

Overview

Operating cash flow and gains totalled \$327 million in the second quarter or \$0.53 per share compared to \$294 million in the prior year. This brings operating cash flow and gains for the first six months of 2010 to \$693 million or \$1.13 per share. The operating results reflect the following:

- Continued stable performance of our commercial property platform driven by continued high occupancy and increased same-property rental income;
- The contribution from a global portfolio of diversified infrastructure assets acquired through a restructuring in late 2009;
- Improved results and stronger operating fundamentals from our operations that are more sensitive to economic cycles, such as our timber operations and industrial businesses held within our restructuring operations, as efficiency initiatives take effect and the economic recovery continues;
- Realization gains arising from the monetization of partial interests in two of our operating units in the first and second quarters;
- The negative impact of record low water levels on our renewable power operations in certain markets during the second quarter, although this was partially offset by higher realized prices resulting from recently signed long-term power sales agreements;
- The positive impact of higher currencies during the quarter, relative to the comparable quarter, on operating results in Australia, Brazil and Canada.

The net asset value of our common equity, which reflects the tangible value of our assets and does not include any value for our business franchise or asset management operations, increased by \$477 million (\$0.73 per share) during the quarter and \$927 million (\$1.42 per share) for the first six months of the year to \$29.69 per share, excluding common share distributions. The increases were driven largely by the advancement of business development initiatives as well as asset valuations that reflected improved market conditions for many of our operations, offset in the second quarter by lower currency exchange rates in several of our operating regions.

In general, apart from the low water levels in our renewable power operations, nearly all of our business groups are meeting or exceeding their operating targets. Furthermore, we continue to have favorable access to the capital markets; our liquidity and capitalization profile remains strong; and we are actively pursuing a number of value enhancing opportunities with the objective of increasing returns to shareholders over the long run.

Cash Flow from Operations

The following table sets out our operating cash flows on a segmented basis:

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three months ended June 30, 2010		Six months ended June 30, 2010	
	2010	2009	2010	2009
Asset management and other services	\$ 78	\$ 58	\$ 149	\$ 110
Operating platforms				
Renewable power generation	149	106	262	252
Commercial properties	90	89	160	145
Infrastructure	34	15	64	34
Development activities	37	22	45	10
Special situations	29	71	155	79
Cash and financial assets	38	50	124	158
	455	411	959	788
Less: Interest expense	(74)	(64)	(149)	(124)
Operating costs and current income taxes	(54)	(53)	(117)	(122)
Operating cash flow and gains	\$ 327	\$ 294	\$ 693	\$ 542
– Per share	\$ 0.53	\$ 0.49	\$ 1.13	\$ 0.91

Asset management fees and the contribution from other services continued to increase in the quarter and on a year-to-date basis. In particular, long-term base management fees were higher as a result of new funds and increased third party capital commitments. Our construction services business expanded their operating margins and activity levels and new business procurement is benefitting from increased economic activity in Australia and the UK.

Power generating operations contributed net operating cash flow during the quarter of \$149 million, which includes a realization gain of \$102 million, compared to \$106 million last year. We experienced below average hydrology levels in Ontario, Quebec and New York, which reduced the volume of energy produced in the quarter. Realized prices increased, partially offsetting the lower energy levels, due to long-term contracts secured in recent periods at higher prices. The lower net contribution also reflects the higher participation rate by co-investors in our Canadian operations following the issuance of public equity in our listed renewable power fund during the second half of 2009. Water levels have begun to normalize in our key markets. In addition, we have locked in power prices for 80% of our expected generation over the next 18 months at favourable prices.

Commercial property results were stable during the quarter, reflecting the contractual nature of the underlying leases and the high level of occupancy. Cash flows on a same property basis grew by 4% over last year measured in local currencies, reflecting new leases signed at higher rents as well as a reduction in operating expenses. We also benefitted from newly completed office developments, lease termination income and positive currency variances although they were offset in part by lower investment gains relative to last year and interest expense on debt associated with completed properties. In total, operating cash flow was \$90 million in the second quarter of 2010, similar to 2009. The overall occupancy level of our properties was 95% at quarter end, with an average lease term of seven years with high quality tenants and average in-place rents that are approximately 8% below comparable average market rents, which positions us well for continued stable results.

