 100.0 | | 6,563 | 100.0 | | 14,000 | 100.0 | | 2,266 | 100.0 | |
| Average market net rent | | | \$ 27 | | | \$ 50 | | | \$ 28 | | | \$ 28 |
| Average market gross rent | | | \$ 46 | | | \$ 75 | | | \$ 48 | | | \$ 48 |

⁽¹⁾ Net rent at expiration of lease

| Washington, D.C. | | | | Houston | | | Los Angeles | | |
|---------------------------|------------------|-------|---|------------------|-------|---|------------------|-------|---|
| Year of Expiry | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ |
| Currently available | 571 | 9.6 | | 516 | 6.2 | | 1,411 | 16.2 | |
| 2010 | 265 | 4.5 | \$ 23 | 247 | 3.0 | \$ 12 | 636 | 7.3 | \$ 22 |
| 2011 | 205 | 3.4 | 26 | 799 | 9.6 | 14 | 906 | 10.4 | 22 |
| 2012 | 612 | 10.3 | 23 | 1,121 | 13.5 | 13 | 1,444 | 16.6 | 24 |
| 2013 | 411 | 6.9 | 25 | 788 | 9.5 | 12 | 921 | 10.6 | 30 |
| 2014 | 1,343 | 22.6 | 25 | 400 | 4.8 | 12 | 717 | 8.2 | 26 |
| 2015 | 367 | 6.2 | 32 | 920 | 11.1 | 14 | 592 | 6.8 | 24 |
| 2016 | 100 | 1.7 | 32 | 49 | 0.6 | 11 | 419 | 4.8 | 28 |
| 2017 & beyond | 2,077 | 34.8 | 42 | 3,440 | 41.7 | 19 | 1,650 | 19.1 | 29 |
| Parking | 970 | — | — | 838 | — | — | 2,139 | — | — |
| | 6,921 | 100.0 | | 9,118 | 100.0 | | 10,835 | 100.0 | |
| Average market net rent | | | \$ 32 | | | \$ 21 | | | \$ 22 |
| Average market gross rent | | | \$ 52 | | | \$ 33 | | | \$ 36 |

⁽¹⁾ Net rent at expiration of lease

| Toronto | | | | Calgary | | | Ottawa | | |
|---------------------------|------------------|-------|---|------------------|-------|---|------------------|-------|---|
| Year of Expiry | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ |
| Currently available | 171 | 2.2 | | 12 | 0.2 | | 1 | 0.1 | |
| 2010 | 617 | 8.1 | \$ 27 | 170 | 2.9 | \$ 25 | 9 | 0.5 | \$ 29 |
| 2011 | 482 | 6.3 | 26 | 656 | 11.0 | 28 | 14 | 0.8 | 16 |
| 2012 | 600 | 7.9 | 25 | 459 | 7.7 | 29 | 13 | 0.7 | 21 |
| 2013 | 1,658 | 21.8 | 28 | 502 | 8.4 | 31 | 1,151 | 65.9 | 19 |
| 2014 | 296 | 3.9 | 29 | 161 | 2.7 | 35 | 9 | 0.5 | 24 |
| 2015 | 658 | 8.6 | 28 | 1,197 | 20.1 | 29 | 543 | 31.1 | 14 |
| 2016 | 554 | 7.3 | 27 | 754 | 12.7 | 26 | 4 | 0.1 | 19 |
| 2017 & beyond | 2,582 | 33.9 | 22 | 2,032 | 34.3 | 33 | 3 | 0.3 | 57 |
| Parking | 1,519 | — | — | 969 | — | — | 1,030 | — | — |
| | 9,137 | 100.0 | | 6,912 | 100.0 | | 2,777 | 100.0 | |
| Average market net rent | | | \$ 23 | | | \$ 29 | | | \$ 21 |
| Average market gross rent | | | \$ 48 | | | \$ 45 | | | \$ 38 |

⁽¹⁾ Net rent at expiration of lease

| Denver | | | | Minneapolis | | | Other | | |
|---------------------------|------------------|-------|---|------------------|-------|---|------------------|-------|---|
| Year of Expiry | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ | 000's Sq. Ft. | % | Net Rent per Sq. Ft. ⁽¹⁾ |
| Currently available | 61 | 4.6 | | 199 | 7.9 | | 45 | 3.6 | |
| 2010 | 98 | 7.4 | \$ 20 | 92 | 3.6 | \$ 9 | 55 | 4.4 | \$ 19 |
| 2011 | 97 | 7.3 | 20 | 50 | 2.0 | 14 | 132 | 10.5 | 17 |
| 2012 | 88 | 6.6 | 19 | 128 | 5.1 | 16 | 82 | 6.5 | 18 |
| 2013 | 152 | 11.5 | 23 | 189 | 7.5 | 7 | 114 | 9.1 | 17 |
| 2014 | 137 | 10.3 | 17 | 177 | 7.0 | 15 | 46 | 3.7 | 12 |
| 2015 | 60 | 4.5 | 20 | 147 | 5.8 | 3 | 219 | 17.5 | 18 |
| 2016 | 153 | 11.5 | 24 | 343 | 13.6 | 16 | 45 | 3.6 | 21 |
| 2017 & beyond | 481 | 36.3 | 22 | 1,205 | 47.5 | 13 | 515 | 41.1 | 14 |
| Parking | 503 | — | — | 521 | — | — | 385 | — | — |
| | 1,830 | 100.0 | | 3,051 | 100.0 | | 1,638 | 100.0 | |
| Average market net rent | | | \$ 20 | | | \$ 15 | | | \$ 21 |
| Average market gross rent | | | \$ 32 | | | \$ 27 | | | \$ 38 |

⁽¹⁾ Net rent at expiration of lease

COMMERCIAL DEVELOPMENT AND REDEVELOPMENT

We hold interests in 15 million square feet of high-quality, centrally-located development and redevelopment 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. We currently have one project under development and one project under redevelopment, as outlined on page 26 of this MD&A.

The following table summarizes our commercial development projects at December 31, 2009:

| (Square feet in 000's) Region | | Description | Number of Sites | Owned Interest % | Total | Owned Interest ⁽¹⁾ | Other Shareholder's Interest | Net Owned Interest |
|--|------------|--|-----------------|------------------|--------|-------------------------------|------------------------------|--------------------|
| Direct | | | | | | | | |
| Manhattan West | New York | Between 31st and 33rd Streets across from the Farley Post Office | 1 | 100% | 5,400 | 5,400 | — | 5,400 |
| Bay Adelaide Centre | Toronto | Bay and Adelaide Streets | 1 | 100% | 2,600 | 2,600 | (286) | 2,314 |
| Brookfield Place III | Toronto | Third phase of Brookfield Place project | 1 | 54% | 800 | 432 | (48) | 384 |
| Bankers West Parkade | Calgary | West Parkade adjacent to Bankers Hall | 1 | 50% | 250 | 125 | (15) | 110 |
| Herald Site | Calgary | One block from our existing Calgary assets | 1 | 100% | 1,200 | 1,200 | (132) | 1,068 |
| 1501 Tremont Place | Denver | One block from Republic Plaza | 1 | 100% | 733 | 733 | — | 733 |
| Block 173 | Denver | One block from Republic Plaza | 1 | 100% | 600 | 600 | — | 600 |
| | | | 7 | | 11,583 | 11,090 | (481) | 10,609 |
| U.S. Office Fund | | | | | | | | |
| Reston Crescent | Washington | 36 acre landscaped campus in Reston, Virginia | 1 | 100% | 724 | 724 | (387) | 337 |
| 1500 Smith Street | Houston | Adjacent to 1400 Smith Street | 1 | 100% | 500 | 500 | (267) | 233 |
| Allen Center Clay Street | Houston | Located in the heart of the Allen Center / Cullen Center complex | 1 | 100% | 600 | 600 | (321) | 279 |
| Five Allen Center | Houston | Adjacent to the Allen Center | 1 | 100% | 1,100 | 1,100 | (587) | 513 |
| | | | 4 | | 2,924 | 2,924 | (1,562) | 1,362 |
| Canadian Office Fund | | | | | | | | |
| 300 Queen Street | Ottawa | Third phase of Place de Ville project | 1 | 25% | 577 | 144 | (16) | 128 |
| | | | 1 | | 577 | 144 | (16) | 128 |
| | | | 12 | | 15,084 | 14,158 | (2,059) | 12,099 |
| Redevelopment | | | | | | | | |
| 1225 Connecticut | Washington | Downtown Washington, D.C. | 1 | 100% | 269 | 269 | (143) | 126 |
| Total development and redevelopment | | | 13 | | 15,353 | 14,427 | (2,202) | 12,225 |

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

RESIDENTIAL DEVELOPMENT

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

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

We classify our residential development business into three categories: land held for development; land under development; and housing inventory. Costs attributable to land held for development include costs of acquiring land as well as general infrastructure costs to service the land within a community. These costs are not directly related to saleable lots. Once development of a phase begins, the associated costs with that phase are transferred from land held for development to land under development, which includes all underlying costs that are attributable to the phase of saleable lots, including costs of the underlying land, roads, and parks. Included in housing inventory is associated land as well as construction costs.

The following table summarizes our residential developments at December 31, 2009:

| (\$ in Millions) | Under Development | | Housing Inventory | | Held for Development | |
|--|----------------------|------------|-------------------|------------|----------------------|------------|
| | Number of Lots/Acres | Book Value | Number of Units | Book Value | Number of Acres | Book Value |
| Single Family (Lots) | | | | | | |
| Alberta | 1,827 | \$ 247 | 165 | \$ 21 | 6,385 | \$ 477 |
| Ontario | — | — | 341 | 48 | 1,488 | 57 |
| Colorado | 996 | 53 | — | — | 2,299 | 153 |
| Texas | 80 | 4 | — | — | 3,946 | 102 |
| Missouri | 93 | 3 | — | — | 205 | 8 |
| Total Single Family (Lots) | 2,996 | \$ 307 | 506 | \$ 69 | 14,323 | \$ 797 |
| Total Single Family (Acre Equivalent) ⁽¹⁾ | 546 | | | | | |
| Multi-Family and Commercial (Acres) | | | | | | |
| Alberta | 136 | \$ 52 | 265 | \$ 32 | — | \$ — |
| Colorado | 10 | 2 | — | — | — | — |
| Texas | 1 | — | — | — | — | — |
| Total Multi-Family and Commercial (Acres) | 147 | \$ 54 | 265 | \$ 32 | — | \$ — |
| Total Book Value | | \$ 361 | | \$ 101 | | \$ 797 |

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

PERFORMANCE MEASUREMENT

The key indicators by which we measure our performance are:

- Net income 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. Although net income is calculated in accordance with GAAP, net operating income and funds from operations are both non-GAAP financial measures that 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 44 and a full reconciliation from net income to funds from operations on page 43 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, depreciation and amortization 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 dispositions and acquisitions.

Funds from operations

Funds from operations is defined as net income prior to extraordinary items, one-time transaction costs, income taxes, depreciation and amortization, and certain other non-cash items. Although we believe that funds from operations is the most relevant measure to analyze real estate, as commercial properties generally do not depreciate in value systematically, but fluctuate in value according to market conditions, we believe that funds from operations, net operating income and net income are all relevant measures. Funds from operations does not represent or approximate cash generated from operating activities determined in accordance with GAAP and should not be considered 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 income, net operating income and funds from operations, we consider the following items to be important drivers of our current and anticipated financial performance:

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

We also believe that the key external performance drivers are:

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

PART II – FINANCIAL STATEMENT ANALYSIS

ASSET PROFILE

Our total asset book value was \$20.6 billion at December 31, 2009, up \$1.2 billion as compared with December 31, 2008 largely as a result of a common and preferred share equity offering in the third quarter of 2009 as well as the strengthening of the Canadian dollar. The following is a summary of our assets:

| (Millions) | <i>Proportional⁽¹⁾</i> Dec. 31, 2009 | Consolidated Dec. 31, 2009 | Consolidated Dec. 31, 2008 |
|--|--|-------------------------------|-------------------------------|
| Commercial properties | \$ 11,044 | \$ 14,953 | \$ 14,901 |
| Commercial developments | 1,189 | 1,313 | 1,225 |
| Residential developments | 1,259 | 1,259 | 1,196 |
| Receivables and other | 1,888 | 1,952 | 918 |
| Intangible assets | 303 | 517 | 637 |
| Restricted cash and deposits | 83 | 101 | 116 |
| Cash and cash equivalents | 140 | 176 | 157 |
| Assets related to discontinued operations ⁽²⁾ | 299 | 299 | 290 |
| Total | \$ 16,205 | \$ 20,570 | \$ 19,440 |

⁽¹⁾ Reflects Brookfield Properties' effective 47% interest in the U.S. Office Fund

⁽²⁾ Includes \$277 million of commercial properties and \$22 million of other assets associated with discontinued operations at December 31, 2009 (December 31, 2008 - \$271 million and \$19 million, respectively)

COMMERCIAL PROPERTIES

The book value of our commercial properties was \$15.0 billion as at December 31, 2009 up \$0.1 billion from the balance at December 31, 2008. During 2009, Bankers Court in Calgary, and 77 K Street and Two Reston Crescent in Washington, D.C. were reclassified from commercial developments to commercial properties. Offsetting these increases were the sale of One Bethesda Center in Washington, D.C. and the 90% dilution of our interest in 1625 Eye Street in Washington, D.C. during the fourth quarter of 2009. The consolidated carrying value of our North American commercial properties is approximately \$262 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 | Total Area (000's Sq. Ft.) | Brookfield Properties' Owned Interest (000's Sq. Ft.) ⁽¹⁾ | Dec. 31, 2009 | | Dec. 31, 2008 | |
|------------------------------|-------------------------------|--|--------------------------|---------------------------|--------------------------|---------------------------|
| | | | Book Value (Millions) | Book Value per Sq. Ft. | Book Value (Millions) | Book Value Per Sq. Ft. |
| Midtown, New York, New York | 4,438 | 2,782 | \$ 1,508 | \$ 542 | \$ 1,523 | \$ 547 |
| Downtown, New York, New York | 14,000 | 13,044 | 4,154 | 318 | 4,206 | 322 |
| Boston, Massachusetts | 2,266 | 2,266 | 824 | 364 | 825 | 364 |
| Washington, D.C. | 6,921 | 6,065 | 1,678 | 277 | 1,801 | 281 |
| Los Angeles, California | 5,686 | 5,452 | 1,261 | 231 | 1,261 | 231 |
| Houston, Texas | 9,118 | 8,467 | 1,268 | 150 | 1,290 | 152 |
| Toronto, Ontario | 9,137 | 5,561 | 1,308 | 235 | 1,147 | 206 |
| Calgary, Alberta | 6,912 | 3,363 | 541 | 161 | 421 | 129 |
| Ottawa, Ontario | 2,777 | 694 | 93 | 134 | 81 | 117 |
| Denver, Colorado | 1,830 | 1,830 | 270 | 148 | 274 | 150 |
| Other | 1,638 | 1,105 | 127 | 115 | 114 | 103 |
| Total Managed | 64,723 | 50,629 | 13,032 | 257 | 12,943 | 254 |
| Midtown, New York, New York | 2,125 | 1,395 | 595 | 427 | 603 | 432 |
| Los Angeles, California | 5,149 | 5,149 | 1,326 | 258 | 1,355 | 267 |
| Total Non-Managed | 7,274 | 6,544 | 1,921 | 294 | 1,958 | 303 |
| Continuing operations | 71,997 | 57,173 | 14,953 | 262 | 14,901 | 260 |
| Discontinued operations | 3,051 | 3,051 | 277 | 91 | 271 | 89 |
| Total | 75,048 | 60,224 | \$ 15,230 | \$ 253 | \$ 15,172 | \$ 251 |

⁽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 a capital allowance for tenant improvements for leased space in order to accommodate the specific space requirements of the tenant. In addition to this capital allowance, leasing commissions are paid to third-party brokers representing tenants in lease negotiations. 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 2009 totaled \$126 million, compared with the \$137 million expended in 2008.

Tenant installation costs are summarized as follows:

| (Millions) | 2009 | 2008 |
|---------------------|--------|--------|
| Leasing commissions | \$ 35 | \$ 31 |
| Tenant improvements | 91 | 106 |
| Total | \$ 126 | \$ 137 |

We also invest in ongoing maintenance and capital improvement projects to sustain the high quality of the infrastructure and tenant service amenities in our properties. Capital expenditures for year ended December 31, 2009 totaled \$60 million, compared with \$77 million during 2008. These expenditures exclude repairs and maintenance costs, a portion of which are recovered through contractual tenant cost recovery payments. Fluctuations to our capital expenditures vary period over period based on required and planned expenditures on our properties. In the current year we incurred costs related to roof repairs, elevator upgrades, lobby renovations, fire safety at various properties as well as costs associated with the re-cladding of First Canadian Place in Toronto. Capital expenditures include revenue-enhancing capital expenditures, which represent improvements to an asset or reconfiguration of space to increase rentable area or increase current rental rates, and non-revenue-enhancing expenditures, which are those required to extend the service life of an asset. These expenditures are recoverable in some cases. During 2009, \$26 million of our total capital expenditures were recoverable, compared with \$19 million in the prior year.

ASSETS RELATED TO DISCONTINUED OPERATIONS

At December 31, 2009 and 2008, four properties met the criteria for being classified as discontinued operations, the RBC Plaza buildings, including Gaviidae I and II, and 33 South Sixth Street in Minneapolis, resulting in \$299 million of assets and \$174 million of liabilities being classified as assets and liabilities related to discontinued operations, respectively, in connection with these properties at December 31, 2009 (December 31, 2008 - \$290 million and \$217 million, respectively).

COMMERCIAL DEVELOPMENTS

Commercial developments consist of commercial property development sites, density rights and related infrastructure. The total book value of development and redevelopment land and infrastructure was \$1,313 million at December 31, 2009, an increase of \$88 million from \$1,225 million at December 31, 2008. The increase is primarily attributable to active construction at Bay Adelaide Centre in Toronto and 1225 Connecticut Avenue in Washington, D.C.; offset by the reclassification of 77 K Street and Reston Crescent in Washington, D.C. and Bankers Court in Calgary to commercial properties as well as the reclassification of Waterview, which consists of residential condominiums and a hotel in Washington D.C., to other assets in 2009.

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

| (Millions) | Buildable Sq. Ft. (000's) | Sq. Ft. Currently Under Construction (000's) | Book Value Dec. 31, 2009 | Book Value Dec. 31, 2008 |
|--|------------------------------|--|-----------------------------|-----------------------------|
| Active developments | | | | |
| Bay Adelaide Centre, Toronto | 2,600 | 1,160 | \$ 692 | \$ 510 |
| Planning | | | | |
| Manhattan West, New York | 5,400 | | 286 | 269 |
| Herald Site, Calgary | 1,200 | | 56 | 47 |
| <i>Others</i> | | | 101 | 103 |
| 1500 Smith Street, Houston | 500 | | | |
| Five Allen Center, Houston | 1,100 | | | |
| Allen Center Clay Street, Houston | 600 | | | |
| Reston Crescent, Washington, D.C. | 724 | | | |
| 1501 Tremont Place, Denver | 733 | | | |
| Block 173, Denver | 600 | | | |
| Bankers West Parkade, Calgary | 250 | | | |
| Brookfield Place III, Toronto | 800 | | | |
| 300 Queen Street, Ottawa | 577 | | | |
| Total developments | 15,084 | 1,160 | 1,135 | 929 |
| Redevelopment | | | | |
| 1225 Connecticut Avenue, Washington, D.C. | 269 | 269 | 178 | 151 |
| Reclassified | | | | |
| Two Reston Crescent, Washington, D.C. ⁽¹⁾ | | | | 42 |
| 77 K Street, Washington, D.C. ⁽¹⁾ | | | | 44 |
| Bankers Court, Calgary ⁽²⁾ | | | | 40 |
| Waterview, Washington, D.C. ⁽³⁾ | | | | 19 |
| Total developments and redevelopments | 15,353 | 1,429 | \$ 1,313 | \$ 1,225 |

⁽¹⁾ During the fourth quarter of 2009, these properties were reclassified to commercial properties

⁽²⁾ During the third quarter of 2009, this property was reclassified to commercial properties

⁽³⁾ During the first quarter of 2009, this property was reclassified to other assets

Although we are generally not a speculative developer, we are a full-service real estate company with in-house development expertise. With 15 million square feet of high-quality, centrally-located development and redevelopment 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 is a summary of the development activity currently taking place in connection with our active development and redevelopments:

- Bay Adelaide Centre in Toronto represents one of our largest development projects. Ground-breaking on Phase I of this project took place in July of 2006 and the opening took place in September of 2009. Phase I represents approximately 1.2 million square feet of a three-phase project expected to total 2.6 million square feet and is 74% leased. Due to the continuous construction on Phase I as well as the impact of foreign exchange, the book value of this site has increased by \$182 million since December 31, 2008.
- 1225 Connecticut Avenue in Washington, D.C. is a property that was acquired as part of the Trizec portfolio. This site was reclassified to redevelopment in the third quarter of 2007. The book value increased by \$27 million since December 31, 2008 as a result of capitalized costs. Construction on this site is substantially complete. The building is 100% leased and will be classified as operating in the first quarter of 2010.
- Varying degrees of development activity is also taking place at our other sites as we continue to move them through the planning phases.

Expenditures for development and redevelopment of commercial properties totaled \$160 million in 2009 compared with \$379 million in 2008. The decrease is due to lower construction costs as a result of reaching substantial completion on all of our active projects as mentioned above as well as the reclassification of 77 K Street and Reston Crescent in Washington, D.C. and Bankers Court in Calgary to commercial properties as well as the reclassification of Waterview, which consists of residential condominiums and a hotel in Washington D.C., to other assets in 2009.

The details of development and redevelopment expenditures are as follows:

| (Millions) | 2009 | 2008 |
|--------------------------|--------|--------|
| Construction costs | \$ 66 | \$ 320 |
| Capitalized NOI | (10) | (4) |
| Interest capitalized | 50 | 62 |
| Property taxes and other | 24 | 1 |
| Tenant improvements | 30 | — |
| Total | \$ 160 | \$ 379 |

Further details on our active developments and redevelopments as at December 31, 2009 are as follows:

| (Millions) | Square Feet | | Owned Interest ⁽¹⁾ | | | | | | |
|------------------------------------|--------------------|-------------------------|-------------------------------|--------------------|----------------------------|--------------------|---------------|--------------------------------|--|
| | Currently | Expected | | | | | | | |
| | Under Construction | Date of Completion | % Pre-leased | Investment to Date | Estimated Total Investment | Total Construction | Amount Drawn | Estimated NOI at Stabilization | |
| | (000's) | | | | | | | | |
| Active developments | | | | | | | | | |
| Bay Adelaide Centre, Toronto | 1,160 | Complete ⁽²⁾ | 74% | \$ 517 | \$ 517 | \$ 399 | \$ 367 | \$ 37 | |
| Redevelopments | | | | | | | | | |
| 1225 Connecticut, Washington, D.C. | 269 | Complete ⁽²⁾ | 100% | 178 | 182 | — | — | 12 | |
| Total | 1,429 | | | \$ 695 | \$ 699 | \$ 399 | \$ 367 | \$ 49 | |

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

⁽²⁾Substantially complete as at December 31, 2009

RESIDENTIAL DEVELOPMENTS

Our residential development operations are focused in five markets: Alberta, Ontario, Colorado, Texas and Missouri. The book value of these investments at December 31, 2009 was \$1,259 million, compared with \$1,196 million at the end of 2008. The increase was primarily attributable to foreign exchange fluctuations due to the strengthening of the Canadian dollar since December 31, 2008.

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

| (Millions) | Dec. 31, 2009 | Dec. 31, 2008 |
|----------------------|---------------|---------------|
| Under development | \$ 361 | \$ 390 |
| Housing inventory | 101 | 88 |
| Held for development | 797 | 718 |
| Total | \$ 1,259 | \$ 1,196 |

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

| | Number of Lots/Acres | | Book Value (Millions) | |
|--|----------------------|---------------|-----------------------|---------------|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Under development | | | | |
| Single Family (Lots) | | | | |
| Alberta | 1,827 | 2,960 | \$ 247 | \$ 267 |
| Ontario | — | 180 | — | 7 |
| Colorado | 996 | 998 | 53 | 60 |
| Texas | 80 | 106 | 4 | 5 |
| Missouri | 93 | 94 | 3 | 5 |
| Total Single Family (Lots) | 2,996 | 4,338 | \$ 307 | \$ 344 |
| Total Single Family (Acre Equivalent) ⁽¹⁾ | 546 | 744 | | |
| Multi-Family and Commercial (Acres) | | | | |
| Alberta | 136 | 141 | \$ 52 | \$ 44 |
| Colorado | 10 | 10 | 2 | 1 |
| Texas | 1 | 6 | — | 1 |
| Total Multi-Family and Commercial (Acres) | 147 | 157 | \$ 54 | \$ 46 |
| Total Book Value | | | \$ 361 | \$ 390 |

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

| | Number of Units | | Book Value (Millions) | |
|-------------------|-----------------|---------------|-----------------------|---------------|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Housing Inventory | | | | |
| Single Family | | | | |
| Alberta | 165 | 86 | \$ 21 | \$ 14 |
| Ontario | 341 | 388 | 48 | 40 |
| | 506 | 474 | 69 | 54 |
| Multi-Family | | | | |
| Alberta | 265 | 173 | 32 | 34 |
| Total | 771 | 647 | \$ 101 | \$ 88 |

| | Number of Acres | | Book Value (Millions) | |
|----------------------|-----------------|---------------|-----------------------|---------------|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Held for Development | | | | |
| Alberta | 6,385 | 6,200 | \$ 477 | \$ 408 |
| Ontario | 1,488 | 1,854 | 57 | 46 |
| Colorado | 2,299 | 2,628 | 153 | 146 |
| Texas | 3,946 | 3,734 | 102 | 99 |
| Missouri | 205 | 221 | 8 | 19 |
| Total | 14,323 | 14,637 | \$ 797 | \$ 718 |

RECEIVABLES AND OTHER ASSETS

Receivables and other assets increased to \$1,952 million at December 31, 2009 from \$918 million at December 31, 2008 largely due to a \$648 million loan receivable from our parent company, Brookfield Asset Management Inc. ("BAM"). During the third quarter of 2009, we raised proceeds from a common share offering and a preferred share issuance, of which a portion was put on deposit with BAM. This loan receivable earns interest at a rate of LIBOR plus 42.5 basis points.

The components of receivables and other assets are as follows:

| (Millions) | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---------------|---------------|
| Accounts receivable | \$ 136 | \$ 137 |
| Straight-line rent and free rent receivables | 438 | 409 |
| Loan receivable from affiliate ⁽¹⁾ | 648 | — |
| Investments | 96 | — |
| Residential receivables and other assets | 343 | 241 |
| Prepaid expenses and other assets | 291 | 131 |
| Total | \$ 1,952 | \$ 918 |

⁽¹⁾Refer to page 70 for further details

Included in prepaid expenses and other assets is a \$128 million investment in loans secured by commercial property with a face value of approximately \$190 million, bearing interest at LIBOR plus 1.75% and maturing between December 31, 2011 and December 31, 2012. These loans are classified as loans and receivables and, accordingly, carried at amortized cost.

Investments include interests retained in 1625 Eye Street in Washington, D.C., following a transaction in the fourth quarter of 2009 that diluted our ownership interest in the property by 90%. In connection with this transaction, we received preferred equity securities of \$92 million, bearing a fixed dividend of 6.25% and redeemable by the issuer at par in 2016, which are pledged as security for a loan payable to the issuer in the same amount. We also retained a 10% common equity interest, initially recorded at \$4 million. Following the transaction, we neither control nor exercise significant influence over 1625 Eye Street. These equity interests are classified as available-for-sale.

INTANGIBLE ASSETS

We have \$517 million of lease origination costs, tenant relationships, above-market leases and below-market ground leases, net of related accumulated amortization at December 31, 2009 (December 31, 2008 - \$637 million), which resulted from acquisitions of individual commercial properties and portfolios in recent years.

The components of intangible assets are as follows:

| (Millions) | Dec. 31, 2009 | Dec. 31, 2008 |
|--|---------------|---------------|
| Intangible assets | | |
| Lease origination costs | \$ 335 | \$ 382 |
| Tenant relationships | 431 | 499 |
| Above-market leases and below-market ground leases | 58 | 66 |
| | 824 | 947 |
| Less accumulated amortization | | |
| Lease originations costs | (178) | (151) |
| Tenant relationships | (111) | (138) |
| Above-market leases and below-market ground leases | (18) | (21) |
| Total net | \$ 517 | \$ 637 |

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 decreased to \$101 million at December 31, 2009 from \$116 million at December 31, 2008. The decrease is principally a result of the payment of property tax escrows related to certain of our properties during 2009.

CASH AND CASH EQUIVALENTS

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

As at December 31, 2009, cash balances increased to \$176 million from \$157 million at December 31, 2008 principally as a result of proceeds raised from a common share offering and preferred share issuance during the third quarter of 2009. In addition, our corporate revolver was paid down to nil from \$221 million at the end of 2008 and our revolving credit facility supporting our residential operations was paid down to \$177 million from \$434 million at the end of 2008.

LIABILITIES AND SHAREHOLDERS' EQUITY

Our asset base of \$20.6 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) | <i>Proportional⁽¹⁾</i> <i>Dec. 31, 2009</i> | Consolidated Dec. 31, 2009 | Consolidated Dec. 31, 2008 |
|---|---|---|-------------------------------|
| Liabilities | | | |
| Commercial property debt | \$ 8,310 | \$ 11,319 | \$ 11,505 |
| Accounts payable and other liabilities | 893 | 1,100 | 1,241 |
| Intangible liabilities | 358 | 581 | 707 |
| Future income tax liabilities | 208 | 208 | 174 |
| Liabilities related to discontinued operations ⁽²⁾ | 174 | 174 | 217 |
| Capital securities - corporate | 1,009 | 1,009 | 882 |
| Capital securities - fund subsidiaries | — | 415 | 711 |
| Non-controlling interests - fund subsidiaries | — | 511 | 212 |
| Non-controlling interests - other subsidiaries | 64 | 64 | 68 |
| Preferred equity - subsidiaries | 363 | 363 | 313 |
| Shareholders' equity | | | |
| Preferred equity - corporate | 304 | 304 | 45 |
| Common equity | 4,522 | 4,522 | 3,365 |
| Total | \$ 16,205 | \$ 20,570 | \$ 19,440 |

⁽¹⁾ Reflects Brookfield Properties' effective 47% interest in the U.S. Office Fund

⁽²⁾ Includes \$156 million of commercial property debt and \$18 million of other liabilities related to discontinued operations at December 31, 2009 (December 31, 2008 – \$199 and \$18 million, respectively)

COMMERCIAL PROPERTY DEBT

Commercial property debt totaled \$11.3 billion at December 31, 2009, compared with \$11.5 billion at December 31, 2008. The decrease is attributable to the paydown of our Corporate Revolver using proceeds from common and preferred equity offerings in the third quarter of 2009 as well as principal amortization payments, offset by various refinancings and the impact of foreign exchange. Commercial property debt at December 31, 2009 had a weighted average interest rate of 4.81% (December 31, 2008 – 5.07%). The decrease is largely attributable to the reduction in LIBOR during 2009, as \$2.7 billion of our floating rate debt within the U.S. Office Fund and approximately \$160 million of floating rate debt outside of the U.S. Office Fund is based on LIBOR. Almost 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.

Select financial ratios are set out in the following table:

| Objective | Three-Year Average | Annual Results | | |
|---|-----------------------|----------------|------|------|
| | | 2009 | 2008 | 2007 |
| Debt-to-total-market-capitalization | 58% | 57% | 69% | 47% |
| Non-recourse debt as a percentage of total ⁽¹⁾ | 95% | 96% | 94% | 94% |
| Interest expense coverage | 2.1x | 2.3x | 2.1x | 2.0x |

⁽¹⁾ Non-recourse to Brookfield Properties

We attempt to match the maturity of our commercial property debt portfolio with the average lease term of our properties. At December 31, 2009, the average term to maturity of our commercial property debt was five years, compared to our average lease term of seven years.

The tightening of the credit markets has posed a significant challenge to property owners and managers. However, in spite of these conditions, we were successful in refinancing or extending \$1.3 billion of commercial property debt during 2009. We believe completing these financings in this tough credit environment is a validation of our strategy of owning high-quality assets in North America's top markets.

