

# Brookfield

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

March 2011

Corporate governance relates to the activities of the Board of Directors who are elected by and are accountable to the shareholders, and takes into account the role of the Corporation's Executive Officers who are appointed by the Board and who are charged with the ongoing management of the Corporation. The Board encourages sound corporate governance practices designed to promote the long-term well-being and ongoing development of the Corporation, having always as its ultimate objective the best interests of the Corporation.

The Board is of the view that the Corporation's corporate governance policies and practices, outlined below, are comprehensive and consistent with the guidelines for corporate governance adopted by Canadian securities administrators. The Board is also of the view that these policies and practices are consistent with the requirements of the New York Stock Exchange and the applicable provisions under the U.S. Sarbanes-Oxley Act.

### BOARD OF DIRECTORS

#### Mandate of the Board

Brookfield's Board of Directors oversees the management of the Corporation's affairs directly and through three existing standing committees and a risk management committee which will be formed immediately following the 2011 Annual and Special Meeting of Shareholders (the "Committees"). In doing so, the Board acts at all times with a view to the best interests of the Corporation. The responsibilities of the Board and each Committee are set out in written charters, which are reviewed and approved annually. These charters are also posted on the Corporation's website, [www.brookfield.com](http://www.brookfield.com) under *Corporate/Corporate Governance*.

In fulfilling its mandate, the Board is, among other things, responsible for the following:

- overseeing the Corporation's overall long-term strategic planning process and reviewing and approving its annual business plan;
- assessing the principal risks of the Corporation's business and reviewing, approving and monitoring the systems in place to manage these risks;
- reviewing major strategic initiatives to determine whether the Corporation's proposed actions accord with long-term business strategies and shareholder objectives;
- appointing the Chief Executive Officer, overseeing the selection of other members of senior management and reviewing succession planning;
- assessing management's performance against approved business plans;
- reviewing and approving the reports issued to shareholders, including annual and interim financial statements;

- promoting the effective operation of the Board; and
- safeguarding shareholders' equity interests through the optimum utilization of the Corporation's capital resources, including issuance of debt and equity securities and setting an appropriate dividend policy.

### **Meetings of the Board**

The Board meets at least once in each quarter, with additional meetings held to consider specific items of business or as deemed necessary. The Board also meets annually to review the Corporation's annual business plan which includes the Corporation's long-term strategy. In 2010, there were five regularly scheduled meetings, including one meeting to review the Corporation's annual business plan and long-term strategy, and three special meetings to review specific strategic initiatives. Five regular meetings including one annual business plan and strategy meeting are scheduled for 2011. Meeting frequency and agenda items may change depending on the opportunities or risks faced by the Corporation. The agenda for regularly scheduled Board meetings is set by the Chairman, with input from the Chief Executive Officer and Chief Financial Officer, prior to circulation to the full Board.

### **Director Meetings Without Management**

Private sessions of the independent directors without management present are held after all regularly scheduled and special Board meetings, chaired by the Chairman, who reports back to the Chief Executive Officer on any matters requiring action by management. Private sessions of the Committees without management present are also held after all Committee meetings, chaired by the Committee Chairman, who reports back to the appropriate executive on any matters requiring action by management.

### **Size and Composition of the Board**

The Board of Directors has 16 directors. The Corporation considers this to be an appropriate number at this time, given the diversity of its operations and the need for a variety of experience and backgrounds to provide for an effective and efficient Board.

The Corporation has two classes of equity shares outstanding:

- Class A Limited Voting Shares; and
- Class B Limited Voting Shares.

The holders of the Class A Limited Voting Shares are entitled to elect one-half of the Board and the holders of the Class B Limited Voting Shares are entitled to elect the other one-half of the Board. The Corporation has cumulative voting procedures which entitle shareholders to cumulate their votes in the election of directors.

## Independent Directors

The Board has a policy that at least a majority of its directors should be independent directors in order to ensure that the Board's interests are closely aligned with its shareholders. The following table describes the independence status of the directors proposed as nominees for election at the 2011 Annual and Special Meeting of Shareholders.

