

## Letter to Shareholders

Today we announced a number of shareholder initiatives which, while not directly related to the creation of intrinsic value, are intended to ensure the value of our business trades properly in the marketplace. These, in conjunction with our solid operating performance, should enable us to keep our cost of capital competitive as we fund the expansion of our activities globally.

**Stock Split:** We announced a three-for-two stock split, which will be implemented by way of a stock dividend. This is being done to ensure we continue to maintain liquidity in our shares and full access to the broadest base of shareholders.

**Euronext Listing:** We intend to seek a listing on Euronext in Amsterdam. As a result, we will be co-listed on the NYSE, Euronext and the TSX. As we expand our operations, we believe this will give us greater access to European and other international investors.

**Distribution of Infrastructure Assets:** We intend to distribute units of an infrastructure partnership to our shareholders. As capital markets evolve for infrastructure funding, we decided that in addition to the capital that we deploy from our balance sheet and on behalf of private institutional investors, it would be advantageous for us to have an entity which is publicly traded and through which we can conduct our infrastructure activities.

We contemplated an initial public offering of some of our premier infrastructure assets but came to the conclusion that we should first give our shareholders the opportunity to benefit by owning an initial stake in this entity. As a result, we are intending to distribute a special dividend to all shareholders of approximately one new Brookfield Infrastructure unit for every 25 shares of Brookfield Asset Management on a post-split basis. Each unit will have an estimated intrinsic value of approximately \$25.00, representing \$1.00 for each Brookfield Asset Management share on a post-split basis. Where Brookfield Infrastructure trades in the market will be dependent on investors' views of intrinsic value and our ability to grow cash flows of this entity over the next 10 years.

You will have the option to either sell your units and, in essence, receive an extra cash payment from Brookfield this year, or hold your Brookfield Infrastructure units, as we position Brookfield Infrastructure to participate globally in the infrastructure business.

We believe we have created a unique vehicle which will own and manage long-life infrastructure assets. Brookfield Infrastructure intends to pay a solid dividend, but will be positioned as a total return entity, and therefore have a significant component of internal growth and capital appreciation. Brookfield Infrastructure's capital will, following the spin-off, be fully deployed and therefore expects to pay a regular dividend in the first quarter after it is spun-off. We intend to apply to list the units of Brookfield Infrastructure on the NYSE. This listing should give us an enhanced ability to access capital in the future as we grow.



We will manage Brookfield Infrastructure and will initially retain a 40% ownership stake in this entity. We intend to own our future infrastructure activities primarily through this entity and, in addition to its initial operations primarily in electricity transmission and timber, future acquisitions could include pipelines, sea and air ports, transportation and other types of infrastructure, but will exclude property and renewable power operations.

Two of our most senior managing partners, Sam Pollock and Aaron Regent, will co-head this business unit, and with their leadership, we believe Brookfield Infrastructure will have a positive future.

Lastly, while we have done a lot of work to be in a position to announce this spin-off, we can never be assured we will be able to complete it. These types of events are always subject to satisfaction of a number of conditions and, as such, we can not be certain that this distribution will proceed, or proceed in the manner or the amount as set forth above.

## **STRATEGIC INITIATIVES**

During the first quarter we continued to build our operations. Notable transactions, which are public today and in which we have been involved, include:

**Expanded Timberlands Platform:** We acquired Longview Fibre Company, which owns 588,000 acres of prime, freehold timberlands in Washington and Oregon in the heart of the Pacific Northwest. The high value species, excellent growth rates and significant standing timber inventories make these timberlands among the most valuable in the world. This acquisition establishes Brookfield as one of the top five timberlands owners and operators in North America with a total of 2.5 million acres of prime freehold timberlands under management.

**Australian Property Business:** We made a non-binding indicative bid proposal to acquire Multiplex Limited, a publicly listed, Australian based property development, construction, property funds and facilities management business. This represents an opportunity to expand our operations in a desirable investment location with a complementary business focus. We are currently in discussions with the company and the family that holds a controlling interest to further this initiative.

