



Brookfield Timberlands Management LP

..... Brookfield Fourth Quarter 2012 Global Timberlands Research Report

Contents

- Interpreting NCREIF¹ Timberland Index Results
- Key Metrics

Fourth Quarter 2012 Research Report

The recent release of NCREIF's fourth quarter 2012 Timberland Index findings provides an opportunity to review the various factors that influenced cash and capital appreciation returns of the index for the past year and offer our views on the regional variances in the U.S. timberlands marketplace.

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Brookfield Asset Management Inc. ("Brookfield") is a global asset manager focused on property, renewable power, infrastructure and timberland assets with over \$175 billion of assets under management. Brookfield Timberlands Management LP, a wholly owned subsidiary of Brookfield, has 2.6 million acres or over \$4.0 billion of timberlands under management in North and South America.

¹ National Council of Real Estate Investment Fiduciaries.



Interpreting NCREIF Timberland Index Results

The NCREIF Timberland Index is an appraisal based index, released on a quarterly basis, and is generally regarded as the best available benchmark for U.S. private timberlands.

In the fourth quarter release for 2012, the index included a total of 443 properties, or 15.1 million acres, with a total market value of \$26.0 billion. This represents a significant increase of 50 properties year-over-year, or 1.3 million acres, with the total market value increasing by 11% from \$23.9 billion in the fourth quarter of 2011. The U.S. South (“South”) and U.S. Pacific