<i>Independence Status of the Nominated Directors</i>				
	<i>Independent</i>	<i>Related</i>	<i>Management</i>	<i>Reason for Related Status</i>
Jack L. Cockwell		✓		Mr. Cockwell is a shareholder of Partners Limited
Marcel R. Coutu	✓			
J. Trevor Eyton	✓			
J. Bruce Flatt		✓	✓	Mr. Flatt is a shareholder of Partners Limited and Senior Managing Partner and CEO of the Corporation
James K. Gray	✓			
Robert J. Harding		✓		Mr. Harding is a shareholder of Partners Limited
Maureen Kempston Darkes	✓			
David W. Kerr		✓		Mr. Kerr is a shareholder of Partners Limited
Lance Liebman	✓			
Philip B. Lind	✓			
G. Wallace F. McCain	✓			
Frank J. McKenna	✓			
Jack M. Mintz	✓			
Youssef A. Nasr	✓			
James A. Pattison	✓			
George S. Taylor	✓			

The Corporation surveys its directors annually to obtain information necessary to make a determination regarding their independence. Following a review of this information, the Governance and Nominating Committee recommends to the Board a specific determination regarding the directors considered to be independent. On this basis, the Board considers that 12 of the 16 proposed director nominees for election at the 2011 Annual and Special Meeting of Shareholders, comprising 75% of the Board, are independent based on the above criteria. These independent nominees include 12 incumbent directors, Marcel Coutu, Trevor Eyton, James Gray, Maureen Kempston Darkes, Lance Liebman, Philip Lind, Wallace McCain, Frank McKenna, Jack Mintz, Youssef Nasr, James Pattison and George Taylor. The Board considers that all of these 12 independent nominees are also free of any interest in or current or recent relationship with the Corporation's principal shareholder, Partners Limited, and its shareholders.

The other four directors proposed for nomination, Jack Cockwell, Bruce Flatt, Robert Harding and David Kerr, comprising 25% of the Board, are considered to be related directors since they have current or recent interests in or are related to the Corporation or its principal shareholder, Partners Limited. Mr. Flatt is the Chief Executive Officer of the Corporation. Messrs. Cockwell, Flatt, Harding and Kerr are shareholders of Partners Limited.

## Areas of Director Expertise

The Corporation endeavours to ensure that the Board of Directors is comprised of directors with the areas of expertise required to ensure effective governance of the Corporation and provide strategic advice to management. Each year, the Corporation surveys the incumbent directors and any additional directors proposed for nomination to identify their areas of expertise, using the following categories:

- currently or recently a chief executive officer of a public corporation;
- experience in growth initiatives;
- knowledge of government and public policy;
- expertise in board governance;
- financial acumen, including senior executive experience in financial accounting and reporting;
- legal acumen;
- international experience particularly in the Corporation's locations of business; and
- experience in one or more industry sectors.

The results of this survey are reviewed by the Governance and Nominating Committee as a basis for identifying additional areas of expertise to be addressed in recruiting new directors.

## Interlocking Directorships

There are no interlocking directorships among the Corporation's independent directors.

Two of the Board's related directors represent the Corporation's interests on the boards of certain of its operating affiliates. In this capacity, Mr. Cockwell and Mr. Harding represent the Corporation on the board of Norbord Inc. Mr. Cockwell also represents the Corporation on the board of Brookfield Properties Corporation.

The Corporation considers that the participation of these related directors on the boards of its affiliates is an essential part of the Corporation's role in providing oversight to its investments and does not represent any conflict with their roles as directors of the Corporation. Messrs. Cockwell and Harding do not receive and, if elected as a director of Brookfield Properties Corporation, Mr. Flatt will not receive, any compensation for their roles as board and committee members of these companies. An aggregate payment was made by Norbord Inc. to the Corporation for services provided by Messrs. Cockwell and Harding.

Through its representatives on the boards of its operating affiliates, the Corporation endeavours to play an active role in setting long-term strategic plans, reviewing management succession plans and assessing performance against approved business plans of these affiliates. Through these representatives, the Corporation also endeavours to safeguard the interests of its

shareholders by participating in the decisions of its affiliates regarding the issuance of treasury shares, the payment of dividends and the optimum use of capital resources.