Infrastructure operations contributed \$34 million in the second quarter of 2010 compared to \$15 million in 2009. Our North American timber operations benefitted from stronger domestic and export markets and are well positioned to benefit further as the economic recovery takes hold due to their ability to increase harvest levels as prices increase. In addition, the current period results include cash flows from the portfolio of utility and fee-for-service businesses acquired in the fourth quarter of 2009. These assets are predominantly rate regulated or contractual in nature, increasing the stability of cash flows in this platform and giving us a high level of visibility in respect of future earnings.

Development activities contributed cash flows of \$37 million in the second quarter compared to \$22 million in 2009. The increase reflects improved results in our U.S. and Canadian residential businesses. The level of income recognized in our Brazil operations for accounting purposes was relatively unchanged, notwithstanding the continued growth and increasing profitability of this business. Contracted sales in our Brazilian unit increased by 121% over last year, to R\$1.3 billion; although the results from these achievements will not be recognized until the projects are completed and delivered.

Special situations operations contributed cash flows of \$29 million in the second quarter of 2010, compared to \$71 million in 2009. The 2009 results included a gain of \$65 million on the monetization of an industrial business. We are achieving stronger cash flows from a number of our restructuring investments whose underlying operations are more sensitive to economic cycles, reflecting the improved operating environment and the impact of restructuring initiatives.

The contribution from cash and financial assets totalled \$38 million in the quarter compared to \$50 million in the second quarter of 2009, reflecting a lower level of gains, while interest expense at the corporate level increased to \$74 million from \$64 million last year due to higher average borrowing levels. Operating costs were consistent with the comparable 2009 quarter.

Invested Capital and Net Asset Values

Our capital is invested primarily in renewable hydroelectric power plants in North America and Brazil, commercial office properties in central business districts of major international centres and regulated infrastructure assets globally. These segments, together with cash and financial assets, represent over 70% of our invested capital and contribute to the strength and stability of our capitalization, operating cash flows and net asset values. The allocation of invested capital and our corporate capitalization were relatively unchanged during the quarter as shown in the following table:

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	Brookfield's Invested Capital ¹			% of Capital		
	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009
Asset management and other services	\$ 686	\$ 750	\$ 803	3%	4%	4%
Operating platforms						
Renewable power generation	7,545	7,895	8,018	35%	36%	37%
Commercial properties	5,126	5,132	4,841	23%	23%	22%
Infrastructure	1,485	1,567	1,546	7%	7%	7%
Development activities	2,596	2,473	2,403	12%	11%	11%
Special situations	1,716	1,631	1,631	8%	7%	7%
Cash and financial assets	1,708	1,805	1,645	8%	8%	8%
Other assets	951	950	945	4%	4%	4%
	21,813	22,203	21,832	100%	100%	100%
Less: Corporate obligations	(3,457)	(3,273)	(3,372)			
Accounts payable and other	(1,832)	(1,980)	(2,028)			
Preferred shares and capital securities	(2,040)	(2,069)	(1,776)			
Common equity – IFRS basis	14,484	14,881	14,656			
Unrecognized value under IFRS	3,000	2,200	2,050			
Net asset value	\$ 17,484	\$ 17,081	\$ 16,706			
Per share	\$ 29.69	\$ 29.09	\$ 28.53			

1. At net asset value, excludes accounting provisions for future tax liabilities

Our net asset value increased by \$477 million (\$0.73 per share) during the quarter and \$927 million (\$1.42 per share) for the first six months of the year, prior to common share distributions. The increases reflect the advancement of business development initiatives such as renewable power projects and acquisition activities, the impact of improved market conditions for many of our operations on asset valuations, and returns on capital invested over the past two years at attractive values. Lower exchange rates in several of our operating regions relative to the U.S. currency offset a portion of the increase. The following table summarizes the changes in our net asset value during 2010:

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three months ended June 30, 2010		Six months ended June 30, 2010	
	Total	Per share	Total	Per share
Opening net asset value	\$ 17,081	\$ 29.09	\$ 16,706	\$ 28.53
Operating cash flow	327	0.53	693	1.13
Less: realization gains ¹	(102)	(0.19)	(102)	(0.19)
Preferred share dividends	(19)	n/a	(35)	n/a
Fair value changes				
Asset valuations	858	1.39	1,109	1.74
Foreign currency	(311)	(0.50)	(308)	(0.50)
Depreciation and amortization	(184)	(0.30)	(341)	(0.56)
Other	(92)	(0.20)	(89)	(0.20)
Total return pre-tax	477	0.73	927	1.42
Common share dividends	(74)	(0.13)	(149)	(0.26)
Total change in value	403	0.60	778	1.16
Closing net asset value - June 30	\$ 17,484	\$ 29.69	\$ 17,484	\$ 29.69

1. Represents the portion of disposition gains that were previously included in equity as unrealized gains or appraisal surplus.

We define net asset value as our common equity as presented in our IFRS financial statements adjusted to eliminate deferred income taxes and quarterly depreciation on assets that are revalued annually, and to reflect changes in the fair value of assets that are not otherwise revalued under IFRS. Further information on net asset values, including our valuation methodology and assumptions are summarized on pages 24 to 27 of the Supplemental Information.

Liquidity and Financing Activities

We continued to strengthen our balance sheet, liquidity and capitalization during the quarter. We completed \$1.7 billion of financings to supplement our liquidity and extend our maturity profile, and generated \$350 million of proceeds through asset monetizations.

Core liquidity, which represents cash and financial assets and undrawn credit facilities at the Corporation and our principal operating subsidiaries, was approximately \$4.2 billion at quarter end, compared to \$4.0 billion at the end of 2009. This includes \$2.7 billion at the corporate level and \$1.5 billion at our principal operating units. We continued to maintain a higher level than in prior years as we pursue a number of investment initiatives.

Deconsolidated and proportionately consolidated debt-to-total capitalization ratios were relatively unchanged at 16% and 45%, respectively. The average term of our corporate debt is eight years.

The following table presents our proportionate share of debt maturities that are scheduled to occur prior to 2013:

AS AT JUNE 30, 2010 (MILLIONS)	Average Term (yrs)	Average Yield	2010	2011	2012
Corporate	8 yrs	6%	\$ —	\$ —	\$ 773
Subsidiary	5 yrs	7%	117	515	509
Asset-specific	7 yrs	6%	907	2,362	2,251

We finance our operations primarily on an investment grade basis and we continue to refinance maturities in the normal course given the high quality and stable cash flow profile of our asset base and the strength of our financial relationships. We have ample core liquidity and ongoing cash flow to fund any repayments in the event that we choose to or are otherwise required to reduce any specific borrowings.

Assets Under Management

Total assets under management at quarter end were \$107 billion which includes assets managed on behalf of our clients, as well as on our own behalf. This represents the physical assets and working capital held by the various listed and unlisted entities and investees within our various operations as well as the debt and equity securities that we manage on an advisory basis through our public securities operations. This metric provides an indication of the scale of our operations.

Approximately \$65 billion of these assets are consolidated for accounting purposes and are therefore presented on our consolidated balance sheet. The balance of \$42 billion includes \$23 billion of the securities managed on an advisory basis and \$19 billion that are held within equity accounted investees or joint venture arrangements. The physical assets and working capital balances are funded with a combination of debt and equity capital, with the equity capital being provided by our clients, public shareholders through the capital markets, and the Corporation. Our share of the invested capital was approximately \$22 billion as at June 30th, and is described on page 3.

One of our objectives as an asset manager is to increase the amount of capital that we manage on behalf of our clients. This provides us with an important source of capital to fund growth activities as well as the opportunity to earn asset management income in the form of base management and performance fees. Accordingly, we disclose the total third party capital under management as an indication of our track record in raising third party capital and the potential capital base from which we can earn asset management income.