The details of our refinancing activity are as follows:

| (Millions) | | Interest Rate % | Maturity Date | Mortgage/Loan | Balance at Dec. 31, 2009 ⁽¹⁾ |
|--|------------|-------------------------------|----------------|---------------|---|
| First Quarter | | | | | |
| Corporate Revolver | Refinanced | LIBOR + 375bps | June 2011 | \$ 413 | \$ — |
| Bethesda Crescent | Extended | 6.90% | April 2011 | 33 | 31 |
| Two Ballston Plaza | Extended | 6.90% | April 2011 | 25 | 24 |
| Second Quarter | | | | | |
| 2000 L Street | Refinanced | LIBOR + 400bps | April 2014 | 56 | 55 |
| RBC Plaza | Refinanced | LIBOR + 300bps ⁽²⁾ | April 2012 | 70 | 68 |
| Suncor Energy Centre | Refinanced | 6.38% | June 2014 | 206 | 206 |
| Enbridge Tower | Refinanced | 6.50% | July 2019 | 6 | 6 |
| Third Quarter | | | | | |
| Term Facility | Refinanced | LIBOR + 375bps ⁽³⁾ | September 2010 | 100 | 100 |
| Silver Spring Metro Plaza / 2401 Pennsylvania Avenue / 1250 Connecticut Avenue | Extended | 6.00% | September 2011 | 160 | 156 |
| Fourth Quarter | | | | | |
| West 31 st Street | Refinanced | LIBOR + 400bps ⁽³⁾ | January 2012 | 105 | 105 |
| First Canadian Place | Refinanced | 5.37% | December 2014 | 78 | 73 |
| Place de Ville | Extended | 7.81% | February 2010 | 5 | 5 |
| Total | | | | \$ 1,257 | \$ 829 |

⁽¹⁾ Net of transaction costs

⁽²⁾ LIBOR floor of 2.5%

⁽³⁾ LIBOR floor of 2%

We have \$713 million of committed corporate credit facilities consisting of a \$413 million revolving credit facility from a syndicate of banks and a \$300 million line from BAM. At December 31, 2009, the balance drawn on these facilities was nil and nil, respectively (balances drawn at December 31, 2008 were \$221 million and nil, respectively). We incurred \$1 million in interest expense related to the line from BAM in 2009 (2008 – nil). Additionally, we have a term loan facility, which was refinanced during the third quarter of 2009 at a rate of LIBOR + 375 basis points (with a LIBOR floor of 2%). The outstanding balance at December 31, 2009 on this facility was \$100 million (December 31, 2008 - \$104 million) and it matures on September 30, 2010.

As at December 31, 2009, we had \$15 million (December 31, 2008 - \$15 million) of indebtedness outstanding to BAM and its affiliates. Interest expense related to this indebtedness totaled nil for the year ended December 31, 2009, consistent with 2008.

The details of commercial property debt at December 31, 2009 are as follows:

| | | | | | Dec. 31, 2009 ^(1,2) | | |
|---|------------------|--------|---------------|------|--------------------------------|--------------|-----------------------------------|
| (\$ in millions) | Location | Rate % | Maturity Date | | Proportional ⁽³⁾ | Consolidated | Mortgage Details |
| Direct | | | | | | | |
| 77 K Street | Washington, D.C. | 4.43 | April | 2010 | \$ 34 | \$ 34 | Partial-recourse, fixed rate |
| Bay Adelaide Centre ⁽⁴⁾⁽⁵⁾ | Toronto | 1.75 | July | 2010 | 367 | 367 | Non-recourse, floating rate |
| Bankers Court | Calgary | 1.90 | October | 2010 | 42 | 42 | Non-recourse, floating rate |
| 245 Park Avenue | New York | 6.65 | February | 2011 | 221 | 221 | Non-recourse, fixed rate |
| Queen's Quay Terminal | Toronto | 7.26 | March | 2011 | 31 | 31 | Non-recourse, fixed rate |
| Fifth Avenue Place | Calgary | 7.59 | August | 2011 | 66 | 66 | Non-recourse, fixed rate |
| 1201 Louisiana Street | Houston | 6.73 | September | 2011 | 100 | 100 | Non-recourse, fixed rate |
| Potomac Tower | Washington, D.C. | 4.72 | November | 2011 | 75 | 75 | Non-recourse, fixed rate |
| West 31 st Street ⁽⁴⁾ | New York | 6.00 | January | 2012 | 105 | 105 | Partial-recourse, floating rate |
| 300 Madison Avenue | New York | 0.53 | April | 2012 | 42 | 42 | Non-recourse, floating rate |
| Exchange Tower | Toronto | 6.83 | April | 2012 | 56 | 56 | Non-recourse, fixed rate |
| RBC Plaza ⁽⁶⁾ | Minneapolis | 5.50 | April | 2012 | 68 | 68 | Non-recourse, floating rate |
| Royal Centre | Vancouver | 4.96 | May | 2012 | 112 | 112 | Non-recourse, fixed rate |
| HSBC Building | Toronto | 8.19 | October | 2012 | 21 | 21 | Non-recourse, fixed rate |
| 105 Adelaide | Toronto | 5.32 | February | 2013 | 21 | 21 | Non-recourse, fixed rate |
| Bay Wellington Tower | Toronto | 6.49 | April | 2013 | 313 | 313 | Non-recourse, fixed rate |
| Hudson's Bay Centre ⁽⁷⁾ | Toronto | 5.20 | May | 2013 | 104 | 104 | Non-recourse, fixed rate |
| 75 State Street | Boston | 5.50 | June | 2013 | 297 | 297 | Partial-recourse, floating rate |
| Two World Financial Center | New York | 6.91 | September | 2013 | 317 | 317 | Non-recourse, fixed rate |
| Four World Financial Center | New York | 6.95 | September | 2013 | 188 | 188 | Non-recourse, fixed rate |
| 601 South 12th Street | Washington, D.C. | 5.42 | October | 2013 | 52 | 52 | Non-recourse, fixed rate |
| 701 South 12th Street | Washington, D.C. | 5.42 | October | 2013 | 43 | 43 | Non-recourse, fixed rate |
| Bankers Hall | Calgary | 7.20 | November | 2013 | 159 | 159 | Non-recourse, fixed rate |
| Republic Plaza | Denver | 5.14 | April | 2014 | 159 | 159 | Non-recourse, fixed rate |
| Suncor Energy Centre | Calgary | 6.38 | June | 2014 | 206 | 206 | Partial recourse, fixed rate |
| Two World Financial Center | New York | 10.80 | September | 2014 | 124 | 124 | Non-recourse, floating rate |
| 53 State Street | Boston | 5.96 | August | 2016 | 280 | 280 | Non-recourse, fixed rate |
| One World Financial Center | New York | 5.83 | February | 2017 | 309 | 309 | Non-recourse, fixed rate |
| One Liberty Plaza | New York | 6.14 | September | 2017 | 835 | 835 | Non-recourse, fixed rate |
| West 33 rd Street ⁽⁴⁾ | New York | 5.90 | April | 2018 | 122 | 122 | Non-recourse, fixed rate |
| 22 Front Street | Toronto | 6.24 | October | 2020 | 18 | 18 | Non-recourse, fixed rate |
| 33 South Sixth Street ⁽⁶⁾ | Minneapolis | 8.72 | May | 2028 | 88 | 88 | Non-recourse, fixed rate |
| 701 9th Street | Washington, D.C. | 6.73 | December | 2028 | 152 | 152 | Non-recourse, fixed rate |
| 300 Madison Avenue | New York | 7.26 | April | 2032 | 400 | 400 | Non-recourse, fixed rate |
| Total Direct | | 6.02 | | | \$ 5,527 | \$ 5,527 | |
| U.S. Office Fund | | | | | | | |
| Waterview | Washington, D.C. | 2.25 | August | 2010 | \$ 3 | \$ 5 | Non-recourse, floating rate |
| Two Ballston Plaza | Washington, D.C. | 6.90 | April | 2011 | 15 | 24 | Non-recourse, fixed rate |
| Bethesda Crescent | Washington, D.C. | 6.90 | April | 2011 | 19 | 31 | Non-recourse, fixed rate |
| Silver Spring Metro Plaza ⁽⁸⁾ | Washington, D.C. | 6.00 | September | 2011 | 58 | 94 | Non-recourse, fixed rate |
| 2401 Pennsylvania Avenue ⁽⁸⁾ | Washington, D.C. | 6.00 | September | 2011 | 10 | 17 | Non-recourse, fixed rate |
| 1250 Connecticut ⁽⁸⁾ | Washington, D.C. | 6.00 | September | 2011 | 28 | 45 | Non-recourse, fixed rate |
| 1460 Broadway | New York | 5.11 | November | 2012 | — | 12 | Non-recourse, fixed rate |
| 5670 Wilshire | Los Angeles | 2.30 | May | 2013 | — | 57 | Non-recourse, floating rate |
| 1400 Smith Street | Houston | 5.77 | October | 2013 | 149 | 240 | Non-recourse, fixed rate |
| Ernst & Young Plaza | Los Angeles | 5.07 | February | 2014 | 66 | 107 | Non-recourse, fixed rate |
| 2000 L Street | Washington, D.C. | 4.24 | April | 2014 | 34 | 55 | Non-recourse, floating rate |
| Grace Building | New York | 5.54 | July | 2014 | 116 | 187 | Non-recourse, fixed rate |
| 1411 Broadway | New York | 5.50 | July | 2014 | — | 107 | Non-recourse, fixed rate |
| Bank of America Plaza | Los Angeles | 5.31 | September | 2014 | 142 | 229 | Non-recourse, fixed rate |
| 2001 M Street | Washington, D.C. | 5.25 | December | 2014 | 28 | 45 | Non-recourse, fixed rate |
| Victor Building | Washington, D.C. | 5.39 | February | 2016 | 30 | 49 | Non-recourse, fixed rate |
| One New York Plaza | New York | 5.50 | March | 2016 | 242 | 390 | Non-recourse, fixed rate |
| Marina Towers | Los Angeles | 5.84 | April | 2016 | 12 | 20 | Non-recourse, fixed rate |
| U.S. Fund Pool debt | — | 6.84 | May | 2011 | 142 | 303 | Non-recourse, fixed rate |
| U.S. Fund corporate debt ⁽⁹⁾ | — | 2.73 | October | 2011 | 1,295 | 3,067 | Non-recourse, fixed/floating rate |
| U.S. Fund Pool debt | — | 0.98 | October | 2011 | 279 | 593 | Non-recourse, floating rate |
| Total U.S. Office Fund | | 3.77 | | | \$ 2,668 | \$ 5,677 | |

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

⁽²⁾ Net of \$51 million of transaction costs

⁽³⁾ Reflects Brookfield Properties' effective 47% interest in the U.S. Office Fund

⁽⁴⁾ Development debt

⁽⁵⁾ Has a one-year extension option available at maturity. The criteria to extend to 2011 have been met as of December 31, 2009

⁽⁶⁾ Commercial property debt of \$156 million relates to discontinued operations

⁽⁷⁾ Has a two-year extension option to May 2015 which is available to the company provided certain debt service and loan-to-value thresholds are met

⁽⁸⁾ Property debt is cross-collateralized

⁽⁹⁾ As at December 31, 2009 \$1 billion of our proportional amount of this debt has been swapped to fixed rate at an average rate of 1.38%

| | | | | | Dec. 31, 2009 ^(1,2) | | |
|---------------------------------------|----------|-------------|---------------|------|--------------------------------|------------------|--------------------------|
| (\$ in millions) | Location | Rate % | Maturity Date | | Proportional ⁽³⁾ | Consolidated | Mortgage Details |
| Canadian Office Fund | | | | | | | |
| Place de Ville I | Ottawa | 7.81 | February | 2010 | \$ 5 | \$ 5 | Non-recourse, fixed rate |
| 151 Yonge Street | Toronto | 6.01 | June | 2012 | 10 | 10 | Non-recourse, fixed rate |
| Jean Edmonds Tower | Ottawa | 5.55 | January | 2014 | 1 | 1 | Non-recourse, fixed rate |
| First Canadian Place | Toronto | 5.37 | December | 2014 | 73 | 73 | Non-recourse, fixed rate |
| 2 Queen Street East | Toronto | 5.64 | December | 2017 | 27 | 27 | Non-recourse, fixed rate |
| Altius Centre | Calgary | 5.64 | December | 2017 | 19 | 19 | Non-recourse, fixed rate |
| Canadian Western Bank | Edmonton | 5.64 | December | 2017 | 14 | 14 | Non-recourse, fixed rate |
| Enbridge Tower | Edmonton | 6.50 | July | 2019 | 6 | 6 | Non-recourse, fixed rate |
| Jean Edmonds Tower | Ottawa | 6.79 | January | 2024 | 16 | 16 | Non-recourse, fixed rate |
| Total Canadian Office Fund | | 5.75 | | | \$ 171 | \$ 171 | |
| Corporate | | | | | | | |
| Term Facility | — | 5.75 | September | 2010 | \$ 100 | \$ 100 | Recourse, floating rate |
| Corporate Revolver ⁽⁴⁾ | — | 4.15 | December | 2010 | — | — | Recourse, floating rate |
| Corporate Revolver | — | 3.98 | June | 2011 | — | — | Recourse, floating rate |
| Total Corporate | | | | | \$ 100 | \$ 100 | |
| Total Commercial Property Debt | | 4.81 | | | \$ 8,466 | \$ 11,475 | |

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

⁽²⁾Net of transaction costs

⁽³⁾Reflects Brookfield Properties' effective 47% interest in the U.S. Office Fund

⁽⁴⁾Represents corporate line from BAM

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

| (Millions) | Scheduled Amortization ⁽¹⁾ | Maturities | Total ⁽²⁾ | Weighted-Average Interest Rate at Dec. 31, 2009 |
|--------------------------------|---------------------------------------|------------|----------------------|---|
| 2010 | \$ 175 | \$ 553 | \$ 728 | 3.65% |
| 2011 ⁽³⁾ | 209 | 4,671 | 4,880 | 3.34% |
| 2012 | 204 | 371 | 575 | 6.02% |
| 2013 | 65 | 1,365 | 1,430 | 5.89% |
| 2014 | 44 | 1,204 | 1,248 | 5.22% |
| 2015 and thereafter | 664 | 1,950 | 2,614 | 6.18% |
| Total commercial property debt | \$ 1,361 | \$ 10,114 | \$ 11,475 | 4.81% |

⁽¹⁾Paid through our annual cash flows

⁽²⁾Includes \$156 million of commercial property debt related to discontinued operations at December 31, 2009 (December 31, 2008 - \$199 million)

⁽³⁾Corporate mezzanine debt of \$3,067 million within the U.S. Office Fund matures in 2011

CONTRACTUAL OBLIGATIONS

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

| (Millions) | Total | Payments Due By Period | | | |
|--|-----------|------------------------|-------------|-------------|---------------|
| | | Less than 1 year | 2 - 3 Years | 4 - 5 Years | After 5 Years |
| Commercial property debt ⁽¹⁾ | \$ 11,475 | \$ 728 | \$ 5,455 | \$ 2,678 | \$ 2,614 |
| Residential development debt | 177 | 131 | 46 | — | — |
| Capital securities - corporate | 1,009 | 190 | — | 380 | 439 |
| Interest expense ⁽²⁾ | | | | | |
| Commercial property debt | 2,412 | 520 | 770 | 428 | 694 |
| Capital securities - corporate | 245 | 55 | 90 | 70 | 30 |
| Minimum rental payments - ground leases ⁽³⁾ | 1,571 | 28 | 56 | 56 | 1,431 |

⁽¹⁾Net of transaction costs and includes \$156 million of debt associated with discontinued operations

⁽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⁾Represents payments on properties situated on land held under leases or other agreements

Credit Ratings

We are currently rated by two credit rating agencies, Dominion Bond Rating Service Inc. ("DBRS") and Standard & Poor's Rating Service ("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, 2009 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) |
| Outlook | — | Negative |

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 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 our financial statements except for our investment in Brookfield LePage Johnson Controls and a 23.75% investment in Oakridges, which is 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 as well as for certain obligations of our associates in joint ventures. A specific litigation is being pursued against one of our subsidiaries related to security on a defaulted loan. The financial effect of this litigation is not currently determinable.

In addition, we may execute agreements that provide for indemnifications and guarantees to third parties. Disclosure of guarantees, contingencies and commitments can be found in Note 24 to our consolidated financial statements.

ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities totaled \$1,100 million at December 31, 2009, compared with \$1,241 million at December 31, 2008. Accounts payable and accrued liabilities increased to \$693 million from \$598 million at December 31, 2008 primarily due to the strengthening of the Canadian dollar in 2009. Land development debt decreased to \$177 million from \$434 million at December 31, 2008 due to the paydown of a significant portion of corporate bank lines using funds we received from the equity offerings in the third quarter of 2009. Our land development financing is primarily recourse to the underlying residential development properties and relates to construction and development loans, which are repaid from the sales proceeds of building lots and homes, and other short-term advances. As new homes are constructed, loans are funded on a rolling basis. This financing had a weighted average interest rate of 4.01% at December 31, 2009 (December 31, 2008 – 3.87%).

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

| (Millions) | Dec. 31, 2009 | Dec. 31, 2008 |
|--|---------------|---------------|
| Accounts payable and accrued liabilities | \$ 693 | \$ 598 |
| Straight-line rent payable | 82 | 70 |
| Residential payables and accrued liabilities | 148 | 139 |
| Land development debt | 177 | 434 |
| Total | \$ 1,100 | \$ 1,241 |

Included in accounts payable and accrued liabilities is a loan payable of \$92 million maturing in 2019, bearing interest at 7% and secured by our preferred equity interest in 1625 Eye Street in Washington, D.C.

INTANGIBLE LIABILITIES

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

The components of intangible liabilities are as follows:

| (Millions) | Dec. 31, 2009 | Dec. 31, 2008 |
|---------------------------------------|---------------|---------------|
| Intangible liabilities | | |
| Below-market leases | \$ 937 | \$ 996 |
| Above-market ground lease obligations | 44 | 40 |
| | 981 | 1,036 |
| Less accumulated amortization | | |
| Below-market leases | (390) | (322) |
| Above-market ground lease obligations | (10) | (7) |
| Total net | \$ 581 | \$ 707 |

FUTURE INCOME TAXES

At December 31, 2009, we had a net future income tax liability of \$208 million broken out as follows:

| (Millions) | 2009 | 2008 |
|-----------------------------------|--------|--------|
| Future income tax assets: | | |
| Loss carryforwards | \$ 190 | \$ 170 |
| Deferred financing costs | 24 | 6 |
| | 214 | 176 |
| Future income tax liabilities: | | |
| Properties | 394 | 277 |
| Deferred revenue | 26 | 41 |
| Other | 2 | 32 |
| | 422 | 350 |
| Net future income tax liabilities | \$ 208 | \$ 174 |

Together with our Canadian subsidiaries have future income tax assets of \$50 million (December 31, 2008 - \$45 million) that relate to non-capital losses which expire over the next 20 years and \$76 million (December 31, 2008 - \$73 million) which relate to capital losses which have no expiry. Our U.S. subsidiaries have future income tax assets of \$64 million (December 31, 2008 - \$52 million) which relate to net operating losses which expire over the next 20 years.

In December 2008, the company's wholly-owned U.S. office properties subsidiary, Brookfield Properties, Inc. ("BPI"), determined that it would elect to be taxed as a real estate investment trust ("REIT") pursuant to the Internal Revenue Code section 856. Our initial REIT election was effective as of January 1, 2008. In general, a corporation that distributes at least 90% of its REIT taxable income to its shareholders in any taxable year, and complies with certain other requirements (relating primarily to its organization, the nature of its assets and the sources of its revenues) is not subject to United States federal income taxation to the extent of the income which it distributes. The company determined that BPI substantially met the qualifications for REIT status and accordingly determined that BPI will not be liable for income taxes at the federal level in the United States, or in most of the states in which it operates, in future years.

Income earned in our Canadian and U.S. operations conducted outside of the REIT structures, as well as distributions from the REIT structures, are subject to corporate tax. The company's tax loss pools are available to reduce cash tax obligations.

CAPITAL SECURITIES – CORPORATE

Certain of our Class AAA preferred shares are classified as liabilities under the caption “Capital securities.” As at December 31, 2009 and 2008, we have the following capital securities – corporate outstanding:

| (Millions, except share information) | Shares Outstanding | Cumulative Dividend Rate | Dec. 31, 2009 ⁽¹⁾ | Dec. 31, 2008 ⁽¹⁾ |
|--------------------------------------|-----------------------|-----------------------------|------------------------------|------------------------------|
| Class AAA Series E ⁽²⁾ | 8,000,000 | 70% of bank prime | \$ — | \$ — |
| Class AAA Series F | 8,000,000 | 6.00% | 190 | 163 |
| Class AAA Series G | 4,400,000 | 5.25% | 109 | 109 |
| Class AAA Series H | 8,000,000 | 5.75% | 189 | 162 |
| Class AAA Series I | 8,000,000 | 5.20% | 190 | 164 |
| Class AAA Series J | 8,000,000 | 5.00% | 190 | 163 |
| Class AAA Series K | 6,000,000 | 5.20% | 141 | 121 |
| Total | | | \$ 1,009 | \$ 882 |

⁽¹⁾ Net of transaction costs of \$3 million and \$6 million at December 31, 2009 and December 31, 2008, respectively

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

For redemption dates, refer to Note 15 of the consolidated financial statements.

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

In December 2009, we commenced a normal course issuer bid for our Class AAA preference shares, Series F, Series G, Series H, Series I, Series J and Series K. We may, during the twelve month period commencing December 11, 2009 and ending December 10, 2010 purchase on the Toronto Exchange up approximately 5% of our issued and outstanding shares of each of these series. A copy of the Notice of Intention relating to our normal course issuer bid is available at www.sedar.com or may be requested from the company.

CAPITAL SECURITIES – FUND SUBSIDIARIES

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

| (Millions) | Dec. 31, 2009 | Dec. 31, 2008 |
|-----------------------------|---------------|---------------|
| Debt securities | \$ — | \$ 240 |
| Redeemable equity interests | 415 | 471 |
| Total | \$ 415 | \$ 711 |

During the second quarter of 2009, we completed a reorganization of the ownership interests in the U.S. Office Fund. As a result of the reorganization, the debt securities, which represented partner contributions to the U.S. Office Fund by way of an unsecured debenture, have been converted to non-controlling interests – fund subsidiaries.

Redeemable equity interests include \$398 million representing the equity interest in the U.S. Office Fund held by our joint venture partner, The Blackstone Group (“Blackstone”). The balance of redeemable equity interests is comprised of \$17 million of redeemable preferred securities bearing interest at 6%.

NON-CONTROLLING INTERESTS – FUND SUBSIDIARIES

At December 31, 2009, non-controlling interests – fund subsidiaries was \$511 million (December 31, 2008 – \$212 million) and represents equity contributions by other U.S. Office Fund investors in the Brookfield Properties-led consortium. The increase over December 31, 2008 is primarily a result of the conversion of debt securities into an equity interest by one of our partners pursuant to the reorganization of the ownership interests in the U.S. Office Fund referred to above.

NON-CONTROLLING INTERESTS – OTHER SUBSIDIARIES

In addition to our 100% owned subsidiaries and our U.S. Office Fund, we conduct our commercial property operations through BPO Properties Ltd. (“BPO Properties”) in Canada, which holds substantially all of our Canadian assets other than Brookfield 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 some of our Washington, D.C. assets. Also, our residential subsidiary, Carma Inc., consolidates UCAR Development LLC, a joint venture in which it holds a 50% interest.

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

| (Millions) | Others' Equity Ownership | Dec. 31, 2009 | Dec. 31, 2008 |
|--|--------------------------|---------------|---------------|
| Common shares of BPO Properties ⁽¹⁾ | 10.3% | \$ 40 | \$ 45 |
| Limited partnership units of Brookfield Financial Properties | 0.6% | 15 | 13 |
| UCAR joint venture | 50.0% | 9 | 10 |
| Total | | \$ 64 | \$ 68 |

⁽¹⁾ Canadian dollar denominated

Non-controlling interests in BPO Properties decreased to \$40 million at December 31, 2009, from \$45 million at December 31, 2008, primarily due to a special dividend paid during the second quarter of 2009 as well as the impact of foreign exchange.

PREFERRED EQUITY – SUBSIDIARIES

In addition to the preferred equity classified as capital securities, we had \$363 million of preferred equity outstanding at December 31, 2009 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 interest expense. The increase over December 31, 2008 is primarily driven by the impact of foreign exchange.

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

| (Millions, except share information) | Shares Outstanding | Preferred Shares Series | Cumulative Dividend Rate | Dec. 31, 2009 | Dec. 31, 2008 |
|--------------------------------------|--------------------|-------------------------|--------------------------|---------------|---------------|
| | 1,805,489 | Series G | 70% of bank prime | \$ 43 | \$ 37 |
| | 3,816,527 | Series J | 70% of bank prime | 91 | 78 |
| | 300 | Series K | 30-day BA + 0.4% | 142 | 124 |
| | 2,847,711 | Series M | 70% of bank prime | 68 | 58 |
| | 800,000 | Series N | 30-day BA + 0.4% | 19 | 16 |
| Total | | | | \$ 363 | \$ 313 |

During 2009, dividends of \$5 million were paid on preferred shares issued by BPO Properties, compared with \$13 million in 2008.

PREFERRED EQUITY – CORPORATE

At December 31, 2009 we had \$304 million of preferred equity outstanding. Similar to the preferred shares issued by our 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 equity distributions.

We have the following preferred shares outstanding:

| (Millions, except share information) | Shares Outstanding | Cumulative Dividend Rate | Dec. 31, 2009 | Dec. 31, 2008 |
|--------------------------------------|--------------------|--------------------------|---------------|---------------|
| Class A redeemable voting | 14,202,000 | 7.50% | \$ 11 | \$ 11 |
| Class AA Series E | 2,000,000 | 70% of bank prime | 34 | 34 |
| Class AAA Series L | 11,500,000 | 6.75% | 259 | — |
| Total | | | \$ 304 | \$ 45 |

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

For details regarding the terms on our Class AAA preferred shares, Series L, refer to our Prospectus dated September 15, 2009

During the third quarter of 2009, we issued 11.5 million Class AAA Series L preferred shares at C\$25 per share. The proceeds from the share issuance were approximately \$259 million, net of share issuance costs of \$5 million. Holders of Series L shares receive fixed rate cumulative preferred cash dividends and will have the right to convert into Class AAA Series M preferred shares receiving floating rate cumulative preferred cash dividends, subject to certain conditions on September 30, 2014 and on September 30 every five years thereafter.

During 2009, we paid preferred dividends of \$7 million, an increase of \$4 million as compared with 2008. The increase is attributable to the preferred share offering in the third quarter of 2009.

Subsequent to the end of 2009, the company issued 11.5 million Class AAA Series N preferred shares at C\$25 per share.

COMMON EQUITY

As at December 31, 2009, we had 501,363,940 issued and outstanding common shares. On a diluted basis, we had 516,712,705 common shares outstanding, calculated as follows:

| | Dec. 31, 2009 | Dec. 31, 2008 |
|--|---------------|---------------|
| Common shares outstanding | 501,363,940 | 391,118,440 |
| Unexercised options | 15,348,765 | 9,718,216 |
| Common shares outstanding – diluted ⁽¹⁾ | 516,712,705 | 400,836,656 |
| Common shares repurchased | — | 2,268,600 |

⁽¹⁾ Includes all potential common shares at December 31, 2009 and December 31, 2008

We did not purchase any shares in 2009. Since the inception of our normal course issuer bid in 1999, we have repurchased approximately 38 million shares at an average price of \$11.96 per share on a post-split adjusted basis.

At December 31, 2009, the book value of our common equity was \$4.5 billion, compared with a market equity capitalization of approximately \$6.1 billion, calculated as total common shares outstanding multiplied by \$12.12, the closing price per common share on the New York Stock Exchange on December 31, 2009.

In August 2009, we entered into agreements for the issuance of 109.2 million of our common shares. Under the agreements, the underwriters purchased 54.6 million of our common shares at a price of \$9.50 per share. Concurrently, BAM purchased, directly or indirectly, 54.6 million of our common shares at a price of \$9.50 per share. The proceeds from the share issuances, which totaled approximately \$1.02 billion net of share issuance costs of \$22 million, were used for general corporate purposes, including the repayment of indebtedness and for investment purposes.

Following the offering, BAM continues to own, directly and indirectly, approximately 51% of our voting shares.

Our book value per share is calculated as follows:

| (Millions, except per share information) | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---------------|---------------|
| Shareholders' equity | \$ 4,826 | \$ 3,410 |
| Less: preferred equity | (304) | (45) |
| | 4,522 | 3,365 |
| Add: option proceeds ⁽¹⁾ | 200 | 144 |
| Fully diluted common shareholders' equity | 4,722 | 3,509 |
| Fully diluted common shares outstanding | 516.7 | 400.8 |
| Book value per share | \$ 9.14 | \$ 8.75 |

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

Like most commercial real estate companies within our peer group, our share price has traded down materially since the latter part of 2008 and during most of 2009. Compounding the decline in 2008 and the beginning of 2009 across most major indices, commercial real estate was hit particularly hard as a result of perceived pressures on balance sheet liquidity resulting from financing risk. Companies with tenant exposure concentrated in financial service focused markets, like New York, experienced additional share price pressure. During this time, we have also seen substantial downward pressure on the market values of commercial real estate. In the second half of 2009, we've seen a positive trend with market prices of shares in commercial real estate companies generally back on the rise. However, we continue to remain cautious as a full recovery is likely a long way away. We continue to monitor our commercial properties and residential inventory for impairment. We are confident that the carrying values of our assets at December 31, 2009 are supported by the cashflows expected to be generated through their operations.

CAPITAL RESOURCES AND LIQUIDITY

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

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

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

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

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

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

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

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

The sustainability of our capital strategy has been demonstrated by the \$1.3 billion in debt financings completed in 2009, the proceeds from which were primarily used to refinance existing obligations.

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

At December 31, 2009, we had approximately \$1.8 billion of liquidity consisting of \$176 million of cash, \$648 million on deposit with BAM and undrawn capacity on our corporate and residential credit facilities. Subsequent to year end this was increased to \$2.1 billion as a result of another preferred share offering.

Utilization of cash resources

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

| (Millions) | 2009 | 2008 | Total |
|---|--------------|----------------|----------------|
| Operating | | | |
| Decrease (increase) in land and housing inventory | \$ 41 | \$ (148) | \$ (107) |
| Net increase in cash from other operating activities | 530 | 607 | 1,137 |
| | 571 | 459 | 1,030 |
| Financing | | | |
| Commercial and corporate borrowings, net of repayments | (275) | (181) | (456) |
| Land development borrowings, net of repayments | (315) | 12 | (303) |
| Other debt arranged | 92 | — | 92 |
| Capital securities arranged – fund subsidiaries | 5 | 54 | 59 |
| Capital securities redeemed – fund subsidiaries | (27) | (20) | (47) |
| Non-controlling interest contributions arranged - fund subsidiaries | 6 | 16 | 22 |
| Distributions to non-controlling interests | (20) | (36) | (56) |
| Net issuance (repurchase) of common shares | 1,016 | (35) | 981 |
| Preferred shares issued | 259 | — | 257 |
| Preferred share dividends | (7) | (3) | (10) |
| Common share dividends | (245) | (220) | (465) |
| | 489 | (413) | 74 |
| Investing | | | |
| Loans receivable, net | (108) | 35 | 73 |
| Loans receivable - affiliate | (648) | — | (648) |
| Acquisitions of real estate, net | — | (16) | (16) |
| Dispositions of real estate, net | 16 | 420 | 436 |
| Development and redevelopment investments | (147) | (394) | (541) |
| Commercial property tenant improvements | (112) | (106) | (218) |
| Restricted cash and deposits | 15 | 35 | 50 |
| Capital expenditures | (57) | (77) | (134) |
| | (1,041) | (103) | (1,142) |
| Increase (decrease) in cash | \$ 19 | \$ (57) | \$ (38) |

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.

For the years ended December 31, 2009 and 2008, operating cashflow exceeded common share dividends paid by \$321 million and \$239 million, respectively.

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, 2009, our weighted average cost of capital, assuming a 12% return on equity, was 6.30% (2008 – 5.30%). 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 an increase in our market capitalization as a result of our equity issuance.