### **Director Orientation and Education**

New directors are provided with a comprehensive orientation package on their election or appointment to the Board. Time is set aside at all regularly scheduled Board meetings for presentations on different areas of the Corporation's business, led by executives responsible for or familiar with these operations. In addition, presentations on new developments and trends in corporate governance and director fiduciary duties are provided as appropriate. Site visits are held annually to provide an opportunity for directors to learn about the Corporation's major operations. Directors are encouraged to suggest topics for discussion or special presentations at regularly scheduled Board meetings and the annual business plan and strategy session. Director dinners are held prior to or immediately following most regularly scheduled Board meetings with senior management present, providing an opportunity for informal discussion and director and management presentations on selected topics of interest.

### **Board Renewal**

The Corporation does not have a mandatory age for the retirement of directors. Instead, the Governance and Nominating Committee reviews the composition of the Board on a regular basis in relation to approved director criteria and skill requirements and recommends changes as appropriate to renew the Board. Nine new directors have joined the Board over the past nine years.

### **Director Expectations**

The Board has adopted a Charter of Expectations for Directors, which sets out the Corporation's expectations in regard to personal and professional competencies, share ownership, meeting attendance, conflicts of interest, changes of circumstance and resignation events. Directors are expected to identify in advance any potential conflict of interest regarding a matter coming before the Board or its Committees, bring these to the attention of the Board or Committee Chairman and refrain from voting on such matters. Directors are also expected to submit their resignations to the Chairman of the Board if they become unable to attend at least 75% of the Board's regularly scheduled meetings or if they become involved in a legal dispute, regulatory or similar proceedings, take on new responsibilities or experience other changes in personal or professional circumstances that could adversely impact the Corporation or their ability to serve as director. This Charter is reviewed annually and a copy is posted on the Corporation's website, [www.brookfield.com](http://www.brookfield.com) under *Corporate/Corporate Governance*.

### **COMMITTEES OF THE BOARD**

The Board of Directors believes that its Committees assist in the effective functioning of the Board and help ensure that the views of independent directors are effectively represented.

The Board has three Committees:

- the Audit Committee;
- the Governance and Nominating Committee; and

- the Management Resources and Compensation Committee (the “Compensation Committee”),

and intends to establish a Risk Management Committee immediately following the meeting.

The responsibilities of these Committees are set out in written charters, which are reviewed and approved annually by the Board of Directors. The Charters of these Committees and the Position Descriptions of the Committee Chairmen can be found on the Corporation’s website, [www.brookfield.com](http://www.brookfield.com) under *Corporate/Corporate Governance*. It is the Board’s policy that all members of these Committees must be independent directors, as described above. Special committees may be formed from time to time as required to review particular matters or transactions. While the Board retains overall responsibility for corporate governance matters, the Audit Committee, the Governance and Nominating Committee, the Compensation Committee and, following formation, the Risk Management Committee each have specific responsibilities for certain aspects of corporate governance, in addition to their other responsibilities as described below.

### **Audit Committee**

The Audit Committee is responsible for monitoring the Corporation’s systems and procedures for financial reporting and internal controls and the performance of the Corporation’s external and internal auditors. It is responsible for reviewing certain public disclosure documents prior to their approval by the full Board and release to the public including, among others, the Corporation’s quarterly and annual financial statements and management’s discussion and analysis. The Audit Committee is also responsible for recommending to the Board the firm of chartered accountants to be nominated for appointment as the external auditor, and for approving the assignment of any non-audit work to be performed by the external auditor. The Audit Committee meets regularly in private session with the Corporation’s external and internal auditors, without management present, to discuss and review specific issues as appropriate. The Audit Committee met seven times in 2010, including the annual business plan and strategy meeting, and twice to date in 2011.

In addition to being independent directors as described above, all members of the Audit Committee must meet an additional “independence” test under the Sarbanes-Oxley Act, in that their directors fees must be the only compensation they receive, directly or indirectly, from the Corporation. Also, in February 2007, the Audit Committee adopted a requirement that all its members disclose any form of association with a present or former internal or external auditor of the Corporation, in addition to the current requirement to disclose a professional or employment relationship to the Governance and Nominating Committee for a determination as to whether this association affects the independent status of the director.