The following table illustrates the capital managed for third parties at June 30, 2010, including amounts currently invested as well as allocations of capital to specific funds totalling \$7 billion that have yet to be invested:

(MILLIONS)	June 30, 2010			December 31, 2009		
	Core and Value Added	Opportunity and Private Equity	Total	Core and Value Added	Opportunity and Private Equity	Total
Unlisted funds and specialty issuers						
Commercial properties	\$ 2,242	\$ 5,175	\$ 7,417	\$ 2,380	\$ 4,600	\$ 6,980
Infrastructure	4,181	—	4,181	3,818	—	3,818
Development	—	288	288	—	291	291
Special situations	3,041	620	3,661	3,098	661	3,759
	9,464	6,083	15,547	9,296	5,552	14,848
Public securities	—	—	23,100	—	—	23,787
Other listed entities	—	—	8,302	—	—	8,552
	\$ 9,464	\$ 6,083	\$ 46,949	\$ 9,296	\$ 5,552	\$ 47,187

Third party capital allocated to our unlisted funds and specialty issuers increased by approximately \$700 million since year-end, reflecting additional commitments to new funds, offset by the impact of lower currency exchange rates and capital distributions. Other listed entities represent publicly held shareholdings in subsidiaries that are not subject to asset management arrangements.

Net Income

We do not utilize net income on its own as a key metric in assessing the performance of our business because, in our view, it contains measures that do not provide a consistent measure of the ongoing performance of the underlying operations. For example, net income includes fair value adjustments in respect of our commercial properties, timber and financial assets but not our renewable power, utility and development assets. Nevertheless we recognize the importance of net income as a key measure for many users and provide a discussion of net income and a reconciliation to operating cash flow below and elsewhere within our Supplemental Information. Furthermore, we incorporate most of the elements of net income that are not included in operating cash flow, along with components of other comprehensive income, in determining our net asset values and total return.

The following table reconciles operating cash flow and gains to net income for the past two periods:

(MILLIONS, EXCEPT PER SHARE AMOUNTS)	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
Operating cash flow and gains	\$ 327	\$ 294	693	542
Less: disposition gains ¹	(102)	(23)	(187)	(43)
	225	271	506	499
Fair value adjustments, depreciation and other non-cash provisions	(136)	(613)	(253)	(1,133)
Net income (loss) attributable common shareholders	\$ 89	\$ (342)	\$ 253	(634)
– Per share (diluted)	\$ 0.12	\$ (0.60)	\$ 0.37	(1.12)

1. Disposition gains that are recorded in equity for IFRS purposes, as opposed to net income

In 2010, the reconciling items consisted primarily of accounting depreciation in respect of our power generating facilities and industrial businesses partially offset by revaluation gains. In 2009, we recorded lower appraised values for our commercial properties, which led to downward fair value adjustments in that period. Net income for the second quarter excluding these items decreased by \$46 million, reflecting the decrease in operating cash flows, excluding disposition gains.

Cautionary Statement Regarding Forward-Looking Statements

Note: This Financial Review contains forward-looking information within the meaning of Canadian provincial securities laws and "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 harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and in any applicable Canadian securities regulations. The words, "intend," "grow," "plan," "expect," "believe," "objective," "continue," and derivations thereof and other expressions, including conditional verbs such as "will," "can," "may," "would" and "should" are predictions of or indicate future events, trends or prospects or identify forward-looking statements. Forward-looking statements in this Financial Review include statements with respect to: continued favourable access to the capital markets; increased economic activity in Australia and the UK; our expectation to return to long-term average power generation levels if water levels normalize; our ability to achieve continued stable results in our commercial property business; an economic recovery and its impact on our timber operations; our visibility in respect of future earnings in our infrastructure operations; stronger cash flows in our restructuring activities; our core liquidity and ongoing cash flow; and other statements with respect to our beliefs, outlooks, plans, expectations, and intentions. Although Brookfield Asset Management believes that its anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include: economic and financial conditions in the countries in which we do business; rate of recovery of the current financial crisis; the behaviour of financial markets, including fluctuations in interest and exchange rates; availability of equity and debt financing and refinancing; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; adverse hydrology conditions; regulatory and political factors within the countries in which the company operates; tenant renewal rates; availability of new tenants to fill office property vacancies; tenant bankruptcies; 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 detailed from time to time in the company's form 40-F filed with the Securities and Exchange Commission as well as other documents filed by the company with the securities regulators in Canada and the United States including Management's Discussion and Analysis of Financial Results under the heading "Business Environment and Risks."

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Brookfield Asset Management, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, the company undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.