The following schedule details the capitalization of the company at the end of 2009 and 2008 and the related costs thereof:

| (Millions) | Cost of Capital ⁽¹⁾ | | Underlying Value ⁽²⁾ | |
|---|--------------------------------|---------------|---------------------------------|------------------|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Liabilities | | | | |
| Commercial property debt | 4.81% | 5.07% | \$ 11,475 | \$ 11,704 |
| Residential debt | 4.01% | 3.87% | 177 | 434 |
| Capital securities – corporate | 5.42% | 5.42% | 1,009 | 882 |
| Capital securities – fund subsidiaries ⁽³⁾ | 10.00% | 10.00% | 415 | 711 |
| Non-controlling interests – fund subsidiaries ⁽³⁾ | 10.00% | 10.00% | 511 | 212 |
| Non-controlling interests – other subsidiaries ⁽⁴⁾ | 12.00% | 12.00% | 64 | 68 |
| Preferred equity - subsidiaries | 4.83% | 4.19% | 363 | 313 |
| Shareholders' equity | | | | |
| Preferred equity - corporate | 6.20% | 3.68% | 304 | 45 |
| Common equity ⁽⁵⁾ | 12.00% | 12.00% | 6,077 | 3,023 |
| Total⁽⁶⁾ | 6.30% | 5.30% | \$ 20,395 | \$ 17,392 |

⁽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⁾ Assuming 12% return on co-invested capital

⁽⁵⁾ Determined on a market value basis

⁽⁶⁾ 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, 2009 was \$317 million (\$0.72 per diluted share) compared with \$700 million (\$1.77 per diluted share) in 2008. The prior year included a net gain of \$479 million (\$1.22 per diluted share) resulting from the revaluation of net future tax liabilities on the conversion of our U.S. operations into a REIT. Excluding this gain, net income increased \$96 million year over year due to:

- an increase of \$14 million (\$0.04 per diluted share) in commercial property operating income, as the prior period incurred \$13 million of operating expenses associated with damage from Hurricane Ike to our Houston properties;
- a decrease in interest expense of \$94 million (\$0.24 per diluted share) as a result of reduced LIBOR rates on our floating rate debt as well as the paydown of corporate bank lines in 2009;
- a \$7 million (\$0.02 per diluted share) reduction of general and administrative expenses;
- a decrease of \$44 million (\$0.11 per diluted share) in depreciation and amortization expenses as a result of properties reclassified to discontinued operations in 2009;
- a decrease of \$4 million (0.01 per diluted share) in capital securities - corporate due to the impact of foreign exchange;
- a net increase in gains and other items recognized of \$21 million (\$0.05 per diluted share) driven by a gain associated with the restructuring of the U.S. Office Fund recorded in 2009; and
- an increase in income from discontinued operations of \$69 million (\$0.17 per diluted share) driven by a gain of \$50 million on the 90% dilution of our interest in 1625 Eye Street in Washington D.C. as a result of a joint venture arrangement with an outside partner in the fourth quarter of 2009; offset by,
 - a decrease in residential operations of \$30 million (\$0.08 per diluted share) mainly due to pricing pressures as well as the impact of foreign exchange;
 - a decrease in interest and other income of \$23 million (\$0.06 per diluted share) as the prior year included \$10 million in settlement income and \$12 million on condominium sales at our Waterview site in Washington, D.C.;
 - a decrease in the recovery from capital securities – fund subsidiaries of \$44 million (\$0.11 per diluted share) primarily due to a gain of \$38 million in 2008 representing the effect of a change in the estimated cash flows to settle an obligation;
 - an increase in non-controlling interests of \$44 million (\$0.11 per diluted share) due to a reduction in interest related to the U.S. Office Fund, which results in increased income to our fund partners, offset by an increase in our non-controlling interests – other subsidiaries; and
 - an increase in income tax expense of \$16 million (\$0.04 per diluted share), excluding the net gain of \$479 million noted above, due to increased earnings.

Net income on a per share basis had an offsetting decrease of approximately \$0.07 per share from the overall increase noted above due to the dilution impact of the common and preferred share equity offerings in the third quarter of 2009.

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) | 2009 | 2008 | 2007 |
|--|-----------------|-----------------|-----------------|
| Total revenue | \$ 2,676 | \$ 2,773 | \$ 2,810 |
| Net operating income | | | |
| Commercial property operations | 1,322 | 1,308 | 1,240 |
| Residential development operations | 114 | 144 | 237 |
| Interest and other income | 44 | 67 | 45 |
| | 1,480 | 1,519 | 1,522 |
| Expenses | | | |
| Interest expense | | | |
| Commercial property debt | 531 | 625 | 661 |
| Capital securities – corporate | 53 | 57 | 61 |
| Capital securities – fund subsidiaries | (26) | (70) | (27) |
| General and administrative expense | 111 | 118 | 104 |
| Non-controlling interests | | | |
| Fund subsidiaries | 31 | (22) | (75) |
| Other subsidiaries | 11 | 20 | 23 |
| Depreciation and amortization | 495 | 539 | 513 |
| Future income taxes | 66 | (429) | 69 |
| Other | (45) | (24) | 44 |
| Net income from continuing operations | 253 | 705 | 149 |
| Discontinued operations ⁽¹⁾ | 64 | (5) | 91 |
| Net income | \$ 317 | \$ 700 | \$ 240 |
| Net income per share – diluted | | | |
| Continuing operations | \$ 0.57 | \$ 1.77 | \$ 0.37 |
| Discontinued operations | 0.15 | — | 0.22 |
| | \$ 0.72 | \$ 1.77 | \$ 0.59 |
| Funds from operations per share – diluted | | | |
| Continuing operations | \$ 1.43 | \$ 1.53 | \$ 1.49 |
| Discontinued operations | 0.05 | 0.06 | 0.08 |
| | \$ 1.48 | \$ 1.59 | \$ 1.57 |

⁽¹⁾ Refer to page 50 for further details on discontinued operations

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

| (Millions, except per share amounts) | 2009 | 2008 | 2007 |
|---|---------|---------|---------|
| Net income | \$ 317 | \$ 700 | \$ 240 |
| Preferred share dividends | (7) | (3) | (3) |
| Net income available to common shareholders | \$ 310 | \$ 697 | \$ 237 |
| Weighted average shares outstanding – basic | 430.7 | 392.3 | 395.9 |
| Net income per share – basic | \$ 0.72 | \$ 1.77 | \$ 0.60 |
| Weighted average shares outstanding – diluted | 432.2 | 393.2 | 399.2 |
| Net income per share – diluted | \$ 0.72 | \$ 1.77 | \$ 0.59 |
| Weighted average shares outstanding – basic | 430.7 | 392.3 | 395.9 |
| Unexercised options | 1.5 | 0.9 | 3.3 |
| Weighted average shares outstanding – diluted | 432.2 | 393.2 | 399.2 |

RECONCILIATION OF NET INCOME TO FUNDS FROM OPERATIONS

| (Millions) | 2009 | 2008 | 2007 |
|---|---------------|---------------|---------------|
| Net income | \$ 317 | \$ 700 | \$ 240 |
| Add (deduct) non-cash and certain non-recurring items: | | | |
| Depreciation and amortization | 495 | 539 | 513 |
| Income taxes | 66 | (429) | 69 |
| Discontinued operations ⁽¹⁾ | (40) | 29 | (56) |
| Non-controlling interests in above items ⁽²⁾ | (154) | (189) | (181) |
| Other ⁽³⁾ | (45) | (24) | 44 |
| Amortization of debt discount ⁽⁴⁾ | 9 | — | — |
| Funds from operations | \$ 648 | \$ 626 | \$ 629 |

⁽¹⁾ Represents depreciation and amortization, income taxes, impairment charges and disposition gains related to discontinued operations

⁽²⁾ Includes non-cash component of capital securities – fund subsidiaries of \$73 million for the year ended December 31, 2009 (2008 – \$93 million)

⁽³⁾ Represents a net foreign exchange gain in 2009 of \$6 million (2008 - \$24 million) as well as a net gain on the restructuring of the U.S. Office Fund of \$39 million; 2007 includes \$44 million of transaction costs

⁽⁴⁾ Represents the amortization of debt discount which formed a component of the gain recognized in connection with the restructuring of the U.S. Office Fund in the second quarter of 2009

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) | 2009 | 2008 | 2007 |
|---|---------|---------|---------|
| Funds from operations | \$ 648 | \$ 626 | \$ 629 |
| Preferred share dividends | (7) | (3) | (3) |
| | 641 | 623 | 626 |
| Funds from operations per share – diluted | \$ 1.48 | \$ 1.59 | \$ 1.57 |

REVENUE

The components of revenue are as follows:

| (Millions) | 2009 | 2008 | 2007 |
|---|----------|----------|----------|
| Commercial property revenue | | | |
| Revenue from continuing operations | \$ 2,148 | \$ 2,163 | \$ 2,022 |
| Recurring fee income | 39 | 43 | 40 |
| Lease termination, non-recurring fee and other income | 17 | 10 | 4 |
| Total commercial property revenue | 2,204 | 2,216 | 2,066 |
| Revenue from residential development operations | 451 | 505 | 700 |
| Revenue from commercial property and residential development operations | 2,655 | 2,721 | 2,766 |
| Interest and other ⁽¹⁾ | 21 | 52 | 44 |
| Total | \$ 2,676 | \$ 2,773 | \$ 2,810 |

⁽¹⁾ Represents revenue component only - excludes impact of foreign exchange gains and losses (non-revenue) associated with our net monetary asset position on our Canadian denominated assets

COMMERCIAL PROPERTY OPERATIONS

Commercial property net operating income totaled \$1,322 million in 2009 compared with \$1,308 million in 2008 and \$1,240 in 2007.

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

| (Millions) | 2009 | 2008 | 2007 |
|---|----------|----------|----------|
| Commercial property revenue | | | |
| Revenue from current properties | \$ 2,005 | \$ 1,989 | \$ 1,838 |
| Straight-line rental income | 20 | 35 | 47 |
| Intangible lease amortization | 123 | 139 | 137 |
| Revenue from continuing operations | 2,148 | 2,163 | 2,022 |
| Recurring fee income | 39 | 43 | 40 |
| Lease termination, non-recurring fee and other income | 17 | 10 | 4 |
| Total commercial property revenue | 2,204 | 2,216 | 2,066 |
| Property operating costs | (882) | (908) | (826) |
| Commercial property net operating income | \$ 1,322 | \$ 1,308 | \$ 1,240 |

Our Direct net operating income as well as our net operating income from our funds for the years ended 2009, 2008 and 2007 is as follows:

| (Millions) | 2009 | 2008 | 2007 |
|--|----------|----------|----------|
| Direct | | | |
| Same property | \$ 679 | \$ 687 | \$ 622 |
| Properties reclassified from redevelopment | 2 | — | — |
| Recurring fee income | 29 | 33 | 28 |
| | 710 | 720 | 650 |
| U.S. Office Fund | | | |
| Same property | 569 | 543 | 543 |
| Recurring fee income | 2 | 2 | 3 |
| | 571 | 545 | 546 |
| Canadian Office Fund | | | |
| Same property | 33 | 35 | 35 |
| Recurring fee income | 8 | 8 | 9 |
| | 41 | 43 | 44 |
| Total commercial property net operating income | \$ 1,322 | \$ 1,308 | \$ 1,240 |

Same property net operating income increased as a result of higher average rents on new leases versus expiring leases, a reduction in operating costs and increased parking income.

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

| (Millions) | 2009 | 2008 | 2007 |
|--|-------|--------|--------|
| Discontinued operations ⁽¹⁾ | | | |
| Revenue | \$ 88 | \$ 108 | \$ 140 |
| Property operating expenses | (40) | (53) | (67) |
| Net operating income from discontinued operations ⁽¹⁾ | \$ 48 | \$ 55 | \$ 73 |

⁽¹⁾ Represents 1625 Eye Street and One Bethesda Center in Washington, D.C. reclassified to discontinued operations in 2009, RBC Plaza in Minneapolis, 33 South Street in Minneapolis and TD Canada Trust Tower in Toronto reclassified to discontinued operations in 2008 and Acres House in Niagara Falls reclassified to discontinued operations in 2007

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

Revenue from commercial properties includes rental revenues earned from tenant leases, straight-line rent, percentage rent and additional rent from the recovery of operating costs and property taxes as well as recurring fee income and lease termination and other income. Revenue from commercial properties totaled \$2,204 million during the year ended December 31, 2009 compared with \$2,216 million during the same period in 2008. The decrease year over year is attributable to reductions in straight-line rent and intangible lease amortization.

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, 2009, we recognized \$20 million of straight-line rental revenue, as compared to \$35 million during the same period in 2008.

Commercial property operating costs, which include real estate taxes, utilities, insurance, repairs and maintenance, cleaning and other property-related expenses, were \$882 million during the year ended December 31, 2009, as compared to \$908 million during the same period in 2008, primarily driven by the impact of foreign exchange.

Substantially all of our leases are net leases in which the lessee is required to pay their proportionate share of property operating expenses such as utilities, repairs, insurance and taxes. Consequently, leasing activity, which affects both occupancy and in-place rental rates, is the principal contributor to the change in same property net operating income. During 2009, occupancy decreased in almost all of our regions due to lease expiries and lease terminations; however, we have managed to reduce our five-year rollover exposure by 250 basis points within our managed portfolio since the beginning of the year. At December 31, 2009, average in-place net rent throughout the portfolio was \$24.15 per square foot compared with \$22.68 per square foot at December 31, 2008.

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, 2009:

| | 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 | 4,438 | 12.4 | \$ 43.59 | \$ 50 |
| Downtown | 13,719 | 7.0 | 27.27 | 28 |
| Boston, Massachusetts | 1,990 | 5.3 | 31.32 | 28 |
| Washington, D.C. | 5,951 | 6.6 | 25.13 | 32 |
| Los Angeles, California | 4,530 | 5.5 | 21.06 | 22 |
| Houston, Texas | 8,280 | 5.9 | 12.99 | 21 |
| Toronto, Ontario | 7,618 | 5.8 | 24.18 | 23 |
| Calgary, Alberta | 5,943 | 8.6 | 27.81 | 29 |
| Ottawa, Ontario | 1,747 | 4.2 | 17.41 | 21 |
| Denver, Colorado | 1,327 | 5.9 | 18.23 | 20 |
| Minneapolis, Minnesota | 2,530 | 8.6 | 9.10 | 15 |
| Other | 1,253 | 7.5 | 14.86 | 21 |
| Total Managed | 59,326 | 7.0 | 24.15 | 27 |
| Midtown, New York | 2,089 | 5.8 | 25.44 | 50 |
| Los Angeles, California | 4,166 | 5.3 | 22.82 | 22 |
| Total Non-Managed | 6,255 | 5.4 | 23.67 | 31 |
| Total ⁽¹⁾ | 65,581 | 6.8 | \$ 24.11 | \$ 27 |

⁽¹⁾ Excludes developments

Our total managed portfolio occupancy rate decreased by 130 basis points to 95.0% at December 31, 2009 compared with 96.3% at December 31, 2008 due to lease expiries offset by lease renewals amidst challenging market conditions.

A summary of our occupancy levels for the past two years is as follows:

| (Thousands of square feet) | Dec. 31, 2009 | | Dec. 31, 2008 | |
|----------------------------|---------------------|-------------|---------------------|-------------|
| | Leasable Sq. Ft. | % Leased | Leasable Sq. Ft. | % Leased |
| New York, New York | | | | |
| Midtown | 4,438 | 95.4 | 4,438 | 96.2 |
| Downtown | 13,719 | 98.3 | 13,719 | 99.0 |
| Total New York, New York | 18,157 | 97.6 | 18,157 | 98.3 |
| Boston, Massachusetts | 1,990 | 87.3 | 1,990 | 94.3 |
| Washington, D.C. | 5,951 | 90.4 | 5,619 | 93.3 |
| Los Angeles, California | 4,530 | 83.9 | 4,530 | 87.7 |
| Houston, Texas | 8,280 | 93.8 | 8,280 | 94.9 |
| Toronto, Ontario | 7,618 | 97.8 | 7,617 | 97.8 |
| Calgary, Alberta | 5,943 | 99.8 | 5,681 | 99.9 |
| Ottawa, Ontario | 1,747 | 99.9 | 1,750 | 99.5 |
| Denver, Colorado | 1,327 | 95.4 | 1,324 | 97.7 |
| Minneapolis, Minnesota | 2,530 | 92.1 | 2,530 | 92.6 |
| Other | 1,253 | 96.4 | 1,253 | 98.3 |
| Total Managed | 59,326 | 95.0 | 58,731 | 96.3 |
| Midtown, New York | 2,089 | 80.4 | 2,089 | 77.9 |
| Los Angeles, California | 4,166 | 83.7 | 4,094 | 83.9 |
| Total Non-Managed | 6,255 | 82.6 | 6,183 | 81.9 |
| Total ⁽¹⁾ | 65,581 | 93.8 | 64,914 | 94.9 |

⁽¹⁾ Excludes developments

During 2009, we leased 4.6 million square feet of our managed space at an average leasing net rent of \$21.41 per square foot or a 24% premium over expiring net rents. This included 1.5 million square feet of new leases and 3.1 million square feet of renewals. Excluding our largest lease with Target Corp. for nearly 900,000 square feet, which was well below the estimated market rent, average leasing net rent was \$24.16 per square foot. Expiring net rent for our managed portfolio averaged \$17.31 per square foot.

The details of our leasing activity for 2009 are as follows:

| Dec. 31, 2008 | | | Activities during the year ended December 31, 2009 | | | | | | Dec. 31, 2009 | |
|-------------------------|--------------------------------------|------------------------------------|--|---|-----------------------------------|---|--|--|------------------------------------|----------------------------------|
| (Square feet in 000's) | Leasable Sq. Ft. ^(1,2) | Leased Sq. Ft. ^(1,2) | Expiries Sq. Ft. ⁽¹⁾ | Average Expiring Net Rent (\$ per sq. ft.) | Leasing Sq. Ft. ⁽¹⁾ | Year One Leasing Net Rent (\$ per sq. ft.) | Average Leasing Net Rent (\$ per sq. ft.) | Acq./ (Disp.) Sq. Ft. ^(1,3) | Leasable Sq. Ft. ⁽¹⁾ | Leased Sq. Ft. ⁽¹⁾ |
| | | | | | | | | | | |
| New York, New York | | | | | | | | | | |
| Midtown | 4,438 | 4,271 | (212) | \$ 27.55 | 176 | \$ 39.84 | \$ 43.01 | — | 4,438 | 4,235 |
| Downtown | 13,719 | 13,578 | (588) | 20.20 | 500 | 29.82 | 25.75 | — | 13,719 | 13,490 |
| Boston, Massachusetts | 1,990 | 1,877 | (194) | 23.62 | 54 | 35.09 | 35.34 | — | 1,990 | 1,737 |
| Washington, D.C. | 5,619 | 5,240 | (497) | 21.82 | 759 | 23.04 | 23.80 | (122) | 5,951 | 5,380 |
| Los Angeles, California | 4,530 | 3,972 | (648) | 15.63 | 475 | 20.55 | 24.14 | — | 4,530 | 3,799 |
| Houston, Texas | 8,280 | 7,855 | (344) | 14.42 | 253 | 17.73 | 18.00 | — | 8,280 | 7,764 |
| Toronto, Ontario | 7,618 | 7,454 | (878) | 20.02 | 871 | 21.00 | 22.12 | — | 7,618 | 7,447 |
| Calgary, Alberta | 5,681 | 5,674 | (264) | 24.59 | 259 | 37.71 | 31.80 | 262 | 5,943 | 5,931 |
| Ottawa, Ontario | 1,747 | 1,737 | (35) | 15.79 | 44 | 20.60 | 20.63 | — | 1,747 | 1,746 |
| Denver, Colorado | 1,327 | 1,299 | (58) | 22.56 | 25 | 20.74 | 21.86 | — | 1,327 | 1,266 |
| Minneapolis, Minnesota | 2,530 | 2,342 | (1,032) | 8.33 | 1,021 | 5.90 | 9.16 | — | 2,530 | 2,331 |
| Other | 1,253 | 1,232 | (175) | 14.16 | 151 | 22.93 | 23.11 | — | 1,253 | 1,208 |
| Total Managed | 58,732 | 56,531 | (4,925) | 17.31 | 4,588 | 19.56 | 21.41 | 140 | 59,326 | 56,334 |
| Midtown, New York | 2,089 | 1,629 | (420) | 27.12 | 471 | 25.08 | 26.05 | — | 2,089 | 1,680 |
| Los Angeles, California | 4,166 | 3,488 | (632) | 20.67 | 630 | 18.46 | 21.00 | — | 4,166 | 3,486 |
| Total Non-Managed | 6,255 | 5,117 | (1,052) | 23.25 | 1,101 | 21.29 | 23.16 | — | 6,255 | 5,166 |
| Total ⁽¹⁾ | 64,987 | 61,648 | (5,977) | \$ 18.35 | 5,689 | \$ 19.86 | \$ 21.72 | 140 | 65,581 | 61,500 |

⁽¹⁾ Excludes developments

⁽²⁾ Restated for remeasurements performed during the first quarter of 2009

⁽³⁾ Reclassified 262,000 square feet from development properties to commercial properties in connection with Bankers Court in Calgary in the third quarter of 2009. The net decrease of 122,000 square feet is as a result of the reclassification of 77 K Street and Two Reston Crescent in Washington, D.C. from development properties to commercial properties; offset by the sale of One Bethesda Center in Washington, D.C. in the fourth quarter of 2009

Recurring fee income

Fee income includes property management fees, leasing fees and project management fees relating to certain co-owned properties. Fee income serves as a cashflow supplement to enhance returns from co-owned assets. We also earn fees through Brookfield Residential Services Ltd. and Brookfield LePage Johnson Controls. Brookfield Residential Services Ltd. has been managing condominiums in the Greater Metropolitan Toronto area for the past 30 years and manages in excess of 56,000 units in over 283 condominium corporations. Brookfield LePage Johnson Controls, one of the largest facilities management operations in Canada, is owned 40% by Brookfield Properties in partnership with Johnson Controls. This joint venture manages nearly 199 million square feet of premises for major corporations and government, comprised of 101 million square feet of facility management services, 67 million square feet of workplace technology services and 30 million square feet of energy and sustainability services, representing growth of 22 million square feet of facility management services and 30 million square feet of energy and sustainability services.

The details of our fee income are as follows:

| (Millions) | 2009 | 2008 | 2007 |
|---|-------|-------|-------|
| Property management, leasing, project management and other fees | \$ 17 | \$ 20 | \$ 20 |
| Brookfield Residential Services Ltd. fees | 19 | 20 | 17 |
| Brookfield LePage Johnson Controls | 3 | 3 | 3 |
| Total | \$ 39 | \$ 43 | \$ 40 |

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

RESIDENTIAL DEVELOPMENT OPERATIONS

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

Our residential development operations contributed \$114 million of net operating income during the year ended December 31, 2009, as compared to \$144 million during the same period in 2008. The decrease is due mainly to the influence of pricing pressures in 2009.

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

| (Millions) | 2009 | 2008 | 2007 |
|-----------------|--------|--------|--------|
| Sales revenue | \$ 451 | \$ 505 | \$ 700 |
| Operating costs | (337) | (361) | (463) |
| Total | \$ 114 | \$ 144 | \$ 237 |

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

| | Lot Sales (Units/Acres) | | | Lot Sales Revenue (Millions) | | | Average Lot Sales Revenue (Thousands) | | |
|--|----------------------------|-------|-------|---------------------------------|-------|-------|--|-------|-------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Single Family (Lots) | | | | | | | | | |
| Alberta | 1,697 | 1,173 | 1,711 | \$228 | \$192 | \$257 | \$130 | \$157 | \$152 |
| Ontario | — | 124 | 152 | — | 14 | 18 | — | 116 | 117 |
| Colorado | 30 | 98 | 123 | 3 | 12 | 13 | 102 | 118 | 107 |
| Texas | 28 | — | 102 | 1 | — | 4 | 43 | — | 43 |
| Missouri | 1 | 4 | 1 | — | — | — | 54 | 72 | 100 |
| Total Single Family (Lots) | 1,756 | 1,399 | 2,089 | 232 | 218 | 292 | | | |
| Total Single Family (Acre Equivalent) ⁽¹⁾ | 257 | 214 | 345 | | | | | | |
| Multi-Family, Commercial and Industrial (Acres) | | | | | | | | | |
| Alberta | 3 | 47 | 85 | 1 | 45 | 112 | 169 | 209 | 192 |
| Ontario | 404 | 295 | — | 38 | 19 | — | 101 | 64 | — |
| Texas | 5 | — | — | 1 | — | — | 250 | — | — |
| Total Land Sales Revenue | | | | \$272 | \$282 | \$404 | | | |

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

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

| | Home Sales (Units/Acres) | | | Home Sales Revenue (Millions) | | | Average Home Sales Revenue (Thousands) | | |
|---------------|-----------------------------|------|-------|----------------------------------|-------|-------|---|-------|-------|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Single Family | | | | | | | | | |
| Alberta | 206 | 245 | 441 | \$54 | \$77 | \$124 | \$265 | \$313 | \$279 |
| Ontario | 126 | 305 | 248 | 36 | 88 | 73 | 285 | 290 | 296 |
| | 332 | 550 | 689 | 90 | 165 | 197 | | | |
| Multi-Family | | | | | | | | | |
| Alberta | 316 | 195 | 332 | 89 | 58 | 92 | 280 | 297 | 277 |
| Ontario | — | — | 29 | — | — | 7 | — | — | 247 |
| Total | 648 | 745 | 1,050 | \$179 | \$223 | \$296 | | | |

Residential development operating costs, which include land costs, land servicing costs, housing development costs, property taxes and other related costs decreased to \$337 million in 2009 from \$361 million in 2008. These costs decreased as a result of lower sales volume, declines in construction costs related to our home building operations as well as the impact of foreign exchange due to the decrease in the average Canadian dollar exchange rate at which these are translated.

INTEREST AND OTHER INCOME

Interest and other income includes interest charged on real estate mortgages and residential receivables, interest earned on cash balances, and transactional gains. Interest and other income was \$44 million during the year ended December 31, 2009 compared to \$67 million during the same period in 2008. The decrease is attributable to a reduction in interest income as a result of a lower interest rate environment as well as the settlement of a loan receivable on which interest is no longer being earned. The prior year also included a \$7 million one-time settlement in income as well as \$10 million from sales of our Waterview condominiums in Washington, D.C. Also included in interest and other income is a foreign exchange gain of \$23 million related to our Canadian denominated net monetary assets (2008 – gains of \$15 million).

INTEREST EXPENSE

Commercial property debt

Interest expense relating to commercial property debt decreased to \$531 million in 2009 from \$625 million in 2008. This decrease is largely attributable to the benefit of lower LIBOR rates in 2009. Average LIBOR during 2009 was approximately 0.33% as compared to approximately 2.78% during 2008.

Capital securities – corporate

Interest expense on capital securities – corporate relates to preferred share dividends recorded as interest expense under GAAP. This amount decreased to \$53 million in 2009 from \$57 million in 2008 due to foreign exchange fluctuations.

Capital securities – fund subsidiaries

Interest expense on capital securities – fund subsidiaries primarily represents net earnings attributable to redeemable equity interests in the U.S. Office Fund. Prior to the reorganization of the ownership interests in the U.S. Office Fund in the second quarter of 2009, interest expense on capital securities – fund subsidiaries also included interest expense related to certain debt securities issued to one of the company's co-investors in the Fund.

| (Millions) | 2009 | 2008 | 2007 |
|---|---------|---------|---------|
| Interest expense – capital securities – fund subsidiaries | \$ 47 | \$ 23 | \$ 55 |
| Non-cash component ⁽¹⁾ | (73) | (93) | (82) |
| Total | \$ (26) | \$ (70) | \$ (27) |

⁽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 December 31, 2009 decreased to \$111 million from \$118 million in 2008 primarily driven by cost-cutting initiatives. Included in general and administrative expenses is \$17 million (2008 - \$17 million) of expenses related to the operations of our subsidiary, Brookfield Residential Services Ltd.

NON-CONTROLLING INTERESTS

Fund subsidiaries

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

| (Millions) | 2009 | 2008 | 2007 |
|---|--------|---------|---------|
| Non-controlling interests | \$ 111 | \$ 74 | \$ 62 |
| Non-cash component ⁽¹⁾ | (80) | (96) | (137) |
| Total non-controlling interests – fund subsidiaries | \$ 31 | \$ (22) | \$ (75) |

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

Non-controlling interests – fund subsidiaries consists of non-controlling interests from continuing operations and discontinued operations as follows:

| (Millions) | 2009 | 2008 | 2007 |
|---|-------|---------|---------|
| Non-controlling interests – fund subsidiaries – continuing operations | \$ 31 | \$ (22) | \$ (75) |
| Non-controlling interests – fund subsidiaries – discontinued operations | — | — | 26 |
| Total non-controlling interests – fund subsidiaries | \$ 31 | \$ (22) | \$ (49) |

Non-controlling interests increased year over year due to a reduction in interest related to the U.S. Office Fund which results in increased income to our fund partners.

Other subsidiaries

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

For the year ended December 31, 2009, dividends paid on shares issued by our subsidiaries decreased to \$5 million from \$13 million in 2008. Non-controlling interests in subsidiary earnings were \$6 million in 2009 compared with \$7 million in 2008.

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

| (Millions) | Type | 2009 | 2008 | 2007 |
|---------------------------------|--|-------|-------|-------|
| BPO Properties | Redeemable preferred shares ⁽¹⁾ | \$ 5 | \$ 13 | \$ 15 |
| BPO Properties | Participating interests | 6 | 7 | 14 |
| Brookfield Financial Properties | Participating interests | — | — | 1 |
| Total | | \$ 11 | \$ 20 | \$ 30 |

⁽¹⁾ Non-participating

Non-controlling interests – other subsidiaries consists of non-controlling interests from continuing operations and discontinued operations as follows:

| (Millions) | 2009 | 2008 | 2007 |
|--|-------|-------|-------|
| Non-controlling interests – other subsidiaries – continuing operations | \$ 11 | \$ 20 | \$ 23 |
| Non-controlling interests – other subsidiaries – discontinued operations | — | — | 7 |
| Total non-controlling interests – other subsidiaries | \$ 11 | \$ 20 | \$ 30 |

DEPRECIATION AND AMORTIZATION EXPENSE

Depreciation and amortization expense for the year ended December 31, 2009 decreased to \$495 million from \$539 million in 2008 largely due to the reclassification of two Washington, D.C. properties to discontinued operations and the impact of foreign exchange.

INCOME TAXES

Income taxes for the year ended December 31, 2009 were \$66 million as compared to a net income tax benefit of \$429 million in 2008. The prior year included a gain of \$479 million resulting from the revaluation of net future tax liabilities on conversion of our U.S. operations into a REIT. Additionally, a change in tax jurisdiction in which our interest in the U.S. Office Fund is held resulted in a 2.25% increase in the tax rate applicable to taxable differences in the Fund, which accounted for \$42 million of tax expense in 2009.

OTHER

In the current year, we realized \$6 million of net foreign exchange gains resulting from reductions in the company's net investment in its self-sustaining Canadian subsidiaries as a result of dividends and equity distributions (2008 - \$24 million).

Also in the current year, we recognized a \$39 million dilution gain, net of transaction costs of approximately \$6 million, in connection with the reorganization of investors' interests in the U.S. Office Fund, principally relating to the settlement of debt securities with consideration in the form of a non-controlling equity interest in the U.S. Office Fund. Refer to Note 16 of the consolidated financial statements for further details.

DISCONTINUED OPERATIONS

During the fourth quarter of 2009, we sold One Bethesda Center and diluted our interest in 1625 Eye Street in Washington, D.C. by 90%, resulting in the recognition of a gain of \$50 million in the fourth quarter. We retained a 10% ownership interest in 1625 Eye Street and will continue to manage the property.

At December 31, 2009, the four properties that comprise the company's Minneapolis portfolio, RBC Plaza, 33 South Sixth Street, and Gaviidae I and II continued to be classified as discontinued operations. We still intend to exit this market through the sale of these properties and continue to make adjustments to our marketing efforts in response to current market conditions. The properties were classified as discontinued operations at December 31, 2008, which resulted in the recognition of an impairment loss on these properties in the prior year of \$140 million, net of taxes of \$7 million.