At March 10, 2011, the Audit Committee was comprised of the following four directors, Marcel Coutu (Chairman), Jack Mintz, Youssef Nasr and George Taylor, all of whom meet the additional criteria for independence described above. The Board considers that all four members of the Audit Committee are financially literate, and has designated Messrs. Coutu, Taylor and Nasr as the Audit Committee’s designated financial experts. Messrs. Coutu, Mintz and Taylor served on the Audit Committee throughout 2010. Mr. Nasr was appointed to the Audit Committee on November 4, 2010.

For more information about the Audit Committee as required by Part 5 of National Instrument 52-110, see our 2011 Annual Information Form which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Governance and Nominating Committee**

It is the responsibility of the Governance and Nominating Committee, in consultation with the Chairman, to assess on an annual basis the size and composition of the Board and its Committees; to review the effectiveness of the Board's operations and its relations with management; to assess the performance of the Board, its Committees and individual directors; to review the Corporation's statement of corporate governance practices; and to review and recommend the directors' compensation. The Governance and Nominating Committee met four times in 2010 and once to date in 2011.

The Governance and Nominating Committee reviews the performance of the Board, its Committees and the contribution of individual directors on an annual basis. The Board has in place a formal procedure for evaluating the performance of the Board, its Committees and individual directors, consisting of questionnaires, private interviews by the Chairman with each director, and a report from the Corporation's Chairman to the Governance and Nominating Committee.

The Governance and Nominating Committee is responsible for reviewing the credentials of proposed nominees for election or appointment to the Board and for recommending candidates for Board membership, including the candidates proposed to be nominated for the election to the Board at the annual meeting of shareholders. To do this, the Governance and Nominating Committee maintains an "evergreen" list of candidates to ensure outstanding candidates with the needed skills can be quickly identified to fill planned or unplanned vacancies. Candidates are assessed in relation to the criteria established by the Board (which include, among others, the categories of director expertise described above) to ensure it has the appropriate mix of talent, quality, skills and other requirements necessary to promote sound governance and Board effectiveness.

The Governance and Nominating Committee reviews, at least once a year, the composition of the Board's Committees to ensure that Committee membership complies with the relevant governance guidelines, that the work load for its independent directors is balanced, and that Committee positions are rotated on a regular basis. In doing so, the Committee consults with the Chairman of the Board and makes recommendations to the Board, which appoints Committee members. The Corporation's Chief Executive Officer does not participate in this process.

At March 10, 2011, the Governance and Nominating Committee was comprised of the following four directors, Frank McKenna (Chairman), Trevor Eyton, Lance Liebman and Philip Lind, all of whom are independent directors. Mr. McKenna also serves as the Board's Chairman.

### **Management Resources and Compensation Committee (the "Compensation Committee")**

The Compensation Committee is responsible for reviewing and reporting to the Board on management resource planning, including succession planning and proposed senior management appointments, the job descriptions and annual objectives of its senior executives, the form of executive compensation in general, and the levels of compensation of the Chief Executive Officer and other senior executives. The Committee also reviews the performance of

senior management against written objectives and reports thereon to the Board. The Compensation Committee met twice in 2010 and once to date in 2011.

The Board has extended the more stringent test of independence regarding compensation described above for members of its Audit Committee to its Compensation Committee, although it is not required to do so. In February 2007, the Board further restricted the criteria for membership on the Compensation Committee by requiring that not more than one third of its members are acting chief executive officers of any publicly-traded corporation, partnership, trust or other entity.

At March 10, 2011, the Compensation Committee was comprised of the following five directors, Lance Liebman (Chairman), James Gray, Maureen Kempston Darkes, Wallace McCain and James Pattison, all of whom are independent directors in the more restricted sense described above. Only one of the Compensation Committee's five directors, Mr. James Pattison, is currently a chief executive officer. Messrs. Gray, Liebman, McCain and Pattison and Mrs. Kempston Darkes served on the Compensation Committee throughout 2010.

### **Risk Management Committee**

The Board intends to establish a Risk Management Committee immediately following the 2011 Annual and Special Meeting of Shareholders. The Risk Management Committee will be responsible for monitoring the Corporation's financial and non-financial risk exposures, including market, credit, operational, reputational, strategic and business risks, and the steps management has taken to monitor and control such risk exposures. It will also review periodically the financial policies and guidelines which apply to the Corporation's investment, treasury and risk management activities. The Board is forming the Risk Management Committee in order to have a more focused and dedicated group to oversee the Corporation's enterprise risk management activities, thereby also alleviating the workload of the Audit Committee, which previously had this responsibility. The Risk Management Committee will regularly report to the Board on its proceedings and any significant matters that it has addressed.