**Expanded Operating Platform:** During the quarter, we opened offices in Beijing and Hong Kong and formed a partnership with a European property company. The partnership in Germany has acquired one office property to date, which is 85% let to a global consulting firm. To date, while these operations are small compared to our existing operations, we are considering a number of meaningful initiatives.

## **OPERATING HIGHLIGHTS**

### **Property**

Our core office operations contributed \$371 million of cash flow during the quarter compared with \$205 million in the same period last year. Much of the growth is due to the acquisition of a large office portfolio late last year, and much of this increase is offset by higher carrying charges in the current period. Nevertheless, we achieved a



modest increase in the contribution from existing properties and recorded \$47 million of gains on the disposition of non-core properties compared with \$30 million of such gains in 2006.

We leased 1.6 million square feet across the core portfolio, which was evenly split between new leases and renewals. We achieved 38% pre-leasing at our 1.1 million square foot Bay Adelaide Centre development in Toronto, continued the redevelopment of the 1.3 million square foot Four Allen Center in Houston and are progressing construction of our 265,000 square foot addition to Bankers Hall in Calgary. Leasing and development activity in Canary Wharf in London was also strong during the quarter. Occupancy at the Canary Wharf Estate is over 97%, and we have five new properties in various stages of development.

Increasing rental rates and decreasing vacancy levels in virtually all of our markets, have contributed to an appreciation in real estate values. We continue to look for opportunities to lock in higher cash flows on a long-term basis through the proactive lease-up and re-letting of under-utilized space.

Brookfield's residential operations contributed \$66 million of cash flow during the first quarter which is 5% higher than the results for the comparable period last year. Our Canadian operations were particularly strong, benefiting from continued high levels of demand in our core market of Alberta. Market conditions in our U.S. operation remain challenging, in particular in the first quarter which is typically a cyclical slow period relative to second and third quarters of the year. However, we have an increase in active selling communities coming on line in 2007, which should allow us to meet targets. Our Brazilian operations generated results in line with expectations, and with Brazilian interest rates trending downward, the positive fundamental story continues to unfold.

Our real estate opportunity fund undertook a number of initiatives to reposition and upgrade properties acquired in the latter part of 2006 and completed the sale of several properties during the quarter. We signed a lease in a 1.1 million square foot Texas office complex with Fidelity Investments and launched the redevelopment of a 30-story mixed-use property in Milwaukee.

In our Brazil Retail Fund, we are pursuing the acquisition of additional retail shopping centres as we continue to deploy the \$800 million of capital committed to this fund in late 2006.

Our real estate advisory group continued to be a leader in the industry in Canada, working with clients during the quarter on the sale of a large residential and commercial portfolio and two major commercial properties.

### **Power Generation**

Cash flow from our power operations totalled \$188 million. This was lower than the same period in 2006 largely as a result of lower realized prices on generation. Despite lower water levels, generation from our hydroelectric facilities increased 8% to 3,813 gigawatt hours, due to the contribution from new facilities acquired during 2006 and early 2007. This included two run-of-the-river hydroelectric generating facilities in New York State acquired in February, and our newly commissioned 189 megawatt wind energy project.



We are continuing to pursue opportunities to optimize our existing assets and also looking to acquire and develop new facilities. In Brazil, we have five new hydroelectric facilities under construction which represent approximately 95 megawatts of new capacity, and we anticipate the launch of two additional construction projects by the end of 2007. We established a partnership with a power company in Minnesota which will build a 10 megawatt hydroelectric facility near Minneapolis, and we have an improvement program underway at seven facilities to add 20 megawatts of incremental power with marginal incremental capital investment.

### **Timberlands**

Our timberland operations exceeded plan, generating cash flow of \$33 million, the result of positive harvesting conditions. Island Timberlands also benefited from favourable species mix and improved pricing and margins. These positive results include the sale of higher value lands for a net contribution of \$2 million. In this regard, we continue to look at opportunities in all of our timberlands to surface value by selling or developing lands that are more suited to residential or other uses.

Our team is now actively integrating the new timberlands recently purchased in Washington and Oregon, and we believe there are substantial opportunities to surface value in these assets.

### **Transmission**

Our transmission infrastructure operations contributed operating cash flows of \$61 million, in line with expectations. We expanded this operation significantly during 2006 with two acquisitions: a major system in Chile and one in Brazil. The Chilean transmission system is the largest transmission system in the country, with 8,000 kilometres of transmission lines and 51 power substations delivering electricity to distribution companies that supply most of the Chilean population. The Brazilian transmission system added over 2,100 kilometres to our transmission portfolio.

Together, these acquisitions expand our operating platform in Latin America and in this infrastructure asset class, and we continue to explore opportunities to deploy additional capital in this sector.

### **Specialty Funds**

Our specialty funds group continued to expand both the level of activity and assets under management. Our bridge lending group advanced a number of new loans and at quarter end had a portfolio under management of \$1.7 billion. The restructuring group continues to actively manage existing investments, including Western Forest Products and Stelco, and is making inroads on several new initiatives.

The real estate finance group sourced \$700 million of new investment opportunities and we recently raised capital within our public mortgage REIT. Our real estate and fixed income securities operations expanded their assets under management, winning a number of new mandates.



## Financial Profile

We continue to access the capital markets in our efforts to achieve the overall lowest cost of capital, while also minimizing risk within our financing profile. Notable transactions in the quarter included a refinancing of Tower A at the World Financial Center, \$250 million of project financings within our power generating operations, and the issuance of \$750 million of debt to finance our Chilean transmission operations. Following quarter end, we issued two tranches of corporate 10-year unsecured notes, US\$250 million of 5.80% notes, and C\$250 million of 5.29% notes. We also agreed to issue C\$200 million of 4.75% perpetual preferred shares.

## OUTLOOK

We remain committed to our goal of generating increased cash flows and higher intrinsic value on a per share basis for our shareholders. In this regard, we continue to execute our strategic growth plan, leveraging our operating expertise to expand our assets under management in our core areas of operations, and into complementary asset classes.

Please call us with any comments, questions or business ideas. We look forward to reporting to you again next quarter.

*Note: This Letter to Shareholders contains forward-looking information within the meaning of Canadian provincial securities laws and other "forward looking statements", within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, Section 21E of the U.S. Securities Exchange Act of 1934, as amended, "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. The words "intend," "seek," "believe," "should," "opportunities," "growth," "will," and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters identify forward-looking statements. Forward looking statements in this Letter include the proposed listing of Brookfield's stock on Euronext and the proposed distribution to Brookfield shareholders of units of Brookfield Infrastructure and the details related thereto.*

*Although Brookfield Asset Management believes that these forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance them, or any other forward looking statements or information in this Letter. The completion of the proposed Euronext listing and the proposed distribution of Brookfield Infrastructure units, as well as the future performance and prospects of Brookfield Infrastructure following the distribution of the Brookfield Infrastructure units are subject to a number of known and unknown risks and uncertainties. In particular, the Euronext listing and the distribution of Brookfield Infrastructure units each require stock exchange approval and the distribution of Brookfield Infrastructure units requires the approval of SEC, Canadian provincial securities regulators and other regulatory bodies. Factors that could cause actual results of Brookfield Infrastructure or the Company to differ materially from those contemplated or implied by the statements in the Letter include the fact that the success of Brookfield Infrastructure will be dependant on market demand for an infrastructure company, which is unknown, the availability of equity and debt financing for Brookfield Infrastructure, the ability to effectively complete new acquisitions in the competitive infrastructure space and to integrate acquisitions into existing operations and other risks and factors which will be described in the registration statement to be filed in connection with the distribution of Brookfield Infrastructure units.*

*Other factors related to Brookfield that could cause actual results to differ materially from those contemplated or implied by the statements in this Letter include: economic and financial conditions in the countries in which we do business; the behavior of financial markets including fluctuations in interest and exchange rates; availability of equity and debt financing; strategic actions including dispositions; the ability to effectively integrate acquisitions into existing operations and the ability to attain expected benefits; the Company's continued ability to attract institutional partners to its Specialty Funds; adverse hydrology conditions; regulatory and political factors within the countries in which the company operates; acts of God, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts; 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 Environment and 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.*