The following table summarizes income from discontinued operations:

| (Millions) | 2009 | 2008 | 2007 |
|---|-------|--------|--------|
| Revenue | \$ 88 | \$ 108 | \$ 140 |
| Operating expenses | (40) | (53) | (67) |
| | 48 | 55 | 73 |
| Interest expense | (24) | (31) | (38) |
| Funds from operations | 24 | 24 | 35 |
| Depreciation and amortization | (7) | (16) | (21) |
| Income from discontinued operations before gains, non-controlling interests and taxes | 17 | 8 | 14 |
| Gain from discontinued operations | 50 | 164 | 144 |
| Impairment loss | — | (147) | — |
| Non-controlling interests | — | — | (33) |
| Future income taxes | (3) | (30) | (34) |
| Income from discontinued operations | \$ 64 | \$ (5) | \$ 91 |

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 77% 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 Missouri in the U.S. Details of segmented financial information for our principal areas of business are as follows:

| | Commercial | | | | Residential Development | | Total | |
|---|---------------|-----------|----------|----------|-------------------------|----------|-----------|-----------|
| | United States | | Canada | | | | | |
| (Millions) | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Assets | | | | | | | | |
| Commercial properties | \$ 12,893 | \$ 13,147 | \$ 2,060 | \$ 1,754 | \$ — | \$ — | \$ 14,953 | \$ 14,901 |
| Development properties | 559 | 624 | 754 | 601 | 1,259 | 1,196 | 2,572 | 2,421 |
| Receivables and other | 1,381 | 562 | 220 | 115 | 351 | 241 | 1,952 | 918 |
| Intangible assets | 494 | 612 | 23 | 25 | — | — | 517 | 637 |
| Restricted cash and deposits | 85 | 112 | 15 | 2 | 1 | 2 | 101 | 116 |
| Cash and cash equivalents | 101 | 97 | 66 | 59 | 9 | 1 | 176 | 157 |
| Assets related to discontinued operations | 299 | 290 | — | — | — | — | 299 | 290 |
| Total | \$ 15,812 | \$ 15,444 | \$ 3,138 | \$ 2,556 | \$ 1,620 | \$ 1,440 | \$ 20,570 | \$ 19,440 |

| | Commercial | | | | Residential Development | | Total | |
|---|---------------|----------|--------|--------|-------------------------|--------|----------|----------|
| | United States | | Canada | | | | | |
| (Millions) | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues | \$ 1,784 | \$ 1,777 | \$ 420 | \$ 439 | \$ 451 | \$ 505 | \$ 2,655 | \$ 2,721 |
| Expenses | 713 | 725 | 169 | 183 | 337 | 361 | 1,219 | 1,269 |
| | 1,071 | 1,052 | 251 | 256 | 114 | 144 | 1,436 | 1,452 |
| Interest and other income | 31 | 36 | 7 | 20 | 6 | 11 | 44 | 67 |
| Net operating income from continuing operations | 1,102 | 1,088 | 258 | 276 | 120 | 155 | 1,480 | 1,519 |
| Interest expense | | | | | | | | |
| Commercial property debt | 489 | 577 | 42 | 48 | — | — | 531 | 625 |
| Capital securities – corporate | 8 | 9 | 45 | 48 | — | — | 53 | 57 |
| Capital securities – fund subsidiaries | (26) | (70) | — | — | — | — | (26) | (70) |
| General and administrative expense | 63 | 72 | 48 | 46 | — | — | 111 | 118 |
| Non-controlling interests | | | | | | | | |
| Fund subsidiaries | 31 | (22) | — | — | — | — | 31 | (22) |
| Other subsidiaries | — | — | 11 | 20 | — | — | 11 | 20 |
| Depreciation and amortization | 432 | 470 | 63 | 69 | — | — | 495 | 539 |
| Income before unallocated costs | 105 | 52 | 49 | 45 | 120 | 155 | 274 | 252 |
| Future income taxes | | | | | | | 66 | (429) |
| Other | | | | | | | (45) | (24) |
| Net income from continuing operations | | | | | | | 253 | 705 |
| Discontinued operations | 64 | (127) | — | 122 | — | — | 64 | (5) |
| Net income | | | | | | | \$ 317 | \$ 700 |

QUARTERLY RESULTS

The 2009 and 2008 results by quarter are as follows:

| | 2009 | | | | 2008 | | | |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| (Millions, except per share amounts) | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Total Revenue | \$ 816 | \$ 657 | \$ 619 | \$ 584 | \$ 715 | \$ 707 | \$ 708 | \$ 643 |
| Net operating income | | | | | | | | |
| Commercial property operations | 338 | 330 | 332 | 322 | 317 | 320 | 336 | 335 |
| Residential development operations | 74 | 21 | 13 | 6 | 46 | 45 | 35 | 18 |
| Interest and other | 10 | 11 | 14 | 9 | 23 | 16 | 15 | 13 |
| | 422 | 362 | 359 | 337 | 386 | 381 | 386 | 366 |
| Interest expense | | | | | | | | |
| Commercial property debt | 127 | 143 | 132 | 129 | 160 | 158 | 148 | 159 |
| Capital securities – corporate | 14 | 13 | 14 | 12 | 12 | 15 | 15 | 15 |
| Capital securities – fund subsidiaries | (9) | (11) | — | (6) | (53) | (5) | (4) | (8) |
| General and administrative expense | 32 | 27 | 26 | 26 | 30 | 27 | 29 | 32 |
| Non-controlling interests | | | | | | | | |
| Fund subsidiaries | 7 | 11 | 6 | 7 | (7) | (10) | (3) | (2) |
| Other subsidiaries | 2 | 3 | 3 | 3 | 4 | 4 | 6 | 6 |
| Depreciation and amortization | 126 | 123 | 120 | 126 | 146 | 127 | 132 | 134 |
| Income taxes | (6) | 15 | 51 | 6 | (479) | 20 | 21 | 9 |
| Other | — | 4 | (49) | — | (24) | — | — | — |
| Net income from continuing operations | \$ 129 | \$ 34 | \$ 56 | \$ 34 | \$ 597 | \$ 45 | \$ 42 | \$ 21 |
| Discontinued operations ⁽¹⁾ | 52 | 4 | 4 | 4 | (139) | 129 | 3 | 2 |
| Net income | \$ 181 | \$ 38 | \$ 60 | \$ 38 | \$ 458 | \$ 174 | \$ 45 | \$ 23 |
| Net income per share – basic | | | | | | | | |
| Continuing operations | \$ 0.25 | \$ 0.07 | \$ 0.14 | \$ 0.09 | \$ 1.50 | \$ 0.11 | \$ 0.11 | \$ 0.05 |
| Discontinued operations ⁽¹⁾ | 0.10 | 0.01 | 0.01 | 0.01 | (0.34) | 0.33 | — | 0.01 |
| | \$ 0.35 | \$ 0.08 | \$ 0.15 | \$ 0.10 | \$ 1.16 | \$ 0.44 | \$ 0.11 | \$ 0.06 |
| Net income per share – diluted | | | | | | | | |
| Continuing operations | \$ 0.25 | \$ 0.07 | \$ 0.14 | \$ 0.09 | \$ 1.50 | \$ 0.11 | \$ 0.11 | \$ 0.05 |
| Discontinued operations ⁽¹⁾ | 0.10 | 0.01 | 0.01 | 0.01 | (0.34) | 0.33 | — | 0.01 |
| | \$ 0.35 | \$ 0.08 | \$ 0.15 | \$ 0.10 | \$ 1.16 | \$ 0.44 | \$ 0.11 | \$ 0.06 |
| Funds from operations per share – diluted | | | | | | | | |
| Continuing operations | \$ 0.42 | \$ 0.33 | \$ 0.37 | \$ 0.31 | \$ 0.48 | \$ 0.37 | \$ 0.38 | \$ 0.30 |
| Discontinued operations ⁽¹⁾ | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 | 0.02 | 0.02 |
| | \$ 0.43 | \$ 0.34 | \$ 0.38 | \$ 0.32 | \$ 0.49 | \$ 0.38 | \$ 0.40 | \$ 0.32 |

⁽¹⁾All quarters presented are net of non-controlling interests

PART III – U.S. OFFICE FUND SUPPLEMENTAL INFORMATION

During 2006, we established and fully invested in our 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, Blackstone, in the fourth quarter of 2006 for \$7.6 billion.

The U.S. Office Fund now consists of 59 commercial properties totaling 31 million square feet and five development and redevelopment sites totaling three million square feet in New York, Washington, D.C., Houston and Los Angeles. The following represents our portfolio:

| (Square feet in 000's) | Number of Properties | Leased % | Office | Retail | Total Leasable | Parking | Total Area | Owned Interest % | Brookfield Properties' Owned Interest ⁽¹⁾ | Other Share- holder's Interests | Brookfield Properties' Net Owned Interest |
|-----------------------------|----------------------------|-------------|---------------|--------------|-------------------|--------------|---------------|------------------------|---|--|--|
| New York | | | | | | | | | | | |
| The Grace Building | 1 | 93.8 | 1,537 | 20 | 1,557 | — | 1,557 | 49.9 | 777 | (416) | 361 |
| One New York Plaza | 1 | 99.2 | 2,554 | 31 | 2,585 | — | 2,585 | 100 | 2,585 | (1,383) | 1,202 |
| Newport Tower | 1 | 91.2 | 1,059 | 41 | 1,100 | — | 1,100 | 100 | 1,100 | (589) | 511 |
| | 3 | 97.6 | 5,150 | 92 | 5,242 | — | 5,242 | | 4,462 | (2,388) | 2,074 |
| Washington, DC | | | | | | | | | | | |
| 1200 K Street | 1 | 99.5 | 366 | 24 | 390 | 44 | 434 | 100 | 434 | (232) | 202 |
| 1250 23rd Street | 1 | 41.9 | 128 | — | 128 | 16 | 144 | 100 | 144 | (77) | 67 |
| 1250 Connecticut Avenue | 1 | 79.2 | 163 | 21 | 184 | 26 | 210 | 100 | 210 | (113) | 97 |
| 1400 K Street | 1 | 95.6 | 178 | 12 | 190 | 34 | 224 | 100 | 224 | (120) | 104 |
| 2000 L Street | 1 | 86.4 | 308 | 75 | 383 | — | 383 | 100 | 383 | (205) | 178 |
| 2001 M Street | 1 | 99.6 | 190 | 39 | 229 | 35 | 264 | 98 | 259 | (139) | 120 |
| 2401 Pennsylvania Avenue | 1 | 91.3 | 58 | 19 | 77 | 16 | 93 | 100 | 93 | (50) | 43 |
| Bethesda Crescent | 3 | 88.9 | 241 | 27 | 268 | 68 | 336 | 100 | 336 | (180) | 156 |
| One Reston Crescent | 1 | 100.0 | 185 | — | 185 | — | 185 | 100 | 185 | (99) | 86 |
| Silver Spring Metro Plaza | 3 | 83.8 | 640 | 47 | 687 | 84 | 771 | 100 | 771 | (413) | 358 |
| Sunrise Tech Park | 4 | 95.8 | 315 | 1 | 316 | — | 316 | 100 | 316 | (169) | 147 |
| Two Reston Crescent | 1 | 96.3 | 182 | 3 | 185 | — | 185 | 100 | 185 | (99) | 86 |
| Two Ballston Plaza | 1 | 97.5 | 204 | 19 | 223 | — | 223 | 100 | 223 | (119) | 104 |
| Victor Building | 1 | 81.7 | 302 | 45 | 347 | — | 347 | 49.9 | 173 | (92) | 81 |
| 1550 & 1560 Wilson Blvd | 2 | 99.6 | 248 | 35 | 283 | 76 | 359 | 100 | 359 | (192) | 167 |
| | 23 | 89.8 | 3,708 | 367 | 4,075 | 399 | 4,474 | | 4,295 | (2,299) | 1,996 |
| Houston | | | | | | | | | | | |
| Allen Center | | | | | | | | | | | |
| One Allen Center | 1 | 98.2 | 914 | 79 | 993 | — | 993 | 100 | 993 | (531) | 462 |
| Two Allen Center | 1 | 98.5 | 987 | 9 | 996 | — | 996 | 100 | 996 | (533) | 463 |
| Three Allen Center | 1 | 92.8 | 1,173 | 22 | 1,195 | — | 1,195 | 100 | 1,195 | (639) | 556 |
| 1400 Smith Street | 1 | 100.0 | 1,229 | 38 | 1,267 | — | 1,267 | 100 | 1,267 | (678) | 589 |
| Cullen Center | | | | | | | | | | | |
| Continental Center I | 1 | 95.0 | 1,048 | 50 | 1,098 | 411 | 1,509 | 100 | 1,509 | (807) | 702 |
| Continental Center II | 1 | 85.6 | 428 | 21 | 449 | 81 | 530 | 100 | 530 | (284) | 246 |
| KBR Tower | 1 | 80.5 | 985 | 63 | 1,048 | 254 | 1,302 | 50 | 651 | (348) | 303 |
| 500 Jefferson Street | 1 | 95.4 | 351 | 39 | 390 | 44 | 434 | 100 | 434 | (232) | 202 |
| | 8 | 93.8 | 7,115 | 321 | 7,436 | 790 | 8,226 | | 7,575 | (4,052) | 3,523 |
| Los Angeles | | | | | | | | | | | |
| 601 Figueroa | 1 | 77.0 | 1,037 | 2 | 1,039 | 123 | 1,162 | 100 | 1,162 | (622) | 540 |
| Bank of America Plaza | 1 | 94.8 | 1,383 | 39 | 1,422 | 343 | 1,765 | 100 | 1,765 | (944) | 821 |
| Ernst & Young Tower | 1 | 73.1 | 910 | 335 | 1,245 | 391 | 1,636 | 100 | 1,636 | (875) | 761 |
| Landmark Square | 1 | 91.7 | 420 | 23 | 443 | 212 | 655 | 100 | 655 | (350) | 305 |
| Marina Towers | 2 | 87.9 | 356 | 25 | 381 | 87 | 468 | 50 | 234 | (125) | 109 |
| | 6 | 83.9 | 4,106 | 424 | 4,530 | 1,156 | 5,686 | | 5,452 | (2,916) | 2,536 |
| Total Managed | 40 | 95.0 | 20,079 | 1,204 | 21,283 | 2,345 | 23,628 | | 21,784 | (11,655) | 10,129 |
| New York | | | | | | | | | | | |
| 1065 Avenue of the Americas | 1 | 82.5 | 642 | 40 | 682 | — | 682 | 99 | 675 | (361) | 314 |
| 1411 Broadway | 1 | 75.7 | 1,149 | 38 | 1,187 | 36 | 1,223 | 49.9 | 610 | (326) | 284 |
| 1460 Broadway | 1 | 99.1 | 211 | 9 | 220 | — | 220 | 49.9 | 110 | (59) | 51 |
| | 3 | 80.4 | 2,002 | 87 | 2,089 | 36 | 2,125 | | 1,395 | (746) | 649 |
| Los Angeles | | | | | | | | | | | |
| 5670 Wilshire Center | 1 | 71.2 | 426 | 19 | 445 | — | 445 | 100 | 445 | (238) | 207 |
| 6060 Center Drive | 1 | 89.2 | 253 | 15 | 268 | 113 | 381 | 100 | 381 | (204) | 177 |
| 6080 Center Drive | 1 | 96.9 | 316 | — | 316 | 163 | 479 | 100 | 479 | (256) | 223 |
| 6100 Center Drive | 1 | 84.1 | 294 | — | 294 | 168 | 462 | 100 | 462 | (247) | 215 |
| 701 B Street | 1 | 83.6 | 523 | 37 | 560 | — | 560 | 100 | 560 | (299) | 261 |
| 707 Broadway | 1 | 70.1 | 187 | — | 187 | 128 | 315 | 100 | 315 | (168) | 147 |
| 9665 Wilshire Blvd | 1 | 89.4 | 171 | — | 171 | 64 | 235 | 100 | 235 | (127) | 108 |
| Howard Hughes Spectrum | 1 | 100.0 | 37 | — | 37 | — | 37 | 100 | 37 | (20) | 17 |
| Howard Hughes Tower | 1 | 70.8 | 334 | 2 | 336 | 141 | 477 | 100 | 477 | (255) | 222 |
| Northpoint | 1 | 75.9 | 105 | — | 105 | 45 | 150 | 100 | 150 | (80) | 70 |
| Arden Towers at Sorrento | 4 | 87.1 | 564 | 54 | 618 | — | 618 | 100 | 618 | (330) | 288 |
| Westwood Center | 1 | 88.1 | 304 | 25 | 329 | — | 329 | 100 | 329 | (176) | 153 |
| Wachovia Center | 1 | 88.4 | 486 | 14 | 500 | 161 | 661 | 100 | 661 | (353) | 308 |
| | 16 | 83.7 | 4,000 | 166 | 4,166 | 983 | 5,149 | | 5,149 | (2,753) | 2,396 |
| Total Non-Managed | 19 | 82.6 | 6,002 | 253 | 6,255 | 1,019 | 7,274 | | 6,544 | (3,499) | 3,045 |
| TOTAL | 59 | 89.4 | 26,081 | 1,457 | 27,538 | 3,364 | 30,902 | | 28,328 | (15,154) | 13,174 |

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

| (Square feet in 000's) | Number of Sites | Total Area | Owned Interest % | Brookfield Properties' Owned Interest ⁽¹⁾ | Other Shareholder's Interests | Brookfield Properties' Net Owned Interest |
|--|-----------------------|---------------|------------------------|---|-------------------------------------|--|
| Washington, D.C. | | | | | | |
| Reston Crescent | 1 | 724 | 100 | 724 | (387) | 337 |
| | 1 | 724 | | 724 | (387) | 337 |
| Houston | | | | | | |
| 1500 Smith Street | 1 | 500 | 100 | 500 | (267) | 233 |
| Allen Center Clay Street | 1 | 600 | 100 | 600 | (321) | 279 |
| Five Allen Center | 1 | 1,100 | 100 | 1,100 | (587) | 513 |
| | 3 | 2,200 | | 2,200 | (1,175) | 1,025 |
| TOTAL DEVELOPMENT REDEVELOPMENT | 4 | 2,924 | | 2,924 | (1,562) | 1,362 |
| 1225 Connecticut Avenue, Washington, D.C. | 1 | 269 | 100 | 269 | (143) | 126 |
| TOTAL DEVELOPMENT AND REDEVELOPMENT | 5 | 3,193 | | 3,193 | (1,705) | 1,488 |

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

Our interest in the Trizec portfolio was initially purchased for \$857 million, after the assumption of debt and acquisition financing totaling \$3.7 billion in the fourth quarter of 2006. A reorganization of investors' interests in the U.S. Office Fund was completed in the second quarter of 2009 which resulted in a small increase in our economic interest in the Fund from 45% to 47%. Refer to Note 16 of the consolidated financial statements for further details of the reorganization.

At December 31, 2009, the impact of our investment in the U.S. Office Fund on our consolidated financial position and results can be summarized as follows:

| (Millions) | Balance Sheet | Funds from Operations | |
|---|---------------|-----------------------|--------|
| | | 2009 | 2008 |
| Midtown New York, New York | \$ 638 | \$ 44 | \$ 44 |
| Downtown New York, New York | 1,274 | 112 | 96 |
| Washington, D.C. | 1,165 | 90 | 90 |
| Los Angeles, California | 1,261 | 94 | 89 |
| Houston, Texas | 1,115 | 113 | 97 |
| Total Managed | 5,453 | 453 | 416 |
| Midtown New York, New York | 595 | 30 | 33 |
| Los Angeles, California | 1,326 | 86 | 94 |
| Total Non-Managed | 1,921 | 116 | 127 |
| Total Properties | 7,374 | 569 | 543 |
| Property management and leasing fee income | — | 2 | 2 |
| Development properties | 234 | — | — |
| Total book value / Net operating income | 7,608 | 571 | 545 |
| Property specific and subsidiary debt / Interest expense | (5,677) | (234) | (301) |
| Partner capital ⁽¹⁾ / Interest expense and non-controlling interests | (926) | (158) | (97) |
| Total | 1,005 | 179 | 147 |
| Other assets (liabilities), net / Other income (expenses), net | (184) | 4 | 8 |
| Invested capital / Funds from operations ⁽²⁾ | \$ 821 | \$ 183 | \$ 155 |

⁽¹⁾ Includes both debt and equity capital invested

⁽²⁾ Fees paid by the Fund to Brookfield Properties are eliminated on consolidation. For the year ended December 31, 2009, a total of \$34 million of fees were paid to Brookfield Properties (2008 - \$32 million) which resulted in a reduction of non-controlling interests expense of \$12 million (2008 - \$14 million) representing the net fees earned from partners

The U.S. Office Fund contributed \$949 million of commercial property revenue and \$571 million of net operating income from continuing operations during the year ended December 31, 2009 (2008 - \$943 million and \$545 million, respectively) as follows:

| (Millions) | 2009 | 2008 | 2007 |
|--|--------|--------|--------|
| Commercial property revenue | | | |
| Revenue from current properties | \$ 818 | \$ 793 | \$ 759 |
| Straight-line rental income | 28 | 36 | 40 |
| Intangible amortization | 103 | 114 | 122 |
| Total commercial property revenue | 949 | 943 | 921 |
| Property operating costs | (378) | (398) | (375) |
| Commercial property net operating income | \$ 571 | \$ 545 | \$ 546 |

SUMMARY OF INVESTMENT

The following summarizes our investment in the U.S. Office Fund as at December 31, 2009:

| Region | Number of Properties | Total Area (000's Sq. Ft.) | Brookfield Properties' Owned Interest (000's Sq. Ft.) ⁽¹⁾ | Book Value (Millions) | Debt (Millions) | Net Book Equity (Millions) |
|------------------------------|----------------------|----------------------------|--|-----------------------|-----------------|----------------------------|
| Commercial Properties | | | | | | |
| Midtown New York, New York | 4 | 3,682 | 2,172 | \$ 1,233 | \$ 306 | \$ 927 |
| Downtown New York, New York | 2 | 3,685 | 3,685 | 1,274 | 390 | 884 |
| Washington, D.C. | 23 | 4,474 | 4,295 | 1,165 | 365 | 800 |
| Los Angeles, California | 22 | 10,835 | 10,601 | 2,587 | 413 | 2,174 |
| Houston, Texas | 8 | 8,226 | 7,575 | 1,115 | 240 | 875 |
| Corporate U.S. Fund debt | — | — | — | — | 3,963 | (3,963) |
| | 59 | 30,902 | 28,328 | \$ 7,374 | \$ 5,677 | \$ 1,697 |
| Office development sites | 4 | 2,924 | 2,924 | 56 | — | 56 |
| Redevelopment sites | 1 | 269 | 269 | 178 | — | 178 |
| Total | 64 | 34,095 | 31,521 | \$ 7,608 | \$ 5,677 | \$ 1,931 |

⁽¹⁾ Represents consolidated interest before non-controlling interests

Commercial property debt relating to the U.S. Office Fund totaled \$5.7 billion at December 31, 2009. The details are as follows:

| Property | Location | Rate % | Maturity Date | Brookfield Properties' Share (Millions) | Proportional ⁽¹⁾ | Consolidated | Mortgage Details |
|--|------------------|-------------|----------------|---|-----------------------------|--------------|-----------------------------------|
| Waterview | Washington, D.C. | 2.25 | August 2010 | \$ 3 | \$ 5 | | Non-recourse, floating rate |
| Two Ballston Plaza | Washington, D.C. | 6.90 | April 2011 | 15 | 24 | | Non-recourse, fixed rate |
| Bethesda Crescent | Washington, D.C. | 6.90 | April 2011 | 19 | 31 | | Non-recourse, fixed rate |
| Silver Spring Metro Plaza ⁽²⁾ | Washington, D.C. | 6.00 | September 2011 | 58 | 94 | | Non-recourse, fixed rate |
| 2401 Pennsylvania Avenue ⁽²⁾ | Washington, D.C. | 6.00 | September 2011 | 10 | 17 | | Non-recourse, fixed rate |
| 1250 Connecticut ⁽²⁾ | Washington, D.C. | 6.00 | September 2011 | 28 | 45 | | Non-recourse, fixed rate |
| 1460 Broadway | New York | 5.11 | November 2012 | — | 12 | | Non-recourse, fixed rate |
| 5670 Wilshire | Los Angeles | 2.30 | May 2013 | — | 57 | | Non-recourse, floating rate |
| 1400 Smith Street | Houston | 5.77 | October 2013 | 149 | 240 | | Non-recourse, fixed rate |
| Ernst & Young Plaza | Los Angeles | 5.07 | February 2014 | 66 | 107 | | Non-recourse, fixed rate |
| 2000 L Street | Washington, D.C. | 4.24 | April 2014 | 34 | 55 | | Non-recourse, floating rate |
| Grace Building | New York | 5.54 | July 2014 | 116 | 187 | | Non-recourse, fixed rate |
| 1411 Broadway | New York | 5.50 | July 2014 | — | 107 | | Non-recourse, fixed rate |
| Bank of America Plaza | Los Angeles | 5.31 | September 2014 | 142 | 229 | | Non-recourse, fixed rate |
| 2001 M Street | Washington, D.C. | 5.25 | December 2014 | 28 | 45 | | Non-recourse, fixed rate |
| Victor Building | Washington, D.C. | 5.39 | February 2016 | 30 | 49 | | Non-recourse, fixed rate |
| One New York Plaza | New York | 5.50 | March 2016 | 242 | 390 | | Non-recourse, fixed rate |
| Marina Towers | Los Angeles | 5.84 | April 2016 | 12 | 20 | | Non-recourse, fixed rate |
| U.S. Fund Pool debt | — | 6.84 | May 2011 | 142 | 303 | | Non-recourse, fixed rate |
| U.S. Fund corporate debt ⁽³⁾ | — | 2.73 | October 2011 | 1,295 | 3,067 | | Non-recourse, fixed/floating rate |
| U.S. Fund Pool debt | — | 0.98 | October 2011 | 279 | 593 | | Non-recourse, floating rate |
| Total U.S. Office Fund | | 3.77 | | \$ 2,668 | \$ 5,677 | | |

⁽¹⁾ Reflects Brookfield Properties' effective 47% interest

⁽²⁾ Property debt is cross-collateralized

⁽³⁾ As at December 31, 2009 \$1 billion of this debt has been swapped to fixed rate at an average rate of 1.38%

PART IV – CANADIAN OFFICE FUND SUPPLEMENTAL INFORMATION

During 2005, we established and fully invested our 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 over the past few years and the Canadian Office Fund now consists of 12 commercial properties totaling eight million square feet primarily in Toronto, Calgary, Ottawa and Edmonton.

The following represents our Canadian Office Fund portfolio as of December 31, 2009:

| (Square feet in 000's) | Number of Properties | Leased % | Office | Retail | Total Leasable | Parking | Total Area | Owned Interest % | Brookfield Properties' Owned Interest ⁽¹⁾ | Other Share- holder's Interests | Brookfield Properties' Net Owned Interest |
|------------------------------------|----------------------------|-------------|--------------|------------|-------------------|--------------|---------------|------------------------|---|--|---|
| Toronto | | | | | | | | | | | |
| First Canadian Place | 1 | 96.1 | 2,379 | 232 | 2,611 | 170 | 2,781 | 25 | 695 | (76) | 619 |
| 151 Yonge Street | 1 | 97.8 | 289 | 10 | 299 | 72 | 371 | 25 | 93 | (10) | 83 |
| 2 Queen Street East | 1 | 98.6 | 448 | 16 | 464 | 81 | 545 | 25 | 136 | (15) | 121 |
| | 3 | 96.6 | 3,116 | 258 | 3,374 | 323 | 3,697 | | 924 | (101) | 823 |
| Calgary | | | | | | | | | | | |
| Altius Centre | 1 | 99.4 | 303 | 3 | 306 | 72 | 378 | 25 | 95 | (11) | 84 |
| | 1 | 99.4 | 303 | 3 | 306 | 72 | 378 | | 95 | (11) | 84 |
| Ottawa | | | | | | | | | | | |
| Place de Ville I | 2 | 99.8 | 569 | 14 | 583 | 502 | 1,085 | 25 | 271 | (30) | 241 |
| Place de Ville II | 2 | 100.0 | 598 | 12 | 610 | 433 | 1,043 | 25 | 261 | (29) | 232 |
| Jean Edmonds Towers | 2 | 100.0 | 541 | 13 | 554 | 95 | 649 | 25 | 162 | (18) | 144 |
| | 6 | 99.9 | 1,708 | 39 | 1,747 | 1,030 | 2,777 | | 694 | (77) | 617 |
| Other Commercial | | | | | | | | | | | |
| Canadian Western Bank, Edmonton | 1 | 98.2 | 371 | 36 | 407 | 91 | 498 | 25 | 125 | (14) | 111 |
| Enbridge Tower, Edmonton | 1 | 100.0 | 184 | — | 184 | 30 | 214 | 25 | 54 | (7) | 47 |
| | 2 | 98.8 | 555 | 36 | 591 | 121 | 712 | | 179 | (21) | 158 |
| TOTAL COMMERCIAL | 12 | 97.9 | 5,682 | 336 | 6,018 | 1,546 | 7,564 | | 1,892 | (210) | 1,682 |

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

| (Square feet in 000's) | Number of Sites | Total Area | Owned Interest % | Brookfield Properties' Owned Interest ⁽¹⁾ | Other Shareholder's Interests | Brookfield Properties' Net Owned Brookfield |
|--------------------------|-----------------------|---------------|------------------------|---|-------------------------------------|--|
| Ottawa | | | | | | |
| 300 Queen Street | 1 | 577 | 25 | 144 | (16) | 128 |
| TOTAL DEVELOPMENT | 1 | 577 | | 144 | (16) | 128 |

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

At December 31, 2009, the impact of our investment in the Canadian Office Fund on our consolidated financial position and results from continuing operations is summarized as follows:

| (Millions) | Balance Sheet | Funds from Operations | |
|--|---------------|-----------------------|-------|
| | | 2009 | 2008 |
| Toronto, Ontario | \$ 253 | \$ 21 | \$ 21 |
| Calgary, Alberta | 18 | 3 | 4 |
| Ottawa, Ontario | 93 | 7 | 7 |
| Edmonton, Alberta and other | 17 | 2 | 3 |
| | 381 | 33 | 35 |
| Development properties | 3 | — | — |
| Total book value / Net operating income | 384 | 33 | 35 |
| Property specific and subsidiary debt / Interest expense | (171) | (7) | (8) |
| | 213 | 26 | 27 |
| Other assets (liabilities), net / Other income (expenses), net | (39) | — | — |
| Net investment / Funds from operations prior to fee income | 174 | 26 | 27 |
| Fee income | — | 8 | 8 |
| Invested capital / Funds from operations | \$ 174 | \$ 34 | \$ 35 |

The Canadian Office Fund contributed \$75 million of commercial property revenue and \$41 million of net operating income from continuing operations during the year ended December 31, 2009 (2008 – \$80 million and \$43 million, respectively) as follows:

| (Millions) | 2009 | 2008 | 2007 |
|--|-------|-------|-------|
| Commercial property revenue | | | |
| Revenue from current properties | \$ 64 | \$ 66 | \$ 64 |
| Straight-line rental income | — | 1 | 1 |
| Intangible amortization | 3 | 5 | 7 |
| | 67 | 72 | 72 |
| Recurring fee income | 8 | 8 | 9 |
| Total commercial property revenue | 75 | 80 | 81 |
| Property operating costs | (34) | (37) | (37) |
| Commercial property net operating income | \$ 41 | \$ 43 | \$ 44 |

SUMMARY OF INVESTMENT

The following summarizes our investment in the Canadian Office Fund as at December 31, 2009:

| | Brookfield Properties' | | | | | Net Book |
|-----------------------|------------------------|----------------------------|---|-----------------------|-----------------|-------------------|
| Region | Number of Properties | Total Area (000's Sq. Ft.) | Owned Interest (000's Sq. Ft.) ⁽¹⁾ | Book Value (Millions) | Debt (Millions) | Equity (Millions) |
| Commercial Properties | | | | | | |
| Toronto, Ontario | 3 | 3,697 | 924 | \$ 253 | \$ 110 | \$ 143 |
| Calgary, Alberta | 1 | 378 | 95 | 18 | 19 | (1) |
| Ottawa, Ontario | 6 | 2,777 | 694 | 93 | 22 | 71 |
| Other | 2 | 712 | 179 | 17 | 20 | (3) |
| Continuing Operations | 12 | 7,564 | 1,892 | \$ 381 | \$ 171 | \$ 210 |
| Development sites | | | | | | |
| Ottawa, Ontario | 1 | 577 | 144 | 3 | — | 3 |
| Total | 13 | 8,141 | 2,036 | \$ 384 | \$ 171 | \$ 213 |

⁽¹⁾ Represents consolidated interest before non-controlling interests

Commercial property debt relating to the Canadian Office Fund totaled \$171 million at December 31, 2009. The details are as follows:

| | | | | Brookfield Properties' Consolidated | |
|----------------------------|----------|-----------------|---------------|---|--------------------------|
| Property | Location | Interest Rate % | Maturity Date | Share (Millions) | Mortgage Details |
| Place de Ville I | Ottawa | 7.81 | February 2010 | \$ 5 | Non-recourse, fixed rate |
| 151 Yonge Street | Toronto | 6.01 | June 2012 | 10 | Non-recourse, fixed rate |
| Jean Edmonds Tower | Ottawa | 5.55 | January 2014 | 1 | Non-recourse, fixed rate |
| First Canadian Place | Toronto | 5.37 | December 2014 | 73 | Non-recourse, fixed rate |
| 2 Queen Street East | Toronto | 5.64 | December 2017 | 27 | Non-recourse, fixed rate |
| Altius Centre | Calgary | 5.64 | December 2017 | 19 | Non-recourse, fixed rate |
| Canadian Western Bank | Edmonton | 5.64 | December 2017 | 14 | Non-recourse, fixed rate |
| Enbridge Tower | Edmonton | 6.50 | July 2019 | 6 | Non-recourse, fixed rate |
| Jean Edmonds Tower | Ottawa | 6.79 | January 2024 | 16 | Non-recourse, fixed rate |
| Total Canadian Office Fund | | 5.75 | | \$ 171 | |

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 at www.brookfieldproperties.com, or on www.sedar.com or www.sec.gov.

PROPERTY RELATED RISKS

Commercial properties

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

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

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made regardless of whether or not a property is producing sufficient income to service these expenses. Our 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 effectively mitigates these risks.

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

Residential developments

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

INTEREST RATE AND FINANCING RISK

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

As outlined under "Capital Resources and Liquidity," beginning on page 38 of this MD&A, we have an on-going obligation to access debt markets to refinance maturing debt as it comes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to us or on any terms at all. Our strategy to stagger the maturities of our mortgage portfolio attempts to mitigate our exposure to excessive amounts of debt maturing in any one year.