The Risk Management Committee is expected to be comprised of the following three directors, Maureen Kempston Darkes (Chairwoman), Youssef Nasr and James Gray, all of whom are independent directors.

To enhance disclosure of the responsibilities and activities of the Board's Committees, each Committee, other than the Risk Management Committee, which will be formed immediately following the 2011 Annual and Special Meeting of Shareholders, has provided a report highlighting its achievements during 2010. The report of the Audit Committee, which is responsible for the oversight of risk management prior to the formation of the Risk Management Committee, includes work performed by the Audit Committee regarding risk management.

### **BOARD, COMMITTEE AND DIRECTOR EVALUATION**

The Board believes that a regular and formal process of evaluation improves the performance of the Board as a whole, its Committees and individual directors. Each year, a survey is sent to directors regarding the effectiveness of the Board and its Committees, inviting comments and suggestions on areas for improvement. The results of this survey are reviewed by the Governance and Nominating Committee, which makes recommendations to the Board as required. Each director also receives a list of questions for completing a self-assessment. The

Chairman holds private interviews with each director annually to discuss the operations of the Board and its Committees and to provide any feedback on the individual director's contributions. The Chairman reports on these interviews to the Governance and Nominating Committee as a basis for recommending the directors to be nominated for election at the next annual meeting of shareholders.

## **BOARD AND MANAGEMENT RESPONSIBILITIES**

### **Board Positions**

The positions of Chairman of the Board and Chief Executive Officer are separate, and are held by Frank McKenna and Bruce Flatt, respectively. The Board has adopted written position descriptions for the Chairman, Group Chairman and Chief Executive Officer, which are summarized below, as well as position descriptions for the Chairmen of the Committees. These position descriptions are reviewed annually by the Board and posted on the Corporation's website, [www.brookfield.com](http://www.brookfield.com) under *Corporate/Corporate Governance*.

The Chairman of the Board manages the business of the Board and ensures that the functions identified in its Charter are being carried out effectively by the Board and its Committees. In addition, the Chairman of the Board is responsible for the following functions: preparing the agenda for each Board meeting in consultation with the Chief Executive Officer and Chief Financial Officer; ensuring directors receive the information required to perform their duties; ensuring an appropriate Committee structure and making initial recommendations for Committee appointments; ensuring that an appropriate system is in place to evaluate the performance of the Board as a whole, its Committees and its individual directors; and, working with the Chief Executive Officer and senior management of the Corporation to monitor progress on strategic planning, policy implementation and succession planning. The Chairman also presides over all private sessions of the independent directors of the Board and is responsible for ensuring that matters raised during these meetings are reviewed with management and acted upon in a timely fashion.

The Group Chairman provides advice to the Corporation's Chief Executive Officer on industry trends, co-ordinates relationships with the advisory and corporate boards of the Corporation's subsidiary companies, and chairs a number of the human resources committees of these subsidiary boards.

The Chief Executive Officer provides leadership to the Corporation and, subject to approved policies and direction by the Board, manages the business and affairs of the Corporation and oversees the execution of its strategic plan. In addition, the Chief Executive Officer is responsible for the following functions: presenting to the Board for approval an annual strategic plan for the Corporation; presenting to the Board for approval the capital and operating plans to implement approved strategies on an ongoing basis; acting as the primary spokesman for the Corporation; presenting to the Board for approval an annual assessment of senior management and succession plans; recommending the appointment or termination of any senior executive of the Corporation other than the Chairman and Group Chairman; and, together with the Chief Financial Officer, ensuring that controls and procedures are in place to ensure the accuracy and integrity of the Corporation's financial reporting and public disclosures.

## **Management's Relationship to the Board**

The responsibility of management includes safeguarding the Corporation's assets and long-term value creation. In the event that management's performance is found to be inadequate, the Board has the responsibility to bring about change to enable the Corporation to perform satisfactorily. Brookfield's governance principles are intended to encourage autonomy and effective decision making on the part of management, while ensuring scrutiny by the Board and its Committees.