At December 31, 2009, we had a floating rate bank credit facility of \$413 million which matures in June 2011. Additionally, we have a floating rate term facility with BAM of \$300 million, the terms of which extend to 2010. At December 31, 2009, the balances drawn on these facilities were nil and nil, respectively. We also have a floating rate term loan facility established at the time of the Trizec acquisition, the terms of which extend to September 2010. The balance drawn on this facility as at December 31, 2009 was \$100 million. There is a risk that bank lenders will not refinance these facilities on terms and conditions acceptable to us or on any terms at all. As a mitigating factor, we have been

successful in negotiating extension options. Approximately 43% of the company's outstanding commercial property debt at December 31, 2009 is floating rate debt (December 31, 2008 – 45%) and subject to fluctuations in interest rates. The effect of a 100 basis point increase in interest rates on interest expense relating to our corporate and commercial floating rate debt, up to 5% LIBOR, is an increase in interest expense of \$39 million; \$19 million net of non-controlling interests or \$0.04 per share on an annualized basis. Taking into account our floating rate residential development debt and preferred shares issued by BPO Properties, a 100 basis point increase in rates would increase interest expense by an additional \$6 million on an annualized basis. As discussed in the Derivative Financial Instruments section beginning on page 62, we have mitigated to some extent the exposure to interest rate fluctuations through interest rate derivative contracts.

We currently have a level of indebtedness for the company of 66% 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 and the fair value of our assets, and based on this, we believe that all debts will be financed or refinanced as they come due in the foreseeable future.

CREDIT RISK

Credit risk arises from the possibility that tenants may be unable to fulfill their lease commitments. We mitigate this risk by ensuring that our tenant mix is diversified and by limiting our exposure to any one tenant. We also maintain a portfolio that is diversified by property type so that exposure to a business sector is lessened. Currently, no one tenant represents more than 7.6% 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 18 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⁾ |
|----|---|-------------------------------------|-------------------------------|------------------------------|-----------------------------|------------------------------|
| 1 | Bank of America/Merrill Lynch ⁽⁴⁾ | New York/Toronto/Denver/Los Angeles | 2013 | 4,923 | 7.6% | A |
| 2 | Government and Government Agencies ⁽⁵⁾ | All Markets | Various | 3,387 | 5.2% | AAA |
| 3 | Chevron | Houston | 2017 | 1,742 | 2.7% | AA |
| 4 | Wells Fargo/Wachovia | New York | 2015 | 1,439 | 2.2% | AA |
| 5 | CIBC | New York/Toronto/Calgary | 2032 | 1,437 | 2.2% | A+ |
| 6 | RBC Financial Group | Five Markets | 2020 | 1,195 | 1.8% | AA- |
| 7 | Bank of Montreal | Toronto/Calgary | 2018 | 1,131 | 1.7% | A+ |
| 8 | Suncor Energy | Calgary | 2028 | 1,015 | 1.5% | BBB+ |
| 9 | JP Morgan Chase | New York/Denver/Houston/Los Angeles | 2021 | 996 | 1.5% | A+ |
| 10 | Kellogg, Brown & Root | Houston | 2017 | 994 | 1.5% | Not Rated |
| 11 | Goldman Sachs | New York | 2012 | 896 | 1.4% | A |
| 12 | Target Corporation | Minneapolis | 2023 | 886 | 1.4% | A+ |
| 13 | Devon Energy | Houston | 2020 | 862 | 1.3% | BBB+ |
| 14 | Imperial Oil | Calgary | 2016 | 717 | 1.1% | AAA |
| 15 | EnCana Corporation | Calgary/Denver | 2018 | 707 | 1.1% | BBB+ |
| 16 | Continental Airlines | Houston | 2015 | 679 | 1.0% | B |
| 17 | Cadwalader, Wickersham & Taft | New York | 2024 | 549 | 0.8% | Not Rated |
| 18 | Talisman Energy | Calgary | 2015 | 539 | 0.8% | BBB |
| 19 | Amerada Hess Corporation | Houston | 2011 | 478 | 0.7% | BBB- |
| 20 | Cleary, Gottlieb, Steen & Hamilton | New York | 2031 | 470 | 0.7% | Not Rated |
| | Total | | | 25,042 | 38.2% | |

⁽¹⁾ Weighted average based on square feet

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

⁽³⁾ From S&P, Moody's Investor Service or DBRS

⁽⁴⁾ Bank of America/Merrill Lynch leases 4.6 million square feet in the World Financial Center ("WFC"), of which they occupy 2.8 million square feet with the balance being leased to various subtenants ranging in size up to 500,000 square feet. Of this 2.8 million square feet, 1.9 million is in 4 WFC, in which Bank of America/Merrill Lynch has a 49% interest, and 0.9 million square feet is in 2 WFC, in which Bank of America/Merrill Lynch has an effective 25% interest through zero-coupon participating notes

⁽⁵⁾ Represents various U.S. and Canadian federal governments and agencies

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

LEASE ROLL-OVER RISK

Lease roll-over risk arises from the possibility that we may experience difficulty renewing leases as they expire or in releasing space vacated by tenants upon early lease expiry. We attempt to stagger the lease expiry profile so that we are not faced with disproportionate amounts of space expiring in any one year; approximately 9% of our leases mature annually over the next five years. Excluding Bank of America/Merrill Lynch, our largest tenant, approximately 7% of our leases mature annually over the next five years. We further mitigate this risk by maintaining a diversified portfolio mix by geographic location and by proactively leasing space in advance of its contractual expiry. Additional discussion of our strategy to manage lease roll-over risk can be found on page 18 of this MD&A.

The following table sets out lease expiries, by square footage, for our portfolio at December 31, 2009:

| (000's Sq. Ft.) | Currently Available | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 & Beyond | Subtotal | Parking | Total |
|--------------------------|---------------------|--------------|--------------|--------------|---------------|--------------|--------------|--------------|---------------|---------------|--------------|---------------|
| Midtown, New York | 203 | 156 | 66 | 16 | 612 | 172 | 108 | 98 | 3,007 | 4,438 | — | 4,438 |
| Downtown, New York | 232 | 205 | 681 | 553 | 4,771 | 387 | 2,173 | 96 | 4,621 | 13,719 | 281 | 14,000 |
| Boston | 253 | 150 | 454 | 48 | 32 | 46 | 3 | 464 | 540 | 1,990 | 276 | 2,266 |
| Washington, D.C. | 571 | 265 | 205 | 612 | 411 | 1,343 | 367 | 100 | 2,077 | 5,951 | 970 | 6,921 |
| Los Angeles | 731 | 181 | 371 | 980 | 190 | 251 | 256 | 300 | 1,270 | 4,530 | 1,156 | 5,686 |
| Houston | 516 | 247 | 799 | 1,121 | 788 | 400 | 920 | 49 | 3,440 | 8,280 | 838 | 9,118 |
| Toronto | 171 | 617 | 482 | 600 | 1,658 | 296 | 658 | 554 | 2,582 | 7,618 | 1,519 | 9,137 |
| Calgary | 12 | 170 | 656 | 459 | 502 | 161 | 1,197 | 754 | 2,032 | 5,943 | 969 | 6,912 |
| Ottawa | 1 | 9 | 14 | 13 | 1,151 | 9 | 543 | 4 | 3 | 1,747 | 1,030 | 2,777 |
| Denver | 61 | 98 | 97 | 88 | 152 | 137 | 60 | 153 | 481 | 1,327 | 503 | 1,830 |
| Minneapolis | 199 | 92 | 50 | 128 | 189 | 177 | 147 | 343 | 1,205 | 2,530 | 521 | 3,051 |
| Other | 45 | 55 | 132 | 82 | 114 | 46 | 219 | 45 | 515 | 1,253 | 385 | 1,638 |
| Total Managed | 2,995 | 2,245 | 4,007 | 4,700 | 10,570 | 3,425 | 6,651 | 2,960 | 21,773 | 59,326 | 8,448 | 67,774 |
| Midtown, New York | 409 | 205 | 66 | 463 | 92 | 124 | 281 | 212 | 237 | 2,089 | 36 | 2,125 |
| Los Angeles | 680 | 455 | 535 | 464 | 731 | 466 | 336 | 119 | 380 | 4,166 | 983 | 5,149 |
| Total Non-Managed | 1,089 | 660 | 601 | 927 | 823 | 590 | 617 | 331 | 617 | 6,255 | 1,019 | 7,274 |
| Total | 4,084 | 2,905 | 4,608 | 5,627 | 11,393 | 4,015 | 7,268 | 3,291 | 22,390 | 65,581 | 9,467 | 75,048 |
| | 6.3% | 4.4% | 7.0% | 8.6% | 17.4% | 6.1% | 11.1% | 5.0% | 34.1% | 100.0% | | |

ENVIRONMENTAL RISKS

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

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

OTHER RISKS AND UNCERTAINTIES

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

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

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

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

coverage is subject to a deductible of 5% of the value of the affected property for California locations and \$100,000 for all other locations. The named windstorm limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of 5% of the value of the affected property. The flood limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of \$50,000 per occurrence.

The Terrorism Risk Insurance Act ("TRIA") was enacted in November 2002 in response to the uncertainty surrounding the insurance market in the aftermath of the terrorist attacks of September 11, 2001 and provides protection for "certified acts" as defined by the statute. TRIA mandates that insurance carriers offer insurance covering physical damage from terrorist incidents as certified by the U.S. Secretary of the Treasury. On December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 (the "Extension Act") was enacted, which extended the duration of the Terrorism Risk Insurance Program until December 31, 2007. The Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") was signed into law on December 26, 2007. It extends the TRIA program through December 2014. TRIPRA effectively continues the Extension Act while removing the distinction between foreign and domestic acts of terrorism, among other provisions.

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

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

FOREIGN EXCHANGE FLUCTUATIONS

Approximately 21% of our assets and 33% of our revenues originate in Canada and consequently are subject to foreign currency risk due to potential fluctuations in exchange rates between the Canadian dollar and the U.S. dollar. To mitigate this risk, we attempt to maintain a natural hedged position with respect to the carrying value of assets denominated in Canadian dollars through debt agreements denominated in Canadian dollars and from time to time, supplemented through the use of financial contracts as discussed below. However, even if we do so, the carrying value may not equal the economic value, and any differences therein may not be hedged. In addition, we attempt to mitigate the currency risk of revenues denominated in Canadian dollars through similar means. At December 31, 2009, based on our net Canadian dollar funds from operations, a \$0.01 appreciation in the Canadian dollar relative to the U.S. dollar would result in an increase in our funds from operations of approximately \$2 million on an annual basis.

DERIVATIVE FINANCIAL INSTRUMENTS

We use derivative and non-derivative instruments to manage financial risks, including interest rate, commodity, equity price and foreign exchange risks. The use of derivative contracts is governed by documented risk management policies and approved limits. We do not use derivatives for speculative purposes. In 2009 and/or 2008, we used the following derivative instruments to manage these risks:

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

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

Interest rate hedging

The following table provides details on derivatives in interest rate hedging relationships outstanding as at December 31, 2009:

| (Millions) | Hedging Item | Notional | Rate | Maturity | Fair Value | Hedged Item |
|-------------------|-----------------------------------|----------|-----------|----------|------------|---------------------------------|
| December 31, 2009 | | | | | | |
| | Interest rate cap | \$300 | 5% | 2011 | nil | Interest payments on LIBOR debt |
| | Interest rate cap | 56 | 5% | 2012 | nil | Interest payments on LIBOR debt |
| | Interest rate swap ⁽¹⁾ | 55 | Pay 2.68% | 2010 | (1) | Interest payments on LIBOR debt |
| | Interest rate swap ⁽¹⁾ | 1,000 | Pay 1.38% | 2011 | (7) | Interest payments on LIBOR debt |
| | Interest rate cap | 160 | 2% | 2010 | nil | Interest payments on LIBOR debt |
| December 31, 2008 | | | | | | |
| | Interest rate cap | \$3,100 | 6% | 2009 | nil | Interest payments on LIBOR debt |
| | Interest rate cap | 600 | 7% | 2009 | nil | Interest payments on LIBOR debt |
| | Interest rate cap | 300 | 5% | 2011 | nil | Interest payments on LIBOR debt |
| | Interest rate swap ⁽¹⁾ | 55 | Pay 2.68% | 2010 | (1) | Interest payments on LIBOR debt |

⁽¹⁾ For interest rate swaps, receive LIBOR

The maximum term over which interest rate hedging gains and losses reflected in other comprehensive income will be recognized in income is nine years (2008 – nine years) as the hedged interest payments occur.

At December 31, 2009 and 2008, the amount of hedge ineffectiveness recorded in interest expense in connection with our interest rate hedging activities was not significant.

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

Other derivatives

At December 31, 2009, the company had interest rate caps on a notional \$3,100 million and \$600 million at rates of 6% and 7%, respectively, which were not designated in a hedge relationship. The aggregate fair value of these contracts at December 31, 2009 was nil.

At December 31, 2009, we had a total return swap under which we receive the returns on a notional 1,088,686 Brookfield Properties' common shares. The fair value of the total return swap was a loss of \$14 million at December 31, 2009 (December 31, 2008 - \$9 million loss) based on the market price of the underlying shares at that date. For the year ended December 31, 2009, gains of \$4 million in connection with the swap have been recorded in general and administrative expense (year ended December 31, 2008 – losses of \$11 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, interest rates or share prices. We mitigate price risk by entering only into derivative transactions where we have determined a significant offset exists between changes in the fair value of, or the cashflows attributable to, the hedged item and the hedging item.

PART VI – INTERNATIONAL FINANCIAL REPORTING STANDARDS

The company has been granted exemptive relief from the Canadian securities regulatory authorities to prepare its financial statements in accordance with International Financial Reporting Standards (“IFRS”) for the financial period beginning on January 1, 2010, one year ahead of the mandatory conversion date for Canadian public companies. In light of the relief granted, the company intends to adopt IFRS commencing with its interim financial statements for the three months ending March 31, 2010. These financial statements will also include comparative results for the three months ended March 31, 2009.

IFRS conversion plan

The company is continuing to execute its IFRS conversion plan which addresses changes in accounting policies, the restatement of comparative periods, various education and training sessions on the adoption of IFRS, as well as required changes to business processes and internal controls. As a result of the training program and the ongoing process of reconciling of the company’s historical Canadian GAAP financial statements to IFRS financial statements, the company believes that its applicable personnel have obtained an appropriate understanding of IFRS as it applies to the company’s financial reporting. While new controls are being put into place to address certain unique IFRS accounting and disclosure requirements, such as the measurement of the company’s commercial properties and developments at fair value, the company does not anticipate comprehensive changes to its current accounting and consolidation systems, its internal controls or its disclosure control process as a result of the conversion to IFRS.

Impact of adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not have an impact on the company’s reported net cash flows, the company does expect it to have a material impact on its consolidated balance sheets and statements of income; the company is continuing to evaluate the impact of IFRS to the presentation and classification in its statements of cash flow. In particular, the company’s opening balance sheet will reflect the revaluation of substantially all of its commercial properties and developments to fair value and, as a result, a significant portion of the company’s intangible assets and liabilities will no longer be separately recognized. Also, the company’s U.S. Office Fund and certain other joint ventures which are currently consolidated as variable interest entities or proportionately consolidated will be recorded as investments accounted for following the equity method. All such changes to the opening balance sheet will require a corresponding tax adjustment to be recorded based on the resultant differences. The company estimates that the impact of these differences on its January 1, 2009 opening balance sheet under IFRS compared to its December 31, 2008 balance sheet under Canadian GAAP will result in an increase directly in common equity from \$3.4 billion to approximately \$6.0 billion or \$15 per share. Additionally, the company is continuing to evaluate the application of International Accounting Standards (“IAS”) 12, “Income Taxes” to certain of its subsidiaries, particularly those qualifying as a real estate investment trust (“REIT”) for tax purposes, the impact of which could be material.

A reconciliation of the company’s 2009 historical cost Canadian GAAP financial statements to IFRS has not been finalized. Accordingly, the impact of adopting IFRS on the company’s financial position and results of operations as at and for the year ended December 31, 2009 cannot be quantified at this time. However, the company generally expects the nature of the adjustments to be consistent with those described herein, and has provided a description and, where possible, the approximate annual impact for the more significant recurring IFRS differences affecting net income.

IFRS 1: First-time adoption of IFRS

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

a) Business combinations

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

b) Cumulative translation differences

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

IFRS 1 allows for certain other optional exemptions; however, the company does not expect such exemptions to be significant to its adoption of IFRS.

Impact of IFRS on financial position

The following paragraphs quantify and describe the impact of significant differences between the company's December 31, 2008 balance sheet under Canadian GAAP and its January 1, 2009 opening balance sheet under IFRS. This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of Brookfield Properties' first annual IFRS reporting period, which will be the year ending December 31, 2010. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and, as a result, the impact of the company's conversion to IFRS may be different than its current expectation. The amounts have not been audited or subject to review by the company's external auditor. The underlying values presented below are prepared using the procedures and assumptions that the company is following in preparing its opening balance sheet upon adoption of IFRS.

Commercial Properties and commercial developments

The company considers its commercial properties and commercial developments to be investment properties under IAS 40, *Investment Property* ("IAS 40"). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for its investment property. The company has elected to use the fair value model when preparing its financial statements under IFRS. The company has determined that the fair value of its commercial and development property portfolio at January 1, 2009 is approximately \$3.3 billion greater than the carrying value under Canadian GAAP, inclusive of corresponding intangible assets and straight-line rent recorded under Canadian GAAP. However, this increase will be offset by the deconsolidation of certain of the company's properties which is discussed further below (see *Investments*). The company determined the fair value of each investment property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at January 1, 2009 less future cash outflows in respect of such leases. Fair values were primarily determined by discounting the expected future cash flows, generally over a term of 10 years, and using weighted average discount and terminal capitalization rates of 8% and 7%, respectively.

Investments

The company has determined that the balance of investments at January 1, 2009 is approximately \$3 billion under IFRS. These investments relate primarily to entities that are consolidated as variable interest entities or proportionately consolidated under Canadian GAAP that the company will account for following the equity method under IFRS and accordingly are included in investments, including the company's investment in its U.S. Office Fund. The company has not yet finalized the measurement of certain instruments in the U.S. Office Fund under IFRS relating to the put and call arrangement, and related cash settlement provisions, with the company's joint venture partner. The company does not expect this difference to be significant to its financial position at January 1, 2009.

Receivables and other

Straight-line rent receivable reflected in receivables and other under Canadian GAAP will be included in the carrying amount of commercial properties in the company's balance sheets under IFRS. The company has determined that the balance of receivables and other at January 1, 2009 will decrease by approximately \$0.3 billion under IFRS as a result of the reclassification of straight-line rent receivable balances to commercial property, as well as the impact of accounting for the U.S. Office Fund and certain other joint ventures as investments.

Intangible assets and liabilities

With the adoption of IFRS, the company will derecognize its intangible assets and liabilities that relate to assets or obligations otherwise considered in the determination of fair value of investment properties. The company has determined that this will result in a decrease to intangible assets and liabilities of \$0.6 billion and \$0.7 billion, respectively at January 1, 2009.

Future income tax liability

The company has determined that its future income tax liability at January 1, 2009 will increase by approximately \$0.4 billion under IFRS primarily due to the increased carrying values of the company's commercial properties. The future income tax liability under IFRS will generally be determined by applying tax rates applicable to business income to temporary differences based on the company's general expectation that the method of realization will be through owning and operating its properties rather than through sale. In addition, the company is continuing to evaluate the application of IAS 12, "Income Taxes" to certain of its REIT subsidiaries, the impact of which could be material.

Commercial property debt

The company determined that the reported balances of property specific mortgages and subsidiary borrowings at January 1, 2009 will decrease by approximately \$5.5 billion under IFRS compared to balances reported in accordance with Canadian GAAP. The decrease primarily relates to the deconsolidation of debt held by entities that are currently consolidated as variable interest entities or proportionately consolidated under Canadian GAAP that will be equity accounted under IFRS.

Non-controlling interests and capital securities – fund subsidiaries

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

Impact of IFRS on results of operations

The following paragraphs highlight the significant recurring differences between Canadian GAAP and IFRS that affect net income. Such discussion has been prepared on a basis consistent with all known IFRS to Canadian GAAP differences using the accounting policies expected to be applied by Brookfield Properties in its first annual financial statements prepared in accordance with IFRS using the standards anticipated to be in effect at that time. Additionally, the company has not yet finalized its 2009 IFRS results. Consequently, to the extent the accounting policies expected to be applied by Brookfield Properties on adoption of IFRS change, new standards are issued that are required to be adopted by Brookfield Properties, or to the extent the company identifies additional differences as it completes its assessment of IFRS, the amounts and discussion below may be impacted. The amounts have not been audited or subject to review by the company's external auditor.

Fair value changes

IFRS permits the measurement of investment property using the fair value model under IAS 40, *Investment Property*, which requires a gain or loss arising from a change in the fair value of investment property in the period to be recognized in income. Net income during any given period may be greater or less than as determined under Canadian GAAP depending on whether an increase or decrease in fair value occurs during the period of measurement.

Depreciation and amortization expense

Under the fair value model, depreciation of investment properties is not recorded. Additionally, the transition to IFRS in conjunction with the use of the fair value model would result in historic intangible balances established under Canadian GAAP in respect of business combinations to no longer be separately recognized and accordingly not amortized under IFRS. The impact of no longer amortizing historic intangible balances along with no longer recording depreciation expense on the company's commercial properties would result in an increase to net income, which the company expects would be approximately \$0.5 billion on an annualized basis.

Revenue recognition

IFRS requires rental revenue to be determined on a straight-line basis considering all rentals from the inception of the lease, whereas Canadian GAAP only required rental income to be recognized on a straight-line basis prospectively commencing January 1, 2004. The company expects that this difference, applied retrospectively, would result in a reduction of net income under IFRS. For the year ended December 31, 2009 this reduction is expected to be insignificant. Also, as the company will no longer separately account for intangible assets and liabilities relating to acquired above and below market tenant leases, the related amortization of these balances to commercial property revenue will be eliminated under IFRS. The company expects that this difference would result in a reduction of revenue under IFRS of approximately \$0.1 billion on an annualized basis and a reduction of net income under IFRS of approximately \$50 million on an annualized basis.

Investments

The company has not yet finalized the measurement of certain instruments in the U.S. Office Fund relating to the put and call arrangement, and related cash settlement provisions, with the company's joint venture partner, or the resulting impact on net income from the periodic remeasurement thereof, the effect of which is expected to be more significant to the company following the reorganization of the U.S. Office Fund, which took place in the second quarter of 2009.

Income taxes

In addition to recording the corresponding tax effect of the foregoing differences, the company is continuing to evaluate the application of IAS 12 to certain of its REIT subsidiaries.

PART VII – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

Goodwill and Intangible Assets

In February 2008, the CICA issued a new accounting standard, Section 3064, “Goodwill and Intangible Assets.” Section 3064 replaces Sections 3062, “Goodwill and Other Intangible Assets” and 3450, “Research and Development Costs” and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Various changes have also been made to other sections of the CICA Handbook for consistency purposes. As a result of these related amendments, principally to Section 1000, “Financial Statement Concepts,” any expenses deferred pursuant to “matching” concepts and which do not otherwise meet the definition of an asset, are no longer eligible for capitalization. We adopted the new standards on January 1, 2009 and, consistent with transition provisions in Section 3064, we have adopted the standards retrospectively with restatement. The adoption of these standards resulted in a reduction of receivables and other of \$17 million with a corresponding charge against opening retained earnings at January 1, 2008.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the EIC issued Abstract No. 173, “Credit Risk and the Fair Value of Financial Assets and Financial Liabilities” (EIC-173). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is applicable to the annual consolidated financial statements for the year-ended December 31, 2009. The adoption of EIC-173 did not have a material impact on the company’s consolidated financial statements.

Financial Instruments

In June 2009, the CICA issued amendments to Section 3862, “Financial Instruments – Disclosures” and Section 3863, “Financial Instruments – Presentation” effective for the company’s December 31, 2009 financial statements. Specifically, the company will classify and disclose financial statements presented at fair value on the balance sheet based on a three-level fair value hierarchy that distinguishes between market value data obtained from independent sources and the company’s own assumptions about market value: Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities; Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data; and Level 3 – Valuation techniques for which any significant inputs is not based on observable market data. The section has also been amended to require additional liquidity risk disclosures. See Note 26 in the consolidated financial statements for further detail.

Also in June 2009, the CICA issued amendments to Section 3855, “Financial Instruments – Recognition and Measurement” effective for the company’s December 31, 2009 financial statements. The amendments clarified section 3855 with respect to the effective interest method, reclassification of financial instruments with embedded derivatives and eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified. These amendments did not have a significant impact on the financial statements.

FUTURE ACCOUNTING POLICY CHANGES

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards, Section 1582, “Business Combinations,” Section 1601, “Consolidated Financial Statements” and Section 1602, “Non-controlling Interests.” Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions completed on or after November 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2011. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date and Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These standards must be adopted concurrently with Section 1582.

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.

Property acquisitions

Upon acquisition of commercial properties, we determine the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above- and below-market leases, origination costs related to acquired in-place leases, and other identified intangible assets and assumed liabilities, and allocate the purchase price to the acquired assets and assumed liabilities. 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 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 present value of 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. Land is recorded at appraised value and building is stated at a depreciated replacement cost.

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

Tenant improvements

Our lease agreements generally provide for payments by the landlord to the tenant in the form of tenant improvement allowances. Amounts paid by us pursuant to such lease provisions are characterized as either the purchase of tenant improvements owned by the landlord or tenant inducements. When the payment is determined to be for tenant improvements owned by us, then the improvements are accounted for as an addition to commercial property and depreciated over their estimated useful life. If we determine that we are not the owner of the tenant improvements, then the property subject to the lease is the unimproved space and any payments made to the tenant under the lease are treated as tenant inducements, which reduce revenue over the term of the lease.

Depreciation and amortization

Depreciation and amortization of commercial 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.

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. 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 our 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, as well as the selection of discount and capitalization rates.

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

Revenue recognition

Base rental revenue, representing the total amount of contractual rent to be received from a lease, is reported on a straight-line basis over the term of each lease. Revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the property subject to the lease. Generally, this occurs on the lease commencement date or, where we are required to make additions to the property in the form of tenant improvements, upon substantial completion of those improvements. A free rent or straight-line rent receivable is recorded for 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.

In accordance with EIC-140, "Accounting for Operating Leases Acquired in Either an Asset Acquisition or a Business Combination," we also recognize rental revenue of acquired in-place above- and below-market leases at their fair value over the terms of the respective leases.

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.

Revenue and expenses related to commercial developments are recognized in income when the development is substantially complete. This is also the point at which the property is reclassified from commercial developments to commercial properties. We consider a commercial development to be substantially complete upon the earlier of attaining an occupancy that results in break-even income after debt servicing or the expiration of a reasonable maximum period of time, but no later than one year after completion of major construction. Prior to substantial completion, revenues and expenses related to commercial developments are capitalized to the property. To the extent a development or redevelopment property is leased and the tenant begins to occupy the space as phases of construction are substantially complete, we would recognize revenue and expenses in connection with those respective phases. An example of this was 1400 Smith Street, which we purchased as a development site in 2006. The building was 100% leased subsequent to the purchase. As floors of the building were substantially complete, the tenant moved in and we recognized revenue and expenses proportionately.

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.

Fair value of financial instruments

The fair value of commercial property debt is calculated based on the discount spread between the future contractual interest payments and future interest payments on similar 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 the 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.

The fair values of derivative instruments are calculated using generally accepted pricing models. Derivatives are valued using market yields and forward rates appropriate for the duration of the instrument.

Tax

In accordance with 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. Judgment is required to determine the appropriate tax rate to be applied to tax attributes and 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.

In the current year, a change in tax jurisdiction in which our interest in the U.S. Office Fund is held resulted in a 2.25% increase in the tax rate applicable to taxable temporary differences in the Fund, which accounted for \$42 million of tax expense in 2009.

In 2008, we reduced our future tax liability by \$479 million as a result of a reduction in the tax rates applied to the U.S. Direct properties on conversion of our U.S. commercial operations into a REIT.

U.S. Office Fund

Our interest in the Trizec portfolio is held, in part, through an indirect interest in TRZ Holdings LLC, an entity we established along with Blackstone to acquire Trizec. We have determined that TRZ Holdings LLC is a variable interest entity based on the characteristics of its equity. We consolidate TRZ Holdings LLC and the underlying portfolio of properties through our subsidiaries, as we are the most closely associated member of a related party group that will absorb the majority of the variability of TRZ Holdings LLC's operations.

Our joint venture partner in the U.S. Office Fund, Blackstone, has \$398 million invested in the form of a redeemable equity interest in TRZ Holdings LLC that is reported in capital securities – fund subsidiaries in our consolidated balance sheets. 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 differences between the actual distributions and cashflows of the respective sub-managed properties, as well as changes in fair values of such properties from the date of acquisition to the call or the put closing date. Such cash adjustments also provide for cross participation in cashflows and changes in fair value of each party's sub-managed properties. Blackstone's equity interest is classified as a liability (capital securities – fund subsidiaries) in our financial statements as we could be obligated to transfer assets to Blackstone as a result of Blackstone's put option. The carrying amount of the liability is determined based on the carrying amount of the properties to be transferred to Blackstone on exercise of its put plus the cash adjustment payments accrued based on the relative performance of the properties.

Prior to the 2009 reorganization of the U.S. Office Fund, certain contributions to the Fund by an institutional investor in the Brookfield Properties-led consortium were in the form of an unsecured debenture. The interest on this debenture is recorded in interest expense – capital securities – fund subsidiaries and in the current year includes a gain of nil (2008 – \$38 million) representing the effect of a change in estimated future cash flows to settle the obligation.

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, 2009, we had approximately \$15 million (December 31, 2008 - \$15 million) of indebtedness outstanding to our parent company, BAM and its affiliates. Additionally, we renewed a \$300 million line from BAM in the form of a two-year revolving credit facility to December 2010. The outstanding balance on this facility at December 31, 2009 was nil (December 31, 2008 – nil). Interest expense related to this indebtedness, totaled \$1 million for the year ended December 31, 2009 compared to nil for the year ended December 31, 2008. We also have a balance on deposit with BAM of \$648 million as of December 31, 2009, which is due on demand and earns interest at a rate of LIBOR plus 42.5 basis points (December 31, 2008 – nil). Interest income related to this loan totaled \$2 million for the year ended December 31, 2009 (2008 – nil). Included in rental revenues are amounts received from BAM and its affiliates for the rental of office premises of \$2 million for the year ended December 31, 2009 (2008 - \$2 million). These amounts have been recorded at the exchange amount. In addition, we have certain arrangements with BAM and its affiliates to acquire insurance in the normal course of business and at market rates or at cost. The expense for the year ended December 31, 2009 was \$1 million.

In the fourth quarter of 2009, the company entered into a joint venture arrangement with a subsidiary of BAM, which involved the acquisition of non-voting common shares in the joint venture for \$12 million and the contribution of a limited partnership interest in a residential development subsidiary, Carma Developers LP ("CDLP"), to the joint venture in exchange for a senior note secured by the transferred limited partnership interest. The company consolidates the joint venture and the underlying investment in CDLP as the joint venture is a variable interest entity and the company will absorb the majority of the variability of the joint venture. The equity investment in the joint venture of \$12 million has been reflected as an acquisition of residential development lands with a fair value of \$3 million, recognition of \$69 million of future income tax benefits that are more likely than not to be realized as a result of the transaction and a deferred credit of \$58 million to be recognized in net income as the future income tax benefits are realized. The transfer of the limited partnership interest in CDLP to the joint venture was recorded at its carrying value.

PART VIII - BUSINESS ENVIRONMENT AND OUTLOOK

OPERATING ENVIRONMENT AND OUTLOOK

The consequences of the downturn in the economy, including a rise in unemployment, a drop in consumer and business confidence and spending, and nearly non-existent debt markets, had an adverse impact on the real estate industry through the first half of the year. Leasing demand in most of our markets tempered and vacancy rates began to rise which put downward pressure on rents and economic fundamentals. However, the second half of the year started to show signs of improvement as leasing activity accelerated and leasing economics stabilized. Despite increasing vacancy across our markets, in some cases double digits, our portfolio ended the year at 93.8% occupied only 90 basis points lower than the beginning of the year, which speaks to the high quality of our properties and tenants relative to the broader market. With only 4.4% of the space within our portfolio scheduled to come off lease in 2010, our strong tenant lease profile, low vacancies, low lease roll-over exposure and rental rates in most properties that are substantially below current market rates, we have a high level of confidence that we can achieve our operating targets in 2010. Furthermore, the general lack of development, especially in the central business districts, has created stability from a supply perspective.

The market for our residential operations was challenging through the first half of 2009 but improved measurably in the second half as the economy began to stabilize and home purchasers benefitted from lower prices and interest rates. As a result, the over-supply in our markets has reduced significantly. Operating margins which were impacted by lower prices in 2009 will likely improve through 2010 as a result of lower input costs. Our Alberta operations continue to benefit from the expansion of activity in the oil industry; however, growth will definitely be tempered in the province by the effect of volatile oil prices. Most of our land holdings were purchased in the mid-1990's or earlier and as a result have an embedded cost advantage today and should, accordingly, continue to benefit from favorable margins, although likely more in line with historical margins.