The Corporation's senior management reports to and is accountable to the Board. The Chief Executive Officer of the Corporation, Bruce Flatt, is also a member of the Board. At its meetings, the Board regularly engages in a private session with the Corporation's most senior executives without other members of management present. The Board also meets independently of all management and related directors at the conclusion of every regularly scheduled Board meeting, under the leadership of the Chairman.

Management and other related directors do not sit on any of the Board's Committees. Members of management and other directors attend Committee meetings at the invitation of the Committee Chairmen. The Committees also meet independently of all members of management and related directors at the conclusion of all Committee meetings.

## **Management Accountability**

The Board of Directors believes in the importance of developing annual business plans to ensure the compatibility of shareholder, Board and management views on the Corporation's strategic direction and performance targets, and the effective utilization of shareholder capital. A meeting of the Board is held each year which is dedicated to reviewing the strategic initiatives and annual business plan submitted by senior management. The Board's approval of the annual business plan provides a mandate for senior management to conduct the affairs of the Corporation within the terms of the plan, knowing it has the necessary Board support. Material deviations from the annual business plan are reported to and considered by the Board.

## **Board and Committee Information**

The information provided by management to directors is considered to be critical to director effectiveness. In addition to the reports presented to the Board and its Committees at regularly scheduled and special meetings, the directors are also kept informed on a timely basis by management of corporate developments and key decisions taken by management in pursuing the Corporation's strategic plan and the attainment of its objectives. The directors annually evaluate the quality, completeness and timeliness of information provided by management to the Board. An orientation and education program is provided for new directors.

## **COMMUNICATION AND DISCLOSURE POLICIES**

The Corporation has adopted a Corporate Disclosure Policy which summarize its policies and practices regarding disclosure of material information to investors, analysts and the media. The purpose of this policy is to ensure that the Corporation's communications with the investment community are timely, consistent and in compliance with all applicable securities legislation. This Corporate Disclosure Policy is reviewed annually by the Board of Directors and posted on the Corporation's website, [www.brookfield.com](http://www.brookfield.com) under *Corporate/Conduct Guidelines*.

The Corporation endeavours to keep its shareholders informed of its progress through a comprehensive annual report, quarterly interim reports and periodic news releases. It also maintains a website that provides summary information on the Corporation and ready access to its published reports, news releases, statutory filings and supplementary information provided to analysts and investors. Directors and management meet with the Corporation's shareholders at the annual meeting of shareholders and are available to respond to questions at that time. Shareholders who wish to contact the Chairman or other Board members can do so directly or through the Corporate Secretary of Brookfield.

The Corporation also maintains an investor relations program to respond to inquiries in a timely manner. Management meets on a regular basis with investors and investment analysts and hosts quarterly conference calls and web casts to discuss the Corporation's financial results, with a transcript of the calls posted on the Corporation's website. The Corporation also endeavours to ensure that the media are kept informed of developments on a timely basis, and have an opportunity to meet and discuss these developments with the Corporation's designated spokespersons.

#### **CODE OF BUSINESS CONDUCT AND ETHICS**

It has always been the policy of the Corporation that all its activities be conducted with the highest standards of honesty and integrity and in compliance with all legal requirements. In February 2003, the Board of Directors approved a Code of Business Conduct and Ethics (the "Code") for the directors, officers and employees of the Corporation and its wholly-owned subsidiaries. The Code formally sets out standards for behaviour and practice and requires all directors, officers and employees to indicate in writing their familiarity with the Code and their agreement to comply with it, and is updated periodically as required to reflect changes in the Corporation's business activities and evolving standards and practices. The Code is given to all directors, officers and employees when they join the Corporation and directors, officers and employees are required to re-certify to the Code on an annual basis.

The Code is reviewed annually by the Board of Directors and updated as considered necessary. Compliance with the Code is monitored by the Board through its Audit Committee, which receives regular reports on any compliance issues from the internal auditor.

The Code is posted on the Corporation's website, [www.brookfield.com](http://www.brookfield.com) under *Corporate/Conduct Guidelines* and is filed on SEDAR at [www.sedar.com](http://www.sedar.com).