While we remain committed to commercial property development and redevelopment opportunities, in the current market conditions, our focus is on completing the construction of our underway development pipeline on time and budget, and continuing to make progress on leasing. Any new development will have to provide appropriate risk-adjusted returns, have substantial pre-leasing commitments and be financeable before we would be willing to proceed.

Looking longer term, with a solid platform consisting of a strong balance sheet, a well-leased portfolio with below-market net rents, a 15 million square foot development and redevelopment pipeline and financial flexibility, Brookfield Properties is well-positioned to continue to deliver on its commitments to shareholders.

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, 2009. 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, 2009 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 2009 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, 2009, 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 76 of this annual report.



Bryan K. Davis
Senior Vice President and Chief Financial Officer
March 5, 2010

DISTRIBUTIONS

Distributions paid by the company during the year ended December 31, 2009 and in the past three fiscal years are as follows:

| | Currency | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2007 | Dec. 31, 2006 |
|---|----------|---------------|---------------|---------------|---------------|
| Common shares ⁽¹⁾ | US\$ | \$ 0.5600 | \$ 0.5600 | \$ 0.5500 | \$ 0.5100 |
| Class A preferred shares ⁽²⁾ | C\$ | 0.0833 | 0.0833 | 0.0833 | 0.0833 |
| Class AA Series E preferred shares | C\$ | 0.4480 | 0.8776 | 1.0178 | 0.9922 |
| Class AAA Series E preferred shares | C\$ | 0.4267 | 0.8457 | 0.4830 | 1.0082 |
| 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 | 1.3125 |
| Class AAA Series H preferred shares | C\$ | 1.4375 | 1.4375 | 1.4375 | 1.4375 |
| Class AAA Series I preferred shares | C\$ | 1.3000 | 1.3000 | 1.3000 | 1.3000 |
| Class AAA Series J preferred shares | C\$ | 1.2500 | 1.2500 | 1.2500 | 1.2500 |
| Class AAA Series K preferred shares | C\$ | 1.3000 | 1.3000 | 1.3000 | 1.3000 |
| Class AAA Series L preferred shares | C\$ | 0.4531 | — | — | — |

⁽¹⁾ Per share amounts have been restated to reflect the impact of the three-for-two common stock splits effective May 4, 2007

⁽²⁾ Per share amounts have been restated to reflect the impact of the nine-for-four class A preferred share stock split effective May 4, 2007

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 and the standards of the Public Company Accounting Oversight Board (United States) to enable them to express to the Board of Directors and 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
Chief Executive Officer
March 5, 2010



Bryan K. Davis
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 at December 31, 2009 and 2008, and the related consolidated statements of income, changes in common equity, comprehensive income 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.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). These 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, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance 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 Company's internal control over financial reporting as of December 31, 2009, 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 5, 2010 expressed an unqualified opinion on the company's internal control over financial reporting.

Toronto, Canada
March 5, 2010

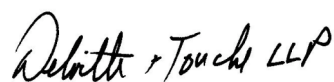


Independent Registered Chartered Accountants
Licensed Public Accountants

Comments by Independent Registered Chartered Accountants on Canada – United States of America Reporting Differences

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there are changes in accounting principles that have a material effect on the comparability of the company's financial statements. As described in Note 2, the company has changed its method of accounting for intangible assets and deferred costs in 2009 due to the adoption of the Canadian Institute of Chartered Accountants' (CICA) Handbook Section 3064, "Goodwill and Intangible Assets." In addition, as described in Note 2, the company has adopted amendments to CICA Handbook Section 3862, and "Financial Instruments – Disclosures", which require the company to make disclosures surrounding fair value financial instruments based on a three-level hierarchy that distinguishes between fair values obtained from independent sources versus the company's own assumptions about market values. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the Board of Directors and Shareholders, dated March 5, 2010, is expressed in accordance with Canadian reporting standards which do not require a reference to such changes in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

*Toronto, Canada
March 5, 2010*



*Independent Registered Chartered Accountants
Licensed Public 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 Canadian generally accepted accounting principles.

Due to its inherent limitations, internal control 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 Corporation's internal control over financial reporting as at December 31, 2009, 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 concluded that, as at December 31, 2009, Brookfield Properties Corporation's internal control over financial reporting is effective. There are no material weaknesses that have been identified by Management.

Brookfield Properties Corporation's internal control over financial reporting as at December 31, 2009 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, who also audited Brookfield Properties Corporation's consolidated financial statements for the year ended December 31, 2009, and as stated in the Report of Independent Registered Chartered Accountants, Deloitte & Touche LLP, expressed an unqualified opinion on the effectiveness of Brookfield Properties Corporation's internal control over financial reporting.



Richard B. Clark
Chief Executive Officer
March 5, 2010



Bryan K. Davis
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 internal control over financial reporting of Brookfield Properties Corporation and subsidiaries (the “company”) as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

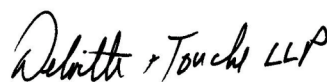
A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to 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, the company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, 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, 2009 of the company and our report dated March 5, 2010 expressed an unqualified opinion on those financial statements and includes a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Differences referring to changes in accounting principles.

Toronto, Canada
March 5, 2010

The signature is written in a cursive, handwritten style. It reads "Deloitte & Touche LLP". The "D" is large and loops around the "eloitte". The "&" is stylized. "Touche" is written in a similar cursive script, and "LLP" is in a slightly more formal, but still handwritten, style.

Independent Registered Chartered Accountants
Licensed Public Accountants

Consolidated Balance Sheets

| December 31 (US Millions) | Note | 2009 | 2008 ⁽¹⁾ |
|--|------|------------------|---------------------|
| Assets | | | |
| Commercial properties | 4 | \$ 14,953 | \$ 14,901 |
| Commercial developments | 5 | 1,313 | 1,225 |
| Residential developments | 6 | 1,259 | 1,196 |
| Receivables and other | 7 | 1,952 | 918 |
| Intangible assets | 8 | 517 | 637 |
| Restricted cash and deposits | 9 | 101 | 116 |
| Cash and cash equivalents | 27 | 176 | 157 |
| Assets related to discontinued operations | 10 | 299 | 290 |
| | | \$ 20,570 | \$ 19,440 |
| Liabilities | | | |
| Commercial property debt | 11 | \$ 11,319 | \$ 11,505 |
| Accounts payable and other liabilities | 12 | 1,100 | 1,241 |
| Intangible liabilities | 13 | 581 | 707 |
| Future income tax liabilities | 14 | 208 | 174 |
| Liabilities related to discontinued operations | 10 | 174 | 217 |
| Capital securities – corporate | 15 | 1,009 | 882 |
| Capital securities – fund subsidiaries | 16 | 415 | 711 |
| Non-controlling interests – fund subsidiaries | 16 | 511 | 212 |
| Non-controlling interests – other subsidiaries | 17 | 64 | 68 |
| Preferred equity – subsidiaries | 18 | 363 | 313 |
| Shareholders' equity | | | |
| Preferred equity – corporate | 19 | 304 | 45 |
| Common equity | 20 | 4,522 | 3,365 |
| | | \$ 20,570 | \$ 19,440 |

See accompanying notes to the consolidated financial statements

⁽¹⁾ Comparative figures have been restated to conform to the current year's presentation. Refer to Note 2

On behalf of the Board,



Gordon E. Arnell
Chairman



Richard B. Clark
Chief Executive Officer

Consolidated Statements of Income

| December 31 (US Millions, except per share amounts) | Note | 2009 | 2008 |
|---|------|---------------|---------------|
| Total revenue | 22 | \$ 2,676 | \$ 2,773 |
| Net operating income | | | |
| Commercial property operations | 22 | \$ 1,322 | \$ 1,308 |
| Residential development operations | 22 | 114 | 144 |
| Interest and other | 22 | 44 | 67 |
| | | 1,480 | 1,519 |
| Interest expense | | | |
| Commercial property debt | | 531 | 625 |
| Capital securities – corporate | | 53 | 57 |
| Capital securities – fund subsidiaries | 16 | (26) | (70) |
| General and administrative expense | | 111 | 118 |
| Non-controlling interests | | | |
| Fund subsidiaries | 16 | 31 | (22) |
| Other subsidiaries | | 11 | 20 |
| Depreciation and amortization | | 495 | 539 |
| Income taxes | 14 | 66 | (429) |
| Other | 23 | (45) | (24) |
| Net income from continuing operations | | 253 | 705 |
| Discontinued operations | 10 | 64 | (5) |
| Net income | | \$ 317 | \$ 700 |
| Earnings per share – basic and diluted | 20 | | |
| Continuing operations | | \$ 0.57 | \$ 1.79 |
| Net income | | \$ 0.72 | \$ 1.77 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Changes in Common Equity

| December 31 (US Millions) | Note | 2009 | 2008 |
|---|------|-----------------|-----------------|
| Common shares | | | |
| Balance, beginning of year | | \$ 2,274 | \$ 2,282 |
| Shares repurchased | | — | (13) |
| Dividend reinvestment | 20 | 5 | — |
| Proceeds from shares issued on exercise of options | 20 | 2 | 5 |
| Proceeds from shares issued on share offering | 20 | 1,022 | — |
| Balance, end of year | | 3,303 | 2,274 |
| Contributed surplus | | | |
| Balance, beginning of year | | — | — |
| Shares repurchased | | — | (6) |
| Stock-based compensation awards | 21 | 6 | 6 |
| Balance, end of year | | 6 | — |
| Retained earnings | | | |
| Balance, beginning of year | | 1,098 | 659 |
| Net income | | 317 | 700 |
| Shareholder distributions | | | |
| Preferred share dividends – corporate | 20 | (7) | (3) |
| Common share dividends | | (250) | (220) |
| Amount paid in excess of the book value of common shares purchased for cancellation | | — | (21) |
| Restatement for cumulative impact of changes in accounting policies | 2 | — | (17) |
| Balance, end of year | | 1,158 | 1,098 |
| Accumulated other comprehensive income (loss) | | | |
| Balance, beginning of year | | (7) | 92 |
| Other comprehensive income (loss) for the year | | 62 | (99) |
| Balance, end of year | 20 | 55 | (7) |
| Total retained earnings and accumulated other comprehensive income (loss) | | 1,213 | 1,091 |
| Total common equity | | \$ 4,522 | \$ 3,365 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income

| Years ended December 31 (US Millions) | Note | 2009 | 2008 |
|--|------|---------------|---------------|
| Net income | | \$ 317 | \$ 700 |
| Other comprehensive income (loss) | | | |
| Change in foreign currency translation gains (losses) on investments in subsidiaries | | 189 | (307) |
| Net (losses) gains arising from hedges of net investments in subsidiaries, net of taxes of nil (2008 - \$49 million) | | (119) | 228 |
| Net (losses) gains on derivatives designated as cash flow hedges | | (4) | 2 |
| Reclassification to earnings of foreign exchange gains | 23 | (6) | (24) |
| Reclassification to earnings of losses on cash flow hedges, net of taxes | | 2 | 2 |
| Total other comprehensive income (loss) | | 62 | (99) |
| Comprehensive income | | \$ 379 | \$ 601 |

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cashflow

| December 31 (US Millions) | Note | 2009 | 2008 |
|---|------|----------------|--------------|
| Operating activities | | | |
| Net income | | \$ 317 | \$ 700 |
| Depreciation and amortization | | 502 | 555 |
| Future income taxes | | 62 | (399) |
| Foreign exchange | 23 | (6) | (24) |
| Gain on restructuring of U.S. Office Fund | 23 | (39) | — |
| Impairment loss | 10 | — | 147 |
| Gain from discontinued operations | 10 | (50) | (164) |
| Amortization of value of acquired operating leases to rental revenue, net | 22 | (123) | (139) |
| Straight-line rent, net | | (20) | (35) |
| Accretion of debt discount and transaction costs | | 18 | 16 |
| Stock option and deferred share unit grant expense | 21 | 6 | 6 |
| Non-controlling interests – fund and other subsidiaries | | 42 | (2) |
| Non-cash component of capital securities – fund subsidiaries | 16 | (73) | (93) |
| Income from equity-accounting investments | | (3) | (9) |
| Distributions received from equity-accounted investments | | — | 3 |
| Deferred leasing costs | | (39) | (49) |
| Increase in land and housing inventory | | 41 | (148) |
| Working capital and other | | (64) | 94 |
| | | 571 | 459 |
| Financing activities and capital distributions | | | |
| Commercial property debt arranged | | 430 | 1,079 |
| Commercial property debt repaid | | (478) | (1,184) |
| Corporate credit facilities arranged | | 212 | 270 |
| Corporate credit facilities repaid | | (439) | (346) |
| Other debt arranged | 12 | 92 | — |
| Capital securities arranged – fund subsidiaries | | 5 | 54 |
| Capital securities redeemed – fund subsidiaries | | (27) | (20) |
| Non-controlling interest contributions arranged – fund subsidiaries | | 6 | 16 |
| Land development debt arranged | | 60 | 103 |
| Land development debt repaid | | (375) | (91) |
| Distributions to non-controlling interests | | (20) | (36) |
| Common shares issued | 20 | 1,016 | 5 |
| Preferred shares issued | 19 | 259 | — |
| Common shares repurchased | | — | (40) |
| Preferred share dividends | 20 | (7) | (3) |
| Common share dividends | | (245) | (220) |
| | | 489 | (413) |
| Investing activities | | | |
| Loans arranged | | (128) | (9) |
| Loans collected | | 20 | 44 |
| Loans receivable from affiliate | 29 | (648) | — |
| Acquisitions of commercial properties | 27 | — | (16) |
| Proceeds from sale of commercial properties, net | 27 | 16 | 420 |
| Restricted cash and deposits | 9 | 15 | 35 |
| Commercial development and redevelopment investments | | (147) | (394) |
| Commercial property tenant improvements | | (112) | (106) |
| Capital expenditures | | (57) | (77) |
| | | (1,041) | (103) |
| Increase (decrease) in cash resources | | 19 | (57) |
| Opening cash and cash equivalents | | 157 | 214 |
| Closing cash and cash equivalents | | \$ 176 | \$ 157 |

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 ("Brookfield Properties" or "the company") are prepared in accordance with generally accepted accounting principles ("GAAP") 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 their proportionate interest in the respective assets, liabilities, revenue and expenses of such ventures;
- (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 their proportionate interest in the respective assets, liabilities, revenue and expenses of such ventures;
- (iii) the accounts of Brookfield Properties Office Partners, Inc., TRZ Holdings LLC, BPOP Holdings (US) LLC and BPOP (Canada) Inc. (collectively, the "U.S. Office Fund") and the accounts of the U.S. Office Fund's incorporated and unincorporated joint ventures to the extent of its proportionate interest in the respective assets, liabilities, revenue and expenses of such ventures; and
- (iv) the accounts of WFP Limited ("WFPL") and the accounts of WFPL's incorporated and unincorporated joint ventures to the extent of its proportionate interest in the respective assets, liabilities, revenues and expenses of such ventures.

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

- (i) Brookfield Financial Properties: The company owns a 99.4% limited partnership interest and a 100% managing general partnership interest in Brookfield Financial Properties.
- (ii) BPO Properties: The company owns 89.7% on an equity basis and 56.1% on a voting basis of the common shares of BPO Properties.
- (iii) U.S. Office Fund: The company owns an indirect 47% economic interest in the US Office Fund through its 7% equity interest in Brookfield Properties Office Partners, Inc. and its 76% equity interest in BPOP Holdings (US) LLC, which hold 14% and 60% interests, respectively, in the legal equity of TRZ Holdings LLC. The company has determined that TRZ Holdings LLC is a variable interest entity. The company consolidates TRZ Holdings LLC and the underlying portfolio of properties as, through its subsidiaries, it is the most closely associated member of a related party group that will absorb the majority of the variability of TRZ Holdings LLC's operations.
- (iv) WFPL: The company owns 100% of non-voting common shares of WFPL. The company has determined that WFPL is a variable interest entity. The company consolidates WFPL and the underlying residential development operations as, through its subsidiaries, it will absorb the majority of the variability of WFPL's operations.

(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. Depreciation on buildings and

amortization on tenant improvements and acquired tenant relationships are recorded in depreciation and amortization expense. All other amounts are amortized to revenue.

The unamortized balance of above- and below- market leases, lease origination costs and tenant relationships is included in intangible assets or intangible liabilities, as appropriate.

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.

Leasing costs, which include third-party brokerage fees and legal costs incurred in the successful negotiation of leases, have been deferred and are being amortized on a straight-line basis over the terms of the respective leases. The unamortized balance is included in commercial properties.

Lease termination fees are recognized at the time the tenant forgoes the rights and obligations associated with the use of the property.

(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 commercial development properties, an impairment loss is recognized when an asset group'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. For residential developments, an impairment loss is recognized when the carrying value of the land exceeds its undiscounted future net cashflow. Residential developments are reviewed for impairment whenever events or changes in circumstances indicate the carrying value may exceed net realizable value. 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 development plans for each project and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

(iv) Discontinued operations

Properties that qualify as "held for sale" pursuant to 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 related to any property that has been identified as a discontinued operation 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.

(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, certain general and administrative costs, 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 and initial leasing period is treated as a reduction of costs.

(e) Tenant improvements

The company's lease agreements generally provide for payments by the landlord to the tenant in the form of tenant improvement allowances. Amounts paid by the company pursuant to such lease provisions are characterized as either the purchase of tenant improvements owned by the landlord, or tenant inducements. When the payment is determined to be for tenant improvements owned by the company, the improvements are accounted for as an addition to commercial property and depreciated on a straight-line basis over their estimated useful life. If the company determines that it is not the owner of the tenant improvements, the property subject to the lease is the unimproved space

and any payments made to the tenant under the lease are treated as tenant inducements, which are amortized to revenue over the term of the lease.

(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. Revenue recognition under a lease begins when the tenant takes possession of, or controls, the physical use of the property subject to the lease. Generally, this occurs on the lease commencement date or, where the company is required to make additions to the property in the form of tenant improvements, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line or free rent receivable, as applicable, is recorded for the difference between the rental revenue recorded and the contractual amount received. Rental revenue also includes percentage participating rents and recoveries of operating expenses, including property and capital taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

Revenue and expenses related to commercial developments are recognized in income when the development is substantially complete. This is also the point at which the property is reclassified from commercial developments to commercial properties. The company considers a commercial development to be substantially complete upon the earlier of attaining an occupancy that results in break even income after debt servicing or the expiration of a reasonable maximum period of time, but no later than one year after completion of major construction. Prior to substantial completion, revenues and expenses related to commercial developments are capitalized to the property.

(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, at which time all proceeds are received or collectability is assured.

(iii) Performance and management fee revenue

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

(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 are presented in US dollars as the company's principal investments and cashflow are influenced primarily by the US dollar. The company's operations in Canada are primarily self-sustaining in nature and, as such, are translated using the current rate method. Gains or losses on translation are deferred and included in other comprehensive income as foreign currency translation gains or losses. Gains or losses on foreign currency denominated financial instruments and derivatives that are designated as hedges of the net investments in these subsidiaries are also reported in other comprehensive income, net of related future income taxes.

Foreign currency denominated monetary assets and liabilities of the company and its integrated subsidiaries are translated at the rate of exchange prevailing at period-end and any resulting translation gains or losses are included in net income. Related revenues and expenses are translated at average rates during the period.

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

(j) 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 fair values, the allocation of purchase prices to components of commercial properties and businesses acquired, the useful lives and residual values for depreciation and amortization, the allocation of residential development costs across phases and communities, the company's ability to utilize tax losses and the rates at which those losses will be realized, the selection of discount and capitalization rates used to fair value assets, the effectiveness of hedges and the fair value of financial instruments for disclosure purposes.

(k) Financial instruments and derivatives

Financial assets and financial liabilities, including derivatives, are measured at fair value on initial recognition in the consolidated balance sheets. Measurement subsequent to initial recognition depends on the financial instruments classification which is determined by the purpose for which the instrument was acquired or issued, the instruments' characteristics and the company's designation of the instrument. Financial instruments are classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as held to maturity, loans and receivables, and other financial liabilities are measured at amortized cost, net of associated transaction costs, using the effective interest method. The company includes transaction costs associated with the origination of interest-bearing financial assets and liabilities as a component of the initial carrying amount of the instrument. Available for sale financial assets are measured at fair value with changes therein, together with foreign currency translation gains and losses, recognized in other comprehensive income ("OCI"). The company does not hold any financial instruments that are classified as held to maturity.

Derivative instruments are recorded on the consolidated balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts and which are not closely related to the host contract. Changes in the fair value of derivative instruments are recognized in net income with the exception of derivatives designated in an effective cashflow or net investment hedging relationship. The company has reviewed contracts entered or amended since January 1, 2001 for embedded derivatives.

The company presents financial assets on the consolidated balance sheet in receivables and other; restricted cash and deposits; and cash and cash equivalents. Non-derivative financial assets presented in receivables and other include assets classified as loans and receivables and carried at amortized cost and available-for-sale financial assets. Derivatives and embedded derivatives with a favorable fair value to the company are presented in receivables and other at fair value. Restricted cash and deposits and cash and cash equivalents are classified as held for trading and measured at fair value at the balance sheet date.

The company presents financial liabilities in commercial property debt, accounts payable and other liabilities, capital securities – corporate and capital securities – fund subsidiaries. All of the company's non-derivative financial liabilities are classified as other liabilities and measured at amortized cost following the effective interest method. Derivatives and embedded derivatives with an unfavorable fair value to the company are presented in accounts payable and other liabilities at fair value.

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

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

In a net investment hedging relationship, the effective portion of foreign exchange gains and losses on the hedging instruments is recognized in OCI and the ineffective portion is recognized in net income. The amounts previously recognized in AOCI are recognized in net income when there is a reduction in the hedged net investment as a result of a dilution or sale of the net investment, or reduction in equity of the foreign operation as a result of dividend distributions.

Derivative 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 in the period the changes occur. Realized and unrealized gains and losses on equity derivatives used to offset the change in share prices in respect of vested deferred share units are recorded in general and administrative expense together with the corresponding compensation expense. Realized and unrealized gains and losses on other derivatives not designated as hedges are recorded in interest and other income.

(I) 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

Goodwill and Intangible Assets

In February 2008, the CICA issued a new accounting standard, Section 3064, "Goodwill and Intangible Assets." Section 3064 replaces Sections 3062, "Goodwill and Other Intangible Assets" and 3450, "Research and Development Costs" and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Various changes have also been made to other sections of the CICA Handbook for consistency purposes. As a result of these related amendments, principally to Section 1000, "Financial Statement Concepts," any expenses deferred pursuant to "matching" concepts and which do not otherwise meet the definition of an asset are no longer eligible for capitalization. The company adopted the new standards on January 1, 2009 and, consistent with transition provisions in Section 3064, the company has adopted the standards retrospectively with restatement. The adoption of these standards resulted in a reduction of receivables and other of \$17 million with a corresponding charge against opening retained earnings at January 1, 2008.

Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the Emerging Issues Committee of the CICA issued Abstract No. 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. EIC-173 is applicable to the annual consolidated financial statements of the company for the year ended December 31, 2009. The adoption of EIC-173 did not have a material impact on the company's consolidated financial statements.

Financial Instruments

In June 2009, the CICA issued amendments to Section 3862, "Financial Instruments – Disclosures" effective for the company's December 31, 2009 financial statements. The amendments require the company to classify and disclose financial instruments presented at fair value on the balance sheet based on a three-level fair value hierarchy that distinguishes between market value data obtained from independent sources and market value determined based on the company's own assumptions about market value: Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities; Level 2 – Valuations based on quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data; and Level 3 – Valuation techniques for which any significant inputs are not based on observable market data. The section has also been amended to require additional liquidity risk disclosures. See Note 26 for further detail.

Also in June 2009, the CICA issued amendments to Section 3855, "Financial Instruments – Recognition and Measurement" effective for the company's December 31, 2009 financial statements. The amendments clarified the application of Section 3855 with respect to the effective interest method, reclassification of financial instruments with embedded derivatives, eliminated the distinction between debt securities and other debt instruments, and changed the categories to which debt instruments are required or are permitted to be classified. These amendments did not have a significant impact on the consolidated financial statements.

NOTE 3: FUTURE ACCOUNTING POLICY CHANGES

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards, Section 1582, "Business Combinations," Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-controlling Interests." Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which the valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions completed on or after November 1, 2011 although adoption in 2010 is permitted to facilitate the transition to International Financial Reporting Standards ("IFRS") in 2011. Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date and Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These standards must be adopted concurrently with Section 1582.

International Financial Reporting Standards

The Canadian Accounting Standards Board has determined that profit-oriented publicly accountable enterprises will be required to adopt International Financial Reporting Standards. IFRS will replace current Canadian GAAP for those enterprises. The company has elected to early-adopt IFRS effective for interim and annual periods commencing January 1, 2010, including the preparation and reporting of one year of comparative figures.

NOTE 4: COMMERCIAL PROPERTIES

A breakdown of commercial properties is as follows:

| (Millions) | 2009 | 2008 |
|---|-----------|-----------|
| Commercial properties | | |
| Land | \$ 2,706 | \$ 2,697 |
| Building and improvements | 13,906 | 13,501 |
| Total commercial properties | 16,612 | 16,198 |
| Less: Accumulated depreciation and amortization | (1,659) | (1,297) |
| Total | \$ 14,953 | \$ 14,901 |

(a) Commercial properties, carried at a net book value of approximately \$3,129 million (2008 - \$3,117 million), are situated on land held under leases or other agreements largely expiring after the year 2065. Minimum rental payments on land leases are approximately \$28 million annually for the next five years and \$1,571 million in total on an undiscounted basis.

(b) Depreciation and amortization on commercial properties for the year ended December 31, 2009 was \$377 million (2008 - \$381 million).

(c) 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) | 2009 | 2008 |
|--|----------|----------|
| Assets | \$ 3,175 | \$ 2,982 |
| Liabilities | 1,731 | 1,650 |
| Revenues | 486 | 519 |
| Expenses | 235 | 269 |
| Net income ⁽¹⁾ | 137 | 132 |
| Cashflow from operating activities | 192 | 222 |
| Cashflow (used in) from financing activities | (8) | 34 |
| Cashflow (used in) from investing activities | (46) | (73) |

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

NOTE 5: COMMERCIAL DEVELOPMENTS

During 2009, the company capitalized a total of \$160 million (2008 - \$379 million) of costs related to commercial developments. Included in this amount is \$90 million (2008 - \$321 million) of construction and related costs and \$50 million (2008 - \$62 million) of interest capitalized to the company's commercial development sites; offset by \$10 million of capitalized net operating income for the year ended December 31, 2009 (2008 - \$4 million). Also included in this amount is \$30 million of tenant improvements for the year ended December 31, 2009 (2008 - nil).

NOTE 6: RESIDENTIAL DEVELOPMENTS

Residential developments consist of the following:

| (Millions) | 2009 | 2008 |
|---------------------------|----------|----------|
| Land under development | \$ 361 | \$ 390 |
| Housing inventory | 101 | 88 |
| Land held for development | 797 | 718 |
| Total | \$ 1,259 | \$ 1,196 |

During 2009, the company capitalized interest totaling \$22 million (2008 - \$30 million) related to residential.

Residential developments of \$767 million are pledged as security for land development debt (December 31, 2008 - \$645 million).

NOTE 7: RECEIVABLES AND OTHER

The components of receivables and other assets are as follows:

| (Millions) | 2009 | 2008 |
|---|----------|--------|
| Accounts receivable | \$ 136 | \$ 137 |
| Straight-line rent and free rent receivables | 438 | 409 |
| Loan receivable from affiliate ⁽¹⁾ | 648 | — |
| Investments | 96 | — |
| Residential receivables and other assets | 343 | 241 |
| Prepaid expenses and other assets | 291 | 131 |
| Total | \$ 1,952 | \$ 918 |

⁽¹⁾Refer to Note 29 for further details

Included in prepaid expenses and other assets is a \$128 million investment in loans secured by commercial property with a face value of approximately \$190 million bearing interest at LIBOR plus 1.75% and maturing between December 31, 2011 and December 31, 2012. These loans are classified as loans and receivables and, accordingly, carried at amortized cost.

Investments includes the company's retained interests in 1625 Eye Street in Washington, D.C., following a transaction in the fourth quarter of 2009 that diluted the company's ownership interest in the property by 90% (refer to Note 10). In connection with this transaction, the company received preferred equity securities of \$92 million, bearing a fixed dividend of 6.25% and redeemable by the issuer at par in 2016, which are pledged as security for a loan payable to the issuer in the same amount of \$92 million (refer to Note 12). The company also retained a 10% common equity interest initially recorded at \$4 million. Following the transaction, the company neither controls nor exercises significant influence over 1625 Eye Street. These equity interests are classified as available-for-sale.

NOTE 8: INTANGIBLE ASSETS

The components of intangible assets are as follows:

| (Millions) | 2009 | 2008 |
|--|--------|--------|
| Intangible assets | | |
| Lease origination costs | \$ 335 | \$ 382 |
| Tenant relationships | 431 | 499 |
| Above-market leases and below-market ground leases | 58 | 66 |
| | 824 | 947 |
| Less accumulated amortization | | |
| Lease origination costs | (178) | (151) |
| Tenant relationships | (111) | (138) |
| Above-market leases and below-market ground leases | (18) | (21) |
| Total net | \$ 517 | \$ 637 |

NOTE 9: RESTRICTED CASH AND DEPOSITS

Cash and deposits are considered restricted when they are subject to contingent rights of third parties. Restricted cash and deposits totaled \$101 million at December 31, 2009 (December 31, 2008 – \$116 million).

NOTE 10: DISCONTINUED OPERATIONS

During the fourth quarter of 2009, the company sold One Bethesda Center and entered into a transaction that diluted its ownership interest in 1625 Eye Street in Washington, D.C. by 90%, resulting in the recognition of a gain of \$50 million. The company retained a 10% ownership interest in 1625 Eye Street and will continue to manage the property (refer to Note 7).

At December 31, 2009, the four properties that comprise the company's Minneapolis portfolio namely, RBC Plaza, 33 South Sixth Street, and Gaviidae I and II continued to be classified as discontinued operations. The company still intends to exit this market through the sale of these properties and continues to make adjustments to its marketing efforts in response to current market conditions. The properties were classified as discontinued operations at December 31, 2008, which resulted in the recognition of an impairment loss on these properties of \$140 million, net of taxes of \$7 million.

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

| (Millions, except per share information) | 2009 | 2008 |
|--|---------|--------|
| Revenue | \$ 88 | \$ 108 |
| Operating expenses | (40) | (53) |
| | 48 | 55 |
| Interest expense | (24) | (31) |
| Depreciation and amortization | (7) | (16) |
| Income from discontinued operations prior to gains, impairments and taxes | 17 | 8 |
| Gain from discontinued operations | 50 | 164 |
| Impairment loss | — | (147) |
| Future income taxes | (3) | (30) |
| Income (loss) and gains from discontinued operations | \$ 64 | \$ (5) |
| Income (loss) and gains from discontinued operations per share – basic and diluted | \$ 0.15 | \$ — |

NOTE 11: COMMERCIAL PROPERTY DEBT

Commercial property debt includes \$11,375 million (December 31, 2008 - \$11,379 million) of debt that is secured by commercial properties and commercial developments, and \$100 million (December 31, 2008 - \$325 million) of corporate facilities that are not secured.

The weighted average interest rate at December 31, 2009 was 4.81% (December 31, 2008 - 5.07%). Approximately 57% of the company's outstanding debt at December 31, 2009 is fixed rate debt (December 31, 2008 - 55%). Approximately 96% of the company's outstanding debt at December 31, 2009 is non-recourse to the company (December 31, 2008 - 94%).

Commercial property debt includes \$1,689 million (2008 - \$1,303 million) repayable in Canadian dollars of C\$1,777 million (2008 - C\$1,591 million), all of which is payable by self-sustaining foreign subsidiaries.

Included in total commercial property debt is \$15 million (December 31, 2008 - \$11 million) of premiums representing the unamortized difference between the fair value of mortgages assumed on acquisitions and the corresponding contractual principal amounts at the date of assumption. This amount is amortized over the remaining term of the debt as an adjustment to interest expense following the effective interest method. Also included in the total commercial property debt is \$27 million (December 31, 2008 - nil) of unamortized debt discount, originally recognized as a result of the reorganization of the U.S. Office Fund during the year (see Note 16). This amount will be amortized over the remaining term of the U.S. Office Fund pool debt as an adjustment to interest expense following the effective interest method.

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

| (Millions) | Scheduled Amortization ⁽¹⁾ | Maturities | Total ⁽¹⁾ | Weighted- Average Interest Rate at Dec. 31, 2009 |
|--------------------------------|--|------------|----------------------|---|
| 2010 | \$ 175 | \$ 553 | \$ 728 | 3.65% |
| 2011 ⁽²⁾ | 209 | 4,671 | 4,880 | 3.34% |
| 2012 | 204 | 371 | 575 | 6.02% |
| 2013 | 65 | 1,365 | 1,430 | 5.89% |
| 2014 | 44 | 1,204 | 1,248 | 5.22% |
| 2015 and thereafter | 664 | 1,950 | 2,614 | 6.18% |
| Total commercial property debt | \$ 1,361 | \$ 10,114 | \$ 11,475 | 4.81% |

⁽¹⁾ Includes \$156 million of commercial property debt related to discontinued operations at December 31, 2009 (December 31, 2008 - \$199 million)

⁽²⁾ Corporate mezzanine debt of \$3,067 million within the U.S. Office Fund matures in 2011

NOTE 12: ACCOUNTS PAYABLE AND OTHER LIABILITIES

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

| (Millions) | 2009 | 2008 |
|--|----------|----------|
| Accounts payable and accrued liabilities | \$ 693 | \$ 598 |
| Straight-line rent payable | 82 | 70 |
| Residential payables and accrued liabilities | 148 | 139 |
| Land development debt | 177 | 434 |
| Total | \$ 1,100 | \$ 1,241 |

Included in accounts payable and accrued liabilities is a loan payable of \$92 million maturing in 2019, bearing interest at 7% and secured by the company's preferred equity interest in 1625 Eye Street in Washington, D.C. (refer to Note 7).

Land development debt of \$177 million (December 31, 2008 - \$434 million) is secured by the underlying properties of the company's residential development business. The weighted average interest rate on these advances as at December 31, 2009 was 4.01% (December 31, 2008 - 3.87%). Approximately 16% of the company's outstanding land development debt at December 31, 2009 is fixed rate debt (December 31, 2008 - 8%).

Land development debt totaling \$131 million is due by the end of 2010, with the remaining balance due prior to 2015 as follows:

| (Millions) | Weighted Average Interest Rate at Dec. 31, 2009 | Principal Repayments | | | | | | | 2009 Total | 2008 Total |
|-----------------------|---|----------------------|-------|------|------|------|------------------|--------|---------------|---------------|
| | | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 & Beyond | | | |
| Land development debt | 4.01% | \$ 131 | \$ 43 | \$ 3 | \$ — | \$ — | \$ — | \$ 177 | \$ 434 | |

NOTE 13: INTANGIBLE LIABILITIES

The components of intangible liabilities are as follows:

| (Millions) | 2009 | 2008 |
|---------------------------------------|--------|--------|
| Intangible liabilities | | |
| Below-market leases | \$ 937 | \$ 996 |
| Above-market ground lease obligations | 44 | 40 |
| | 981 | 1,036 |
| Less accumulated amortization | | |
| Below-market leases | (390) | (322) |
| Above-market ground lease obligations | (10) | (7) |
| Total net | \$ 581 | \$ 707 |

NOTE 14: INCOME TAXES

Sources of future income tax balances are as follows:

| (Millions) | 2009 | 2008 |
|-----------------------------------|--------|--------|
| Future income tax assets: | | |
| Loss carryforwards | \$ 190 | \$ 170 |
| Deferred financing costs | 24 | 6 |
| | 214 | 176 |
| Future income tax liabilities: | | |
| Properties | 394 | 277 |
| Deferred revenue | 26 | 41 |
| Other | 2 | 32 |
| | 422 | 350 |
| Net future income tax liabilities | \$ 208 | \$ 174 |

The company and its Canadian subsidiaries have future income tax assets of \$50 million (December 31, 2008 - \$45 million) that relate to non-capital losses which expire over the next 20 years and \$76 million (December 31, 2008 - \$73 million) that relate to capital losses which have no expiry. The company's U.S. subsidiaries have future income tax assets of \$64 million (December 31, 2008 - \$52 million) that relate to net operating losses which expire over the next 20 years.

The components of income tax expense are as follows:

| (Millions) | 2009 | 2008 |
|---|--------|----------|
| Income tax expense at the Canadian federal and provincial income tax rate of 33.0% (2008 – 33.5%) | \$ 105 | \$ 96 |
| Increase (decrease) in income tax expense due to the following: | | |
| Non-deductible preferred share dividends | 18 | 19 |
| Lower income tax rates in other jurisdictions | (38) | (38) |
| Change in tax rate applicable to temporary differences | 42 | (479) |
| Foreign exchange gains and losses | (3) | (49) |
| Change in future Canadian tax rates | (9) | — |
| Tax asset previously not recognized | (35) | — |
| Gain on restructuring of U.S. Office Fund | (13) | — |
| Other | (1) | 22 |
| Total net | \$ 66 | \$ (429) |

In the current year, a change in tax jurisdiction in which the company's interest in the U.S. Office Fund is held resulted in a 2.25% increase in the tax rate applicable to taxable temporary differences in the Fund, which accounted for \$42 million of tax expense in 2009.

In December 2008, the company's wholly-owned U.S. office properties subsidiary, Brookfield Properties, Inc. ("BPI"), determined that it would elect to be taxed as a real estate investment trust ("REIT") pursuant to the Internal Revenue Code section 856. The company's initial REIT election was effective as of January 1, 2008. In general, a corporation that distributes at least 90% of its REIT taxable income to its shareholders in any taxable year, and complies with certain other requirements (relating primarily to its organization, the nature of its assets and the sources of its revenues) is not subject to United States federal income taxation to the extent of the income which it distributes. The company determined that BPI substantially met the qualifications for REIT status as of December 31, 2008 and accordingly determined that BPI will not be liable for income taxes at the federal level in the United States, or in most of the states in which it operates, in future years.

NOTE 15: CAPITAL SECURITIES - CORPORATE

The company has the following capital securities outstanding:

| (Millions, except share information) | Shares Outstanding | Cumulative Dividend Rate | 2009 ⁽¹⁾ | 2008 ⁽¹⁾ |
|--------------------------------------|-----------------------|-----------------------------|---------------------|---------------------|
| Class AAA Series E ⁽²⁾ | 8,000,000 | 70% of bank prime | \$ — | \$ — |
| Class AAA Series F | 8,000,000 | 6.00% | 190 | 163 |
| Class AAA Series G | 4,400,000 | 5.25% | 109 | 109 |
| Class AAA Series H | 8,000,000 | 5.75% | 189 | 162 |
| Class AAA Series I | 8,000,000 | 5.20% | 190 | 164 |
| Class AAA Series J | 8,000,000 | 5.00% | 190 | 163 |
| Class AAA Series K | 6,000,000 | 5.20% | 141 | 121 |
| Total | | | \$ 1,009 | \$ 882 |

⁽¹⁾ Net of transaction costs of \$3 million at December 31, 2009 (December 31, 2008 - \$6 million) which are amortized to interest expense over the life of the securities following the effective interest method

⁽²⁾ Owned by Brookfield Asset Management Inc. ("BAM"); balance has been offset with a promissory note receivable from BAM – refer to Note 29

Capital securities – corporate includes \$900 million (2008 – \$773 million) repayable in Canadian dollars of C\$947 million (2008 – C\$944 million).

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

NOTE 16: U.S. OFFICE FUND

During the second quarter of 2009, the company completed a reorganization of the various interests in the U.S. Office Fund held by the company and its partners. Following the reorganization, the company's interest in the U.S. Office Fund is held through an indirect interest in TRZ Holdings LLC, an entity established by the company and The Blackstone Group ("Blackstone"). The company will continue to consolidate TRZ Holdings LLC and the underlying portfolio of properties as, through its subsidiaries, it will absorb the majority of the variability of TRZ Holdings LLC's operations. Third party interests in the U.S. Office Fund are as follows:

| (Millions) | 2009 | 2008 |
|--|---------------|---------------|
| Capital securities – fund subsidiaries | | |
| Debt securities | \$ — | \$ 240 |
| Redeemable equity interests | 415 | 471 |
| | 415 | 711 |
| Non-controlling interests – fund subsidiaries | 511 | 212 |
| Total | \$ 926 | \$ 923 |

As a result of the reorganization of investors' interests in the U.S. Office Fund, the debt securities, which consisted of partner contributions to the U.S. Office Fund by way of an unsecured debenture, were redeemed for consideration in the form of a non-controlling equity interest having a carrying value of approximately \$227 million, which resulted in a dilution gain of \$33 million, net of \$6 million of related transaction costs (refer also to Note 23). The company also increased its ownership in the U.S. Office Fund in exchange for the assumption of debt from certain of its partners, which has been reflected through an increase in commercial properties of \$26 million, a decrease in commercial property debt of \$35 million, an increase in future income taxes of approximately \$10 million, and additional non-controlling interests of approximately \$45 million. The excess of the net assets recognized over the additional non-controlling interests is recorded as an additional gain in the consolidated statement of income. No cash consideration was paid or received by the company or its partners in connection with the reorganization.

Redeemable equity interests include \$398 million (December 31, 2008 - \$426 million) representing the equity interest in the U.S. Office Fund held by 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 differences between the actual distributions and cashflows of the respective sub-managed properties, as well as changes in fair values of such properties from the date of acquisition to the put or the call closing date. Such cash adjustments also provide for cross participation in cashflows and changes in fair value of each party's sub-managed properties. Blackstone's equity interest is classified as a liability (Capital securities – fund subsidiaries) in Brookfield Properties' financial statements as the company could be obligated to transfer assets to Blackstone as a result of Blackstone's put option. The carrying amount of the liability is determined based on the carrying amount of the properties to be transferred to Blackstone on exercise of its put plus the cash adjustment payments accrued based on the relative performance of the properties. The balance of redeemable equity interests consists of \$17 million (December 31, 2008 - \$45 million) of redeemable preferred securities bearing interest at 6%.

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

The income statement effect of the aforementioned interests in the U.S. Office Fund is as follows:

| (Millions) | 2009 | 2008 |
|--|----------------|----------------|
| Interest expense – capital securities | \$ 47 | \$ 23 |
| Non-cash component ⁽¹⁾ | (73) | (93) |
| Total interest expense – capital securities – fund subsidiaries | \$ (26) | \$ (70) |

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

| (Millions) | 2009 | 2008 |
|--|--------------|----------------|
| Non-controlling interests | \$ 111 | \$ 74 |
| Non-cash component ⁽¹⁾ | (80) | (96) |
| Non-controlling interests – fund subsidiaries | \$ 31 | \$ (22) |

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

NOTE 17: 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 and residential development operations which are consolidated in the company's accounts. The balances are as follows:

| (Millions) | Others' Equity Ownership | 2009 | 2008 |
|--|--------------------------|-------|-------|
| Common shares of BPO Properties ⁽¹⁾ | 10.3% | \$ 40 | \$ 45 |
| Limited partnership units of Brookfield Financial Properties | 0.6% | 15 | 13 |
| UCAR joint venture ⁽²⁾ | 50.0% | 9 | 10 |
| Total | | \$ 64 | \$ 68 |

⁽¹⁾ Canadian dollar denominated

⁽²⁾ Joint venture to develop residential building lots

NOTE 18: PREFERRED EQUITY – SUBSIDIARIES

Subsidiaries' preferred shares outstanding total \$363 million (December 31, 2008 - \$313 million) as follows:

| (Millions, except share information) | Shares Outstanding | Preferred Shares Series | Cumulative Dividend Rate | 2009 | 2008 |
|--------------------------------------|--------------------|-------------------------|--------------------------|--------|--------|
| BPO Properties | 1,805,489 | Series G | 70% of bank prime | \$ 43 | \$ 37 |
| | 3,816,527 | Series J | 70% of bank prime | 91 | 78 |
| | 300 | Series K | 30-day BA + 0.4% | 142 | 124 |
| | 2,847,711 | Series M | 70% of bank prime | 68 | 58 |
| | 800,000 | Series N | 30-day BA + 0.4% | 19 | 16 |
| Total | | | | \$ 363 | \$ 313 |

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

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

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

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

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

NOTE 19: 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 | 2009 | 2008 |
|--------------------------------------|--------------------|--------------------------|--------|-------|
| Class A redeemable voting | 14,202,000 | 7.50% | \$ 11 | \$ 11 |
| Class AA Series E | 2,000,000 | 70% of bank prime | 34 | 34 |
| Class AAA Series L | 11,500,000 | 6.75% | 259 | — |
| Total | | | \$ 304 | \$ 45 |

During the third quarter of 2009, the company issued 11.5 million Class AAA Series L preferred shares at C\$25 per share. The proceeds from the share issuance were approximately \$259 million, net of share issuance costs of \$5 million. Holders of Series L shares receive fixed rate cumulative preferred cash dividends and will have the right to convert into Class AAA Series M preferred shares receiving floating rate cumulative preferred cash dividends, subject to certain conditions, on September 30, 2014 and on September 30 every five years thereafter.

Holders of the 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\$1.11 per share, together with all accrued and unpaid cumulative dividends thereon.

The company may redeem the 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 to 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.

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.

NOTE 20: COMMON EQUITY

(a) Common shares

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

| | 2009 | 2008 |
|--|-------------|-------------|
| Common shares outstanding, beginning of year | 391,118,440 | 392,805,608 |
| Shares issued as a result of exercise of options | 523,950 | 581,432 |
| Shares issued as a result of equity offering | 109,250,000 | — |
| Dividend reinvestment | 471,550 | — |
| Shares repurchased for cancellation | — | (2,268,600) |
| Common shares outstanding, end of year | 501,363,940 | 391,118,440 |

In the third quarter of 2009, the company issued 109.2 million common shares generating cash proceeds of approximately \$1.02 billion, net of share issuance costs of \$22 million, prior to the recognition of an income tax benefit of \$6 million. Common shares issued under the company's dividend reinvestment plan were \$5 million for the year ended December 31, 2009 (2008 – nil).

The maximum number of shares reserved for issuance under the company's Share Option Plan is 39,000,000 (2008 – 39,000,000).

During 2009, the exercise of options issued under the company's share option plan generated cash proceeds of \$2 million (2008 - \$5 million).

(b) Accumulated other comprehensive income (loss)

As of December 31, 2009 and 2008, accumulated other comprehensive income (loss) consists of the following amounts:

| | Balance as at Dec. 31 | |
|--|-----------------------|--------|
| (Millions) | 2009 | 2008 |
| Unrealized foreign currency translation gains (losses) on investments in subsidiaries, net of related hedging activities | \$ 75 | \$ 12 |
| Losses on derivatives designated as cash flow hedges, net of taxes and non-controlling interests ⁽¹⁾ | (20) | (19) |
| Accumulated other comprehensive income (loss) | \$ 55 | \$ (7) |

⁽¹⁾Includes losses of \$5 million which will be reclassified to interest expense over the next 12 months (2008 - \$4 million)

(c) Earnings per share

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

| (Millions) | 2009 | 2008 |
|--|--------|--------|
| Net income from continuing operations | \$ 253 | \$ 705 |
| Preferred share dividends | (7) | (3) |
| Net income from continuing operations available to common shareholders | \$ 246 | \$ 702 |
| Net income | \$ 317 | \$ 700 |
| Preferred share dividends | (7) | (3) |
| Net income available to common shareholders | \$ 310 | \$ 697 |
| Weighted average shares outstanding – basic | 430.7 | 392.3 |
| Unexercised dilutive options | 1.5 | 0.9 |
| Weighted average shares outstanding – diluted ⁽¹⁾ | 432.2 | 393.2 |

⁽¹⁾ The diluted weighted average shares outstanding excludes 14 million shares in 2009 as the options were anti-dilutive

NOTE 21: STOCK-BASED COMPENSATION

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

During 2009, the company granted 6,241,505 stock options (2008 - 2,155,299), under the Share Option Plan with a weighted average exercise price of \$6.49 per share (2008 - \$18.66 per share), which was equal to the five-day volume weighted average price of a share on the Toronto Stock Exchange or the New York Stock Exchange, as applicable, for the five business days preceding the effective grant date of February 18, 2009. At the grant date, the options each had a weighted average fair value of \$0.28 (2008 - \$5.38) determined using the Black-Scholes model of valuation, assuming a 7.5-year term, 30% volatility (2008 - 34%), a weighted average dividend yield of 5.0% (2008 - 3.3%) and a risk free interest rate of 2.3% (2008 - 3.4%). The resulting total compensation of \$2 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, 2009 under the company's share option plan:

| Issue Date | Expiry Date | Number of Shares | Weighted Average Exercise Price |
|------------|-------------|------------------|---------------------------------|
| 2000 | 2010 | 86,962 | \$ 7.36 |
| 2001 | 2011 | 582,912 | 8.51 |
| 2002 | 2012 | 979,571 | 8.47 |
| 2003 | 2013 | 901,458 | 9.09 |
| 2004 | 2014 | 1,403,353 | 13.78 |
| 2005 | 2015 | 828,602 | 17.10 |
| 2006 | 2016 | 818,058 | 20.64 |
| 2007 | 2017 | 1,497,021 | 31.50 |
| 2008 | 2018 | 2,110,299 | 18.99 |
| 2009 | 2019 | 6,140,529 | 6.49 |
| Total | | 15,348,765 | \$ 13.00 |

The change in the number of options during 2009 and 2008 is as follows:

| | 2009 | | 2008 | |
|--------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| Outstanding, beginning of year | 9,793,216 | \$ 16.29 | 8,221,097 | \$ 11.77 |
| Granted | 6,241,505 | 6.17 | 2,155,299 | 18.66 |
| Exercised | (523,957) | (5.91) | (581,436) | (8.34) |
| Expired / Forfeited | (161,999) | (12.23) | (1,744) | (14.31) |
| Outstanding, end of year | 15,348,765 | \$ 13.00 | 9,793,216 | \$ 16.29 |
| Exercisable at end of year | 6,095,395 | \$ 14.63 | 5,174,428 | \$ 11.69 |

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 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 of 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, 2009, the company had a total of 1,174,748 deferred share units outstanding (December 31, 2008 - 1,054,590) of which 1,171,951 were vested (December 31, 2008 - 1,042,147).

Employee compensation expense related to the stock option and the Deferred Share Unit plans for the year ended December 31, 2009 was \$6 million (2008 - \$6 million).

NOTE 22: COMMERCIAL PROPERTY AND RESIDENTIAL DEVELOPMENT OPERATIONS

(a) Revenue

The components of revenue are as follows:

| (Millions) | 2009 | 2008 ⁽¹⁾ |
|---|-----------------|---------------------|
| Revenue from commercial property operations | \$ 2,204 | \$ 2,216 |
| Revenue from residential development operations | 451 | 505 |
| | 2,655 | 2,721 |
| Interest and other income ⁽²⁾ | 21 | 52 |
| Total | \$ 2,676 | \$ 2,773 |

⁽¹⁾ Comparative figures have been reclassified to conform to the current year's presentation

⁽²⁾ Represents revenue component only - excludes impact of foreign exchange gains and losses (non-revenue) associated with the company's net Canadian dollar denominated monetary assets

(b) Commercial property operations

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

| (Millions) | 2009 | 2008 ⁽¹⁾ |
|---|-----------------|---------------------|
| Revenue | \$ 2,204 | \$ 2,216 |
| Property operating costs | (882) | (908) |
| Commercial property net operating income | \$ 1,322 | \$ 1,308 |

⁽¹⁾ Comparative figures have been reclassified to conform to the current year's presentation

Revenue earned from operating leases for the year ended December 31, 2009 was \$2,165 million (2008 – \$2,173 million). Included in revenue is net amortization of above- and below-market leases amounting to \$123 million (2008 – \$139 million). The company also earns fee revenue for property management, leasing and third party service fees. Fee revenue was \$39 million for the year ended December 31, 2009 (December 31, 2008 - \$43 million).

For the year ended December 31, 2009, rental revenues from Bank of America/Merrill Lynch accounted for 12% of total U.S. revenues (December 31, 2008 – 11%). For the year ended December 31, 2009, rental revenues from Bank of America/Merrill Lynch accounted for 1% of total Canadian revenues (December 31, 2008 – 1%). On a consolidated basis, rental revenues from Bank of America/Merrill Lynch accounted for 8% of total revenue for the year ended December 31, 2009 (December 31, 2008 – 8%).

For the year ended December 31, 2009, rental revenues from Bank of America/Merrill Lynch accounted for 12% of total U.S. commercial property revenues (December 31, 2008 – 12%). For the year ended December 31, 2009, rental revenues from Bank of America/Merrill Lynch accounted for 1% of total Canadian commercial property revenues (December 31, 2008 – 1%). On a consolidated basis, rental revenues from Bank of America/Merrill Lynch accounted for 10% of total commercial property revenue for the year ended December 31, 2009 (December 31, 2008 – 10%).

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

| (Millions) | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------------|----------|----------|----------|----------|--------|
| Rental revenue | \$ 1,444 | \$ 1,307 | \$ 1,259 | \$ 1,111 | \$ 883 |

(c) Residential development operations

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

| (Millions) | 2009 | 2008 |
|--|--------|--------|
| Revenue | \$ 451 | \$ 505 |
| Expenses | (337) | (361) |
| Residential development net operating income | \$ 114 | \$ 144 |

Residential development expenses for the year ended December 31, 2009 includes \$234 million (2008 - \$272 million), representing the carrying value of land under development and housing inventory sold in the period, \$17 million (2008 - \$3 million) related to impairment losses recognized in the year, and \$86 million (2008 - \$86 million) of other expenses including \$27 million (2008 - \$17 million) representing interest capitalized on properties sold in the year.

(d) Interest and other income

Interest and other income was \$44 million for the year ended December 31, 2009 (2008 - \$67 million). Of this amount, \$8 million represents interest income for the year ended December 31, 2009 (2008 - \$16 million) with the remainder related to other income, including foreign exchange gains of \$23 million (2008 - gains of \$15 million) resulting from the translation of net monetary liabilities that are denominated in foreign currencies held by integrated foreign subsidiaries.

NOTE 23: OTHER

The company realized \$6 million of net foreign exchange gains resulting from reductions in the company's net investment in its self-sustaining Canadian subsidiaries as a result of dividends and equity distributions (2008 - \$24 million).

Additionally, the company recognized a \$39 million dilution gain, net of transaction costs of approximately \$6 million, in connection with the reorganization of investors' interests in the U.S. Office Fund, principally relating to the settlement of debt securities with consideration in the form of a non-controlling equity interest in the U.S. Office Fund. Refer to Note 16 for further details.

NOTE 24: 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 and sales of services.

As of December 31, 2009, the company has commitments totaling C\$20 million to third parties for the re-cladding and re-positioning of First Canadian Place in Toronto.

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, 2009, these guarantees amounted to \$76 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 lives of the projects, which range from two to 11 years. The value of the guarantees is 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 other guarantees which amounted to \$26 million as at December 31, 2009 that have 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 lives of the projects, which range from two to 11 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 it 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 under such indemnification agreements.

Brookfield Properties does not conduct its operations, other than those of 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 or otherwise. A specific litigation is being pursued against one of the company's subsidiaries related to security on a defaulted loan. The financial effect of this litigation is not currently determinable.

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, 2009 is \$8 million (2008 - \$12 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.

(c) Brookfield Properties maintains insurance on its properties. The company maintains all risk property insurance and rental value coverage on its properties (including coverage for the perils of flood, earthquake and named windstorm). Brookfield Properties' all risk policy limit is \$1.5 billion per occurrence. Brookfield Properties' earthquake limit is \$300 million per occurrence and in the annual aggregate for the company's California properties and a separate \$300 million per occurrence and annual aggregate limit for all other properties. This coverage is subject to a deductible of 5% of the value of the affected property for California locations and \$100,000 for all other locations. The named windstorm limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of 5% of the value of the affected property. The flood limit is \$300 million per occurrence and in the annual aggregate subject to a deductible of \$50,000 per occurrence.

The Terrorism Risk Insurance Act ("TRIA") was enacted in November 2002 in response to the uncertainty surrounding the insurance market in the aftermath of the terrorist attacks of September 11, 2001 and provides protection for "certified acts" as defined by the statute. TRIA mandates that insurance carriers offer insurance covering physical damage from terrorist incidents as certified by the U.S. Secretary of the Treasury. On December 22, 2005, the Terrorism Risk Insurance Extension Act of 2005 (the "Extension Act") was enacted, which extended the duration of the Terrorism Risk Insurance Program until December 31, 2007. The Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") was signed into law on December 26, 2007. It extends the TRIA program through December 2014. TRIPRA effectively continues the Extension Act while removing the distinction between foreign and domestic acts of terrorism, among other provisions.

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

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

NOTE 25: CAPITAL MANAGEMENT AND LIQUIDITY

The company employs a broad range of financing strategies to facilitate growth and manage financial risk. The company's objective is to reduce its weighted average cost of capital and improve common shareholders' equity returns through value enhancement initiatives and the consistent monitoring of the balance between debt and equity financing. As at December 31, 2009, the company's weighted average cost of capital, assuming a 12% return on common equity, was 6.30%.

The following schedule details the components of the company's capital as at December 31, 2009 and the related costs thereof:

| (Millions) | Cost of Capital ⁽¹⁾ | | Underlying Value ⁽²⁾ | |
|---|--------------------------------|---------------|---------------------------------|------------------|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| Liabilities | | | | |
| Commercial property debt | 4.81% | 5.07% | \$ 11,475 | \$ 11,704 |
| Residential debt | 4.01% | 3.87% | 177 | 434 |
| Capital securities – corporate | 5.42% | 5.42% | 1,009 | 882 |
| Capital securities – fund subsidiaries ⁽³⁾ | 10.00% | 10.00% | 415 | 711 |
| Non-controlling interests – fund subsidiaries ⁽³⁾ | 10.00% | 10.00% | 511 | 212 |
| Non-controlling interests – other subsidiaries ⁽⁴⁾ | 12.00% | 12.00% | 64 | 68 |
| Preferred equity - subsidiaries | 4.83% | 4.19% | 363 | 313 |
| Shareholders' equity | | | | |
| Preferred equity - corporate | 6.20% | 3.68% | 304 | 45 |
| Common equity ⁽⁵⁾ | 12.00% | 12.00% | 6,077 | 3,023 |
| Total⁽⁶⁾ | 6.30% | 5.30% | \$ 20,395 | \$ 17,392 |

⁽¹⁾ As a percentage of average book value unless otherwise noted

⁽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⁾ Assuming 12% return on co-invested capital

⁽⁵⁾ Determined on a market value basis

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

Commercial property debt – The company's commercial property debt is primarily fixed-rate and non-recourse to the company. These financings are typically structured on a loan-to-appraised value basis of between 55% and 65% when the market permits. In addition, in certain circumstances where a building is leased almost exclusively to a high-credit quality tenant, a higher loan-to-value financing, based on the tenant's credit quality, is put in place at rates commensurate with the cost of funds for the tenant. This reduces equity requirements to finance commercial property, and enhances equity returns. The company currently has a level of indebtedness of 66% of gross book value. This level of indebtedness is considered by the company to be within its target.

Capital securities – fund subsidiaries and Non-controlling interest – fund subsidiaries The company invests its liquidity alongside capital from strategic institutional partners in fund formats to acquire individual assets and portfolios in order to, together with the associated asset management fees, enable the company to increase returns on equity.

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

The company is subject to certain covenants on its credit facilities. The covenants include a total and secured leverage ratio, an interest and fixed charge ratio, as well as a dividend payout ratio and a recourse debt requirement. The company monitors the ratios on a quarterly basis and at December 31, 2009, the company was in compliance with all of its covenants.

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

The principal liquidity needs for periods beyond the next 12 months are for scheduled debt maturities, non-recurring capital expenditures, development costs and potential property acquisitions. The company's strategy is to meet these needs with one or more of the following:

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

The company attempts to match the maturity of its commercial property debt portfolio with the average lease terms of its properties. At December 31, 2009, the average term to maturity of the company's commercial property debt was five years, close to its average lease term of seven years.

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

| (Millions) | Total | Payments Due By Period | | | |
|---|-----------|------------------------|-------------|-------------|---------------|
| | | 1 year | 2 - 3 Years | 4 - 5 Years | After 5 Years |
| Commercial property debt ⁽¹⁾⁽²⁾⁽³⁾ | \$ 13,887 | \$ 1,248 | \$ 6,225 | \$ 3,106 | \$ 3,308 |
| Capital securities - corporate ⁽³⁾ | 1,254 | 245 | 90 | 450 | 469 |
| Residential development debt | 183 | 136 | 47 | — | — |
| Capital securities – fund subsidiaries | 17 | 17 | — | — | — |
| Derivatives | 9 | 10 | (1) | — | — |
| 1625 Eye Street loan | 156 | 6 | 13 | 13 | 124 |

⁽¹⁾ Net of transaction costs

⁽²⁾ Includes \$156 million of debt associated with discontinued operations

⁽³⁾ Includes repayment of principal and interest

NOTE 26: FINANCIAL INSTRUMENTS

(a) Derivatives and hedging activities

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

- Foreign currency forward contracts to hedge exposures to Canadian dollar denominated net investments in self-sustaining subsidiaries and foreign currency denominated financial assets;
- Interest rate swaps to manage interest rate risk associated with planned refinancings and existing variable rate debt;
- Interest rate caps to hedge interest rate risk on a portion of its variable rate debt; and
- Total return swap on the company's shares to economically hedge exposure to variability in share price under the Deferred Share Unit plan (refer to Note 21).

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

Interest rate hedging

The following table provides details on derivatives in interest rate hedging relationships outstanding as at December 31, 2009 and 2008:

| (Millions) | Hedging Item | Notional | Rate | Maturity | Fair Value | Hedged Item |
|-------------------|-----------------------------------|----------|-----------|----------|------------|---------------------------------|
| December 31, 2009 | | | | | | |
| | Interest rate cap | \$300 | 5% | 2011 | nil | Interest payments on LIBOR debt |
| | Interest rate cap | 56 | 5% | 2012 | nil | Interest payments on LIBOR debt |
| | Interest rate swap ⁽¹⁾ | 55 | Pay 2.68% | 2010 | (1) | Interest payments on LIBOR debt |
| | Interest rate swap ⁽¹⁾ | 1,000 | Pay 1.38% | 2011 | (7) | Interest payments on LIBOR debt |
| | Interest rate cap | 160 | 2% | 2010 | nil | Interest payments on LIBOR debt |
| December 31, 2008 | | | | | | |
| | Interest rate cap | \$3,100 | 6% | 2009 | nil | Interest payments on LIBOR debt |
| | Interest rate cap | 600 | 7% | 2009 | nil | Interest payments on LIBOR debt |
| | Interest rate cap | 300 | 5% | 2011 | nil | Interest payments on LIBOR debt |
| | Interest rate swap ⁽¹⁾ | 55 | Pay 2.68% | 2010 | (1) | Interest payments on LIBOR debt |

⁽¹⁾ For interest rate swaps, receive LIBOR

The maximum term over which interest rate hedging gains and losses reflected in other comprehensive income will be recognized in income is nine years (2008 – nine years) as the hedged interest payments occur.

At December 31, 2009 and December 31, 2008, the amount of hedge ineffectiveness recorded in interest expense in connection with the company's interest rate hedging activities was not significant.

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

Other derivatives

At December 31, 2009, the company had interest rate caps on a notional \$3,100 million and \$600 million at rates of 6% and 7%, respectively, which were not designated in a hedge relationship. The aggregate fair value of these contracts at December 31, 2009 was nil.

At December 31, 2009, the company had a total return swap under which it receives the returns on a notional 1,088,686 Brookfield Properties' common shares. The fair value of the total return swap was a loss of \$14 million at December 31, 2009 (December 31, 2008 - \$9 million loss) based on the market price of the underlying shares at that date. For the year ended December 31, 2009, gains of \$4 million in connection with the swap have been recorded in general and administrative expense (2008 – losses of \$11 million).

(b) Fair value of non-derivative financial instruments

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

The carrying value of non-derivative financial instruments approximates fair value, except for those noted in the following table:

| (Millions) | 2009 | | 2008 | |
|---|----------------|-----------------------|----------------|-----------------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets | | | | |
| Real estate mortgages and loan receivable | \$128 | Approximates carrying | \$21 | Approximates carrying |
| Residential receivables and other assets | 343 | Approximates carrying | 241 | Approximates carrying |
| Investments | 96 | Approximates carrying | — | — |
| Financial liabilities | | | | |
| Commercial property debt | 11,475 | 11,008 | 11,704 | 11,545 |
| Land development debt | 177 | Approximates carrying | 434 | Approximates carrying |
| Capital securities - corporate | 1,009 | Approximates carrying | 882 | Approximates carrying |
| Loan payable | 92 | Approximates carrying | — | — |

(c) Fair value hierarchy

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

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

| (gain (loss) \$ in millions) | Level 1 | Level 2 | Level 3 | Total |
|------------------------------|---------|---------|---------|-------|
| December 31, 2009 | | | | |
| Interest rate derivatives | — | \$(4) | — | \$(4) |
| Total return swaps | — | (8) | — | (8) |
| Cash and cash equivalents | 176 | — | — | 176 |
| Restricted cash and deposits | 101 | — | — | 101 |
| December 31, 2008 | | | | |
| Interest rate derivatives | — | \$(1) | — | \$(1) |
| Total return swaps | — | (9) | — | (9) |
| Cash and cash equivalents | 157 | — | — | 157 |
| Restricted cash and deposits | 116 | — | — | 116 |

(d) Market risk*Interest rate risk*

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

| (Millions) | |
|---|-------|
| Corporate revolver | \$ — |
| Credit facility from Brookfield Asset Management, Inc. | — |
| Term facility | 1 |
| Variable rate commercial property debt | 38 |
| Variable rate land development debt | 2 |
| Fixed rate commercial property debt due within one year | — |
| Total | \$ 41 |

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

Foreign currency risk

The company is structured such that its foreign operations are primarily self-sustaining. As a result, the net income impact of currency risk associated with financial instruments is limited as its financial assets and liabilities are generally denominated in the functional currency of the subsidiary that holds the financial instrument. However, the company is exposed to foreign currency risk on net Canadian dollar financial liabilities of C\$469 million. The company has designated C\$950 million of financial liabilities as hedges of its Canadian denominated net investments. Based on the balance of these financial liabilities at December 31, 2009, a 10% change in the U.S. to Canadian dollar exchange rate would have impacted other comprehensive income by \$95 million and net income by \$46 million, on a pre-tax basis.

Equity price risk

The company faces equity price risk in connection with a total return swap under which it receives the returns on a notional 1,088,686 Brookfield Properties' common shares. A \$1 increase or decrease in the company's share price would result in a \$1 million gain or loss being recognized in general and administrative expense.

(e) Credit risk

Credit risk related to accounts receivable and straight-line rent and free rent receivables arises from the possibility that tenants may be unable to fulfill their lease commitments. The company mitigates this risk by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The company maintains a portfolio that is diversified by property type so that exposure to a business sector is lessened.

Currently no one tenant represents more than 12% of commercial property revenue. This risk is further mitigated by signing long-term leases with tenants who have investment grade credit ratings.

Credit risk arises on real estate mortgages and secured loans in the event that borrowers default on the repayment to the company. The company mitigates this risk by attempting to ensure that adequate security has been provided in support of such mortgages and secured loans.

Residential receivables are typically collected within nine months. Credit risk related to residential receivables is mitigated by the fact that, for the majority of sales, the company retains title to the lots that are sold until the receivable balance is collected. Additionally, the company maintains security over the lots that are sold, which can ultimately be taken back if receivables are not paid.

The majority of the company's trade receivables are collected within 30 days. The balance of accounts receivable past due, including real estate mortgages and residential receivables, is not significant.

NOTE 27: OTHER INFORMATION

(a) Supplemental cashflow information

| Years ended December 31 (Millions) | 2009 | 2008 |
|---|--------|--------|
| Acquisitions of real estate | \$ — | \$ 16 |
| Mortgages and other balances assumed on acquisition | — | — |
| Net acquisitions | \$ — | \$ 16 |
| Dispositions of real estate | \$ 69 | \$ 420 |
| Mortgages assumed by purchasers | (53) | — |
| Net dispositions | \$ 16 | \$ 420 |
| Cash taxes paid | \$ 39 | \$ 18 |
| Cash interest paid | \$ 661 | \$ 818 |

(b) 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.

(c) During 2009, interest expense included \$18 million (2008 - \$16 million) relating to amortization of transaction costs included in the carrying amount of commercial property debt and capital securities – corporate which has been recognized in interest expense using the effective interest method.

(d) Amortization of intangible assets and liabilities for the year ended December 31, 2009 was \$117 million (2008 – \$158 million).

(e) Included in cash and cash equivalents is \$3 million of short-term deposits at December 31, 2009 (December 31, 2008 – nil).

(f) During 2009, the company recorded income from equity accounted investments of \$3 million (2008 - \$9 million). Of this amount, \$3 million was recorded in net operating income from commercial property operations and nil was recorded in interest and other (2008 - \$3 million and \$6 million, respectively).

NOTE 28: SUBSEQUENT EVENTS

Subsequent to the end of 2009, the company issued 11.5 million Class AAA Series N preferred shares at C\$25 per share.

NOTE 29: RELATED PARTIES

The company has a \$300 million credit facility with Brookfield Asset Management Inc., the company's parent. At December 31, 2009, the balance drawn on this facility was nil (December 31, 2008 – nil). Interest expense related to this indebtedness totaled \$1 million for the year ended December 31, 2009 (2008 – nil). As at December 31, 2009, the company had approximately \$15 million (December 31, 2008 – \$15 million) of indebtedness outstanding to Brookfield Asset Management Inc. and its affiliates. Interest expense related to this indebtedness was nil for the year ended December 31, 2009 (2008 – nil). The company also has an unsecured balance on deposit with Brookfield Asset Management Inc. of \$648 million as of December 31, 2009 which is due on demand and earns interest at a rate of LIBOR plus 42.5 basis points (December 31, 2008 – nil). Interest income related to this loan totaled \$2 million for the year ended December 31, 2009 (2008 – nil), respectively.

Brookfield Asset Management Inc. owns \$200 million of the company's Class AAA Series E capital securities with the company having an offsetting loan receivable against these securities earning a rate of 108% of bank prime.

Included in rental revenues are amounts received from Brookfield Asset Management Inc., and its affiliates for the rental of office premises of \$2 million for the year ended December 31, 2009 (2008 - \$2 million). These amounts have been recorded at the exchange amount. In addition, the company has certain arrangements with Brookfield Asset Management Inc. and its affiliates to arrange insurance in the normal course and at market rates or at cost. The fees are based on a percentage of the annual premiums paid.

In the fourth quarter of 2009, the company entered into a joint venture arrangement with a subsidiary of Brookfield Asset Management Inc., which involved the acquisition of non-voting common shares in a joint venture for \$12 million and the contribution of a limited partnership interest in a residential development subsidiary, Carma Developers LP ("CDLP"), in exchange for a senior note secured by the transferred limited partnership interest. The company consolidates the joint venture and the underlying investment in CDLP as the joint venture is a variable interest entity and the company will absorb the majority of the variability of the joint venture. The equity investment in the joint venture of \$12 million has been reflected as an acquisition of residential development lands with a fair value of \$3 million, recognition of \$69 million of future income tax assets that are more likely than not to be realized as a result of the transaction and a deferred credit of \$58 million to be recognized in net income as the future income tax benefits are realized. The transfer of the limited partnership interest in CDLP to the joint venture was recorded at its carrying value.

NOTE 30: 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:

| | Commercial | | | | Residential Development | | Total | |
|---|---------------|-----------|----------|----------|-------------------------|----------|-----------|-----------|
| | United States | | Canada | | | | | |
| (Millions) | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Assets | | | | | | | | |
| Commercial properties | \$ 12,893 | \$ 13,147 | \$ 2,060 | \$ 1,754 | \$ — | \$ — | \$ 14,953 | \$ 14,901 |
| Development properties | 559 | 624 | 754 | 601 | 1,259 | 1,196 | 2,572 | 2,421 |
| Receivables and other | 1,381 | 562 | 220 | 115 | 351 | 241 | 1,952 | 918 |
| Intangible assets | 494 | 612 | 23 | 25 | — | — | 517 | 637 |
| Restricted cash and deposits | 85 | 112 | 15 | 2 | 1 | 2 | 101 | 116 |
| Cash and cash equivalents | 101 | 97 | 66 | 59 | 9 | 1 | 176 | 157 |
| Assets related to discontinued operations | 299 | 290 | — | — | — | — | 299 | 290 |
| Total | \$ 15,812 | \$ 15,444 | \$ 3,138 | \$ 2,556 | \$ 1,620 | \$ 1,440 | \$ 20,570 | \$ 19,440 |

The carrying amounts of properties located in the United States and Canada at December 31, 2009 were \$13,744 million and \$3,781 million, respectively (2008 - \$14,076 million and \$3,246 million, respectively).

The following summary presents segmented financial information for the company's principal areas of business for the year ended December 31:

| | Commercial | | | | Residential Development | | Total | |
|---|---------------|---------------------|--------|--------|-------------------------|--------|----------|----------|
| | United States | | Canada | | | | | |
| (Millions) | 2009 | 2008 ⁽¹⁾ | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues | \$ 1,784 | \$ 1,777 | \$ 420 | \$ 439 | \$ 451 | \$ 505 | \$ 2,655 | \$ 2,721 |
| Expenses | 713 | 725 | 169 | 183 | 337 | 361 | 1,219 | 1,269 |
| | 1,071 | 1,052 | 251 | 256 | 114 | 144 | 1,436 | 1,452 |
| Interest and other income | 31 | 36 | 7 | 20 | 6 | 11 | 44 | 67 |
| Net operating income from continuing operations | 1,102 | 1,088 | 258 | 276 | 120 | 155 | 1,480 | 1,519 |
| Interest expense | | | | | | | | |
| Commercial property debt | 489 | 577 | 42 | 48 | — | — | 531 | 625 |
| Capital securities – corporate | 8 | 9 | 45 | 48 | — | — | 53 | 57 |
| Capital securities – fund subsidiaries | (26) | (70) | — | — | — | — | (26) | (70) |
| General and administrative expense | 63 | 72 | 48 | 46 | — | — | 111 | 118 |
| Non-controlling interests | | | | | | | | |
| Fund subsidiaries | 31 | (22) | — | — | — | — | 31 | (22) |
| Other subsidiaries | — | — | 11 | 20 | — | — | 11 | 20 |
| Depreciation and amortization | 432 | 470 | 63 | 69 | — | — | 495 | 539 |
| Income before unallocated costs | 105 | 52 | 49 | 45 | 120 | 155 | 274 | 252 |
| Income taxes | | | | | | | 66 | (429) |
| Other | | | | | | | (45) | (24) |
| Net income from continuing operations | | | | | | | 253 | 705 |
| Discontinued operations | 64 | (127) | — | 122 | — | — | 64 | (5) |
| Net income | | | | | | | \$ 317 | \$ 700 |
| Acquisitions of commercial properties | \$ — | \$ 16 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 16 |
| Dispositions of commercial properties | (69) | — | — | (420) | — | — | (69) | (420) |
| Commercial property tenant improvements | 109 | 99 | 9 | 7 | — | — | 118 | 106 |
| Development and redevelopment | 28 | 164 | 107 | 230 | — | — | 135 | 394 |
| Capital expenditures | 44 | 57 | 13 | 20 | — | — | 57 | 77 |

⁽¹⁾ Comparative figures have been reclassified to conform to the current year's presentation

Total revenues earned in the United States and Canada for the year ended December 31, 2009 were \$1,790 million and \$865 million, respectively (2008 - \$1,789 million and \$932 million, respectively).

Selected Financial Information

Unaudited

| December 31 (US Millions, except for share information) | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|----------|----------|----------|--------|--------|
| Financial results | | | | | |
| Commercial property net operating income ⁽¹⁾ | \$ 1,322 | \$ 1,308 | \$ 1,240 | \$ 780 | \$ 635 |
| Funds from operations | 648 | 626 | 629 | 443 | 435 |
| Net income | 317 | 700 | 240 | 135 | 164 |
| Total assets | 20,570 | 19,440 | 20,473 | 19,314 | 9,513 |
| Shareholders' equity | 4,826 | 3,410 | 3,078 | 3,112 | 1,943 |
| Per diluted common share | | | | | |
| Common shares outstanding | 501.4 | 391.1 | 392.8 | 396.9 | 346.8 |
| Fully diluted shares outstanding | 516.7 | 400.8 | 401.1 | 404.0 | 353.9 |
| Funds from operations excluding gains | 1.48 | 1.59 | 1.57 | 1.25 | 1.23 |
| Net income | 0.72 | 1.77 | 0.59 | 0.37 | 0.46 |
| Dividends paid | 0.56 | 0.56 | 0.55 | 0.51 | 0.43 |
| Shareholders' equity – book value | 9.14 | 8.75 | 7.84 | 7.51 | 5.57 |
| Common share price at year end | 12.12 | 7.73 | 19.25 | 26.22 | 19.61 |
| Operating data—commercial properties | | | | | |
| Number of commercial properties | 110 | 108 | 109 | 116 | 66 |
| Leasable area (millions of sq. ft.) | 66 | 65 | 64 | 76 | 48 |
| Effective interest (millions of sq. ft.) | 60 | 60 | 59 | 58 | 29 |
| Average occupancy (%) | 93.8 | 94.9 | 95.6 | 95.1 | 94.6 |

⁽¹⁾ Restated to reflect the impact of current discontinued operations

Corporate Governance

Brookfield Properties' board of directors is strongly committed to sound corporate governance practices. The board continuously reviews its policies and benchmarks them against evolving governance legislation and the views of acknowledged leaders in the area. During 2009, the company continued to further its commitment to prudent corporate governance, ensuring that investors' interests are represented by a majority of independent directors on the board.

Brookfield Properties' shareholder-friendly corporate governance policies include:

- The board has a majority of independent directors
- 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 positions of CEO and Chairman are separated and a lead independent director has been designated
- The company has publicly disclosed board guidelines and the performance of the board is reviewed annually
- Independent directors routinely meet without the CEO or management present
- The audit committee and the governance and nominating committee are comprised solely of independent directors

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. 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 strives to keep informed on governance developments as the regulatory and business climates continue to evolve, and to adopt measures as appropriate to ensure that the company's commitment to sound corporate governance remains intact.

Committee Membership

| Audit Committee | Governance & Nominating Committee | Human Resources & Compensation Committee |
|--|--|--|
| Paul D. McFarlane, Chair Roderick D. Fraser Allan S. Olson Robert L. Stelzl | Allan S. Olson*, Chair William T. Cahill Roderick D. Fraser Diana L. Taylor | J. Bruce Flatt, Chair Paul D. McFarlane Linda D. Rabbitt |

* *Lead independent director*

Corporate Social Responsibility

Brookfield is firmly committed to the continuous improvement of energy performance and the sustainability profile of its 75 million square foot North American office portfolio, both in new developments and in existing buildings. The company continues to expand and enhance the features, systems and programs that foster energy efficiency at its properties, as well as the wellness and safety of its tenants, employees and the community.

Each of Brookfield's 91 managed properties undergoes routine, comprehensive environmental reviews and upgrades. Renovations are undertaken with the most environmentally conscious products available. The goal is to provide office space of the highest quality while reducing operating costs. Energy efficiency is a top priority throughout the company.

Brookfield has a three-pronged strategy toward achieving maximum sustainability and energy conservation in its office assets:

1. Incorporate innovative energy conservation strategies to achieve best-in-industry environmental performance in all new office developments;
2. Capitalize on opportunities to redevelop, retrofit, redesign and renovate properties within the existing portfolio to realize maximum energy efficiency and reduction in carbon footprint; and
3. Take leadership positions in green industry organizations and undertake new initiatives that foster the sustainability of commercial properties.

Beyond its role as a commercial landlord, Brookfield contributes to the communities it operates in by enlivening the public spaces at its flagship properties with top-quality concerts, exhibitions, fairs and festivals, which are held year-round and free-of-charge.

Artists are given the opportunity to work in new and unusual spaces and provide unique cultural experiences for building tenants and visitors alike. Brookfield Properties' award-winning *arts>Brookfield Properties* program has existed for several years and attracts more than 250,000 visitors per year in the company's flagship markets of Toronto and New York, with thousands of others attending similar programs that have been established in Calgary, Los Angeles, Houston and Denver. More information can be found at www.artsbrookfieldproperties.com.

Building Green

Brookfield is a developer of premier office properties that define the skylines of major cities throughout North America. The company has pledged to build all new developments to a minimum standard of LEED (Leadership in Energy and Environmental Design) Gold.

Brookfield opened the 1.2 million square foot Bay Adelaide Centre West tower in Toronto in September 2009, built to achieve a LEED Gold standard. This property, the first new building in Toronto's financial district in 17 years, uses innovative design technologies and conservation strategies which translate into an estimated 20% energy savings for tenants relative to comparable buildings.

Standing 51 stories tall, the tower adheres to strict building efficiency guidelines, including optimization of energy, light and water, and the use of local and recycled building materials. The building also features state-of-the-art operating and life safety systems.

These features, incorporated in the building's design, help conserve energy and limit carbon footprint:

- Fresh airflow controlled by carbon dioxide sensors
- Tenant-triggered controls on both lighting and HVAC
- Free cooling system
- Abundant natural light in lobby and tenant workspaces
- Cistern to collect storm water run-off for reuse in irrigation
- Premium efficiency HVAC condensing boiler
- Low-flow plumbing fixtures
- Secured bicycle storage, showers and lockers for tenants' use

Brookfield delivered a second building in Canada in 2009, Bankers Court in Calgary, also built to a LEED Gold standard.

Brookfield's 15 million square foot development pipeline includes 12 centrally located sites in the downtown cores of New York, Washington, DC, Houston, Denver, Toronto, Calgary and Ottawa. It is intended that these sites will be developed and designed to a minimum standard of LEED Gold when market conditions are conducive to new development.

Reinventing the Portfolio to Lead Industry in Energy Efficiency and Sustainability

With over 100 office buildings encompassing 75 million square feet across the U.S. and Canada, Brookfield is continuously seizing opportunities to enhance the sustainability and energy efficiency of its assets.

Brookfield tracks energy consumption at all of its properties, and has reported carbon emissions to the Carbon Disclosure Project for the past few years. The company also utilizes ENERGY STAR to measure and monitor energy performance as well as to ensure continual progress in limiting contributions to greenhouse gases.

The company uses the MACH Energy tracking tool at the majority of its buildings in the U.S. The tool allows Brookfield to benchmark energy use and look at day-to-day comparisons to determine which reduction activities are providing the most notable impact on energy savings. In Canada, energy is closely monitored online via a sub-meter system; energy data is available in real-time and is monitored on a continuous basis.

Brookfield has achieved LEED certification at nine properties within its existing office portfolio:

- 1225 Connecticut Ave., Washington, D.C.: LEED CS (Core & Shell) – Platinum
- 53 State St., Boston: LEED EB O&M (Existing Buildings Operations & Maintenance) – Gold
- 75 State St., Boston: LEED EB O&M – Gold
- Republic Plaza, Denver: LEED EB – Gold
- One Reston Crescent, Reston, VA: LEED EB – Gold
- 701 9th Street, Washington, DC: LEED EB – Gold
- 601 South Figueroa St., Los Angeles: LEED CI (Commercial Interiors) (Brookfield regional office)
- The Victor Building, Washington, DC: LEED CI (Brookfield regional office)
- Bankers Court; Calgary: LEED CS – Gold

ENERGY STAR Across the Portfolio

Brookfield's goal is to increase its current average ENERGY STAR score in the U.S. of 78 to 80 by the end of 2010 by running routine energy audits and identifying areas for major upgrades.

Brookfield has made great strides in the past few years; by the end of 2009 the company had received ENERGY STAR labels at 35 of its properties, an increase from five at the end of 2007. Currently, 65% of Brookfield Properties buildings in the U.S. have received ENERGY STAR or are currently under review for this certification by the U.S. Environmental Protection Agency ("EPA"). In early 2009, Brookfield was proud to announce that all of its office properties in Houston, encompassing more than nine million square feet, had earned ENERGY STAR. The company achieved its goal of 65% certification in its U.S. portfolio by the end of 2009.

CASE STUDY #1: DENVER'S TALLEST BUILDING NOW AMONG ITS GREENEST

In December 2009, Brookfield announced that Republic Plaza – the 56-story, 1.4 million square foot landmark office tower in downtown Denver – achieved LEED Gold Certification for Existing Buildings as designated by the U.S. Green Building Council.

A few of the building features which helped secure the LEED Gold rating include improved practices in:

- Exterior building site maintenance;
- Water and energy use;
- Using environmentally preferred products for cleaning and alterations;
- Waste stream management;
- Indoor environmental quality; and
- Reducing the environmental impact of the building throughout its functional life cycle.

This is not the first environmental recognition received by Republic Plaza. In 2008, the building won the BOMA (Building Owners & Managers Association) "Earth Award" in the Midwest/Northern region which recognizes sustainability and green practices in commercial properties. Republic Plaza earned the coveted ENERGY STAR label from the EPA in 2004, and was recertified in 2007 with a score of 85 (out of 100) and in 2008 with a score of 95.

As Denver's tallest office building, Republic Plaza stands as a landmark to environmental best practices.

CASE STUDY #2: THE REINVENTION OF 1225 CONNECTICUT AVE., NW, WASHINGTON, D.C.

In October 2009, Brookfield announced that its recently redeveloped office property at 1225 Connecticut Ave., NW in Washington, D.C. was certified LEED-CS (Core & Shell) Platinum, the industry's highest rating for environmental sustainability. It is the first redeveloped office building in the Eastern United States to achieve LEED Platinum certification.

The following building features facilitated the LEED-CS (Core & Shell) Platinum rating from the U.S. Green Building Council:

- Low-emissive glass in the building's curtain wall combined with state-of-the-art chillers for energy efficiency;
- Heat-recovery enthalpy wheel which allows for increased indoor air quality;
- Floor-to-ceiling windows to allow for maximum natural lighting; and
- A high-albedo roof with an 8,000 square foot vegetated area to reduce heat island effect and peak storm runoff.

These features will translate to an approximate 23% decline in energy costs at the building, which is 100% leased.

Brookfield Properties performed a complete redevelopment of 1225 Connecticut Ave. upon acquiring the building in 2006, investing \$32 million to transform a functionally obsolete Class C office building into a sustainable, Class A asset. Sustainable building aspects were incorporated into both the base building and the interior fit-outs as the asset was being redeveloped. Ninety-two percent of the material from the existing building was used in the redevelopment process, preserving the embodied energy in the original construction of the property.

CASE STUDY #3: THE RENOVATION AND MODERNIZATION OF FIRST CANADIAN PLACE, TORONTO

In September 2009, Brookfield announced its plan to renovate and reclad First Canadian Place in Toronto. Standing at 72 stories and encompassing 2.8 million square feet, First Canadian Place has been unchallenged as Canada's tallest office tower since it opened in 1975.

The guiding principle behind First Canadian Place's rejuvenation project is sustainability and setting a new standard for eco-efficiency. Infrastructure upgrades and ongoing green programs will play an integral role as First Canadian Place works toward achieving LEED - EB:OM (Existing Buildings: Operation & Maintenance) status in 2012.

Operational upgrades include:

Complete Modernization of Electrical & Mechanical System - Modernization of the building's HVAC system will include 10 new chillers, installation of digital temperature controls, conversion of lighting ballasts to modern electronic ballasts, replacement of incandescent lighting with LEDs, compact fluorescent lamps and magnetic induction lamps, the addition of carbon dioxide sensors and the continued conversion to water-conserving faucets, toilets and urinals.

"Energy Star" Portfolio Manager - A monitoring program to accurately measure, establish benchmarks and identify strategic opportunities for the optimal consumption of energy and water to ensure the building is attaining the highest levels of eco-efficiency and cost savings.

Dedicated Tenant Energy Management System - Energy use by tenants will be monitored by way of water meters, BTU meters and electrical meters. An internet-based service will allow tenants to monitor their energy use and to better measure their individual energy consumption and maximize cost savings.

BEST Energy Program - As part of BEST (Bringing Energy Savings to our Tenants), Brookfield's national energy conservation program in Canada, energy efficient lighting, base building window coverings, chiller conversions, low flush plumbing and building automation systems will be installed. To date, First Canadian Place has been able to achieve energy savings of \$1.6 million representing 17,936,000 kwh*, the equivalent of removing 1,700 vehicles from the road.

**Savings are cumulative and based on energy saving enhancements made in recent years.*

"Project Blue" Recycling - First Canadian Place continues to lead the way in Brookfield's national recycling program, offering recycling for 17 different types of products ranging from ballasts to toner cartridges. In 2008, First Canadian Place achieved a 72% waste diversion rate which represented over 3,000 tons being diverted from landfill.

In addition, the original marble panels on the building's façade will be removed and replaced by a more sustainable laminated glass assembly. Each of the 45,000 pieces of marble will be repurposed for various uses, including:

- roof-top reflective ballasts;
- concrete;
- base product under roadways;
- civil engineering projects;
- landscaping; and
- community arts projects.

The entire renovation process is captured on the project's website: www.redefiningfirst.com

Waste Management Across Canada

The renovations at First Canadian Place in Toronto are part of an overarching campaign that Brookfield has undertaken throughout Canada to reduce energy consumption, carbon emissions and waste. The company launched a national waste management program in 2002 designed to make recycling second nature among its employees and tenants. Annually, Brookfield's Canadian Operations divert 11,000 tons of material from landfill, and recycle enough paper to save 96,000 trees. Overall, the program reached its five-year goal of diverting 75% of waste from landfill – well above industry standards. The company also introduced the BEST program, which allows building tenants to control and monitor individual electrical load profiles. Subsequently, Brookfield provides those tenants with data to help them understand their energy consumption and offers strategies for lowering usage and cost-savings.

Partnership in Industry Initiatives

In addition to developing new buildings and renovating old ones in environmentally friendly ways, Brookfield also looks to take leadership positions in industry organizations and initiatives that foster sustainability and energy conservation.

Brookfield Properties is a member of both the Canadian Green Building Council (CaGBC) and the U.S. Green Building Council (USGBC), and works with the Building Owners and Managers Association (BOMA) in Canada on the BEST program, an expansion of the "Go Green" initiative.

In Canada, all Brookfield office buildings, encompassing over 17.5 million square feet, have achieved BOMA's BEST certification – which recognizes buildings where environmental best practices have been implemented.

Five of Brookfield's U.S. properties are registered in the LEED EB (Existing Buildings) program, and eight of Brookfield's Canadian properties are registered in the LEED EB:OM (Existing Buildings: Operations & Maintenance) program.

In addition, at least one employee in each of Brookfield's major operating regions has achieved personal LEED accreditation.

LEED CI (Commercial Interiors) screening has also been conducted at all Canadian properties, resulting in detailed reports which outline how the base building of each property can contribute – in whole or in part – to applicable LEED CI credits, as well as providing recommended actions each property can take to provide further credits to tenants. The screening process is complete and the certification strategy is underway, with actual certification at select properties expected in 2011/2012.

Recognition

Brookfield was one of 12 organizations selected by *Buildings* magazine for their 2009 list of "Leaders in Energy Management and Sustainability." Brookfield Properties was particularly recognized for its "proactive approach to sustainability and energy management" with regards to pending legislation and new regulations on green practices at commercial properties.

In 2009, Brookfield Properties was named one of the "Top 50 Most Socially Responsible Corporations in Canada" by Jantzi-Maclean's.

In the Global Environmental Real Estate Survey commissioned by APG Asset Management, PGGM Investments and USS, which is considered a first step in mapping the sustainable state of the listed property sector, Brookfield Properties' U.S. Office Fund (the survey focused on private funds) ranked 3rd among the 39 private American real estate funds that responded.

Climate Week Energy Reduction Initiative

In September 2009, in conjunction with Climate Week and along with partners CB Richard Ellis and ING Clarion, Brookfield Properties conducted an energy-reduction activity at the majority of its U.S. properties in an exercise to determine the level of energy savings that could be achieved by taking simple steps such as:

- Using natural lighting wherever possible;
- Shutting down computers during off hours or when leaving the office;
- Turning off all non-essential electronic devices; and
- Turning off lights when departing office space.

Brookfield encouraged the participation in the one-day event by tenants through personal letters and signage, and as a result realized an overall 9% reduction in energy use that day portfolio-wide. The company plans to build on the success of the reduction initiative by looking for ways to permanently implement many of the activities that fed the reduction.

Carbon Disclosure Project

Brookfield Properties has pro-actively responded to the Carbon Disclosure Project (www.cdproject.net) for the past few years. In 2008, for the first time, the company had its greenhouse gases (GHG) emissions data audited by a third party to confirm the validity of the findings.

As per the report of the third party, ClimateCheck, Brookfield Properties' total GHG emissions for its entire portfolio in 2008 are as follows:

| Emission Source | GHG Emissions (t CO2e) | Proportion of Total Emissions |
|--|------------------------|-------------------------------|
| Scope 1 Emissions | | |
| Emissions from Stationary Fuel Use - Natural Gas | 46,702 | 6.4% |
| Emissions from Stationary Fuel Use - Generators | 1,514 | 0.2% |
| Emissions from Company Owned Vehicles | 7 | 0.0% |
| Fugitive Emissions from Refrigeration/Air-Conditioning Equipment | 205 | 0.0% |
| Total Scope 1 Emissions | 48,428 | 6.6% |
| Scope 2 Emissions | | |
| Emissions from Purchased Electricity | 601,240 | 81.8% |
| Emissions from Purchased Steam | 85,365 | 11.6% |
| Total Scope 2 Emissions | 686,605 | 93.4% |
| Total Emissions | 735,033 | 100% |

Stakeholder Communications

Brookfield recognizes the importance of communicating its various environmental initiatives to tenants, investors and other valued stakeholders. That is why for the past several years the company has included updates on green practices and initiatives on its corporate website, in its Annual Report, in presentations to investors, in correspondence with tenants, and in other promotional materials.

In 2009, the company published its first Corporate Social Responsibility (CSR) report. The goal of this second CSR report is to further highlight to various stakeholders the company's initiatives and achievements in sustainability, environmental friendliness, corporate citizenship, volunteerism and philanthropy.

The CSR report is available for download on Brookfield Properties' website: www.brookfieldproperties.com.

Board of Directors



Gordon E. Arnell
Calgary, Alberta
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
Senior 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
Managing Director, Independent Risk
Citi Community Capital

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.



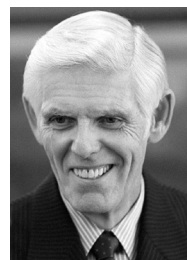
Roderick D. Fraser, Ph.D., O.C.
Edmonton, Alberta
President Emeritus
University of Alberta

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. Trustee of the Aga Khan University.



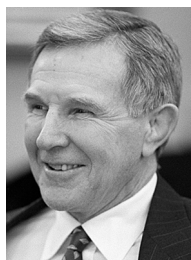
Richard B. Clark
New York, New York
Chief Executive Officer
Brookfield Properties Corporation

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.



Paul D. McFarlane
Mississauga, Ontario
Corporate Director

Retired from a Canadian chartered bank in 2002 after more than 40 years of service. From 1994 until retirement, served as Senior Vice President, Risk Management Division, Head Office. Held positions in numerous branches, regional and head office positions.



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 Astral Media Inc, Teck Resources Limited and the Toronto Waterfront Corporation.



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

Current position since 1991. Chairman and CEO, Churchill Corp. 1989–1990 and Banister Construction Group 1990–1991. Various positions at Stuart Olson Construction including President and CEO 1965–1989. Director, ZCL Composites Inc.



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, Towers Watson; Class C Director, the Federal Reserve Bank of Richmond. Trustee, George Washington University and Federal City Council. Director, the Greater Washington Board of Trade and the Economic Club of Washington, D.C.



Diana L. Taylor
New York, New York
Managing Director
Wolfensohn & Company

Current position since 2007. Previously Superintendent of Banks for the State of New York; Deputy Secretary to Governor of New York; CFO of Long Island Power Authority; Investment Banker with Smith Barney and Lehman Brothers; Director, After School Corp., Hudson River Park Trust, New York Women's Foundation, Mailman School of Public Health, Dartmouth College, ACCION International, Sotheby's, International Women's Health Coalition, amfAR AIDS Foundation, Columbia Business School and Citigroup Inc. Member, Council on Foreign Relations and Foreign Policy Association.



Robert L. Stelzl
Hamilton, Montana

Retired from Colony Capital after 14 years as principal and member of the investment committee. Chairman, Brookfield Homes and Director, the Van Eck Family of Mutual Funds, New York. 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.



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
Chief Executive Officer

Steven J. Douglas
President

Bryan K. Davis
Chief Financial Officer

Brett M. Fox
Chief Compliance and Administrative Officer
General Counsel

Melissa J. Coley
Vice President, Investor Relations and
Communications

P. Keith Hyde
Vice President, Taxation

Dana E. Petitto
Vice President and Controller

PROPERTY OPERATIONS

UNITED STATES

Dennis H. Friedrich
President and Chief Executive Officer

Paul L. Schulman
Chief Operating Officer

Lawrence F. Graham
Executive Vice President

Edward F. Beisner
Senior Vice President and Controller

G. Mark Brown
Senior Vice President, Strategic Initiatives &
Finance

Bert Dezzutti
Senior Vice President, Southern California
Region

James E. Hedges
Senior Vice President, Acquisitions and
Dispositions

Kathleen G. Kane
Senior Vice President and General Counsel

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

Greg Meyer
Senior Vice President, D.C. Region

Sara B. Queen
Senior Vice President, Asset Management

David Sternberg
Senior Vice President, Midwest and Mountain
Region

Stephanie A. Schembari
Vice President, Human Resources

CANADA

Thomas F. Farley
President and Chief Executive Officer

T. Jan Sucharda
Chief Operating Officer

Stefan J. Dembinski
Senior Vice President, Asset Management
Eastern

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. Nga Trinh
Senior Vice President, Investments

N. Dwight Jack
Vice President, Office Leasing, Western

Ricky Tang
Vice President and Controller

RESIDENTIAL OPERATIONS

Alan Norris
President and Chief Executive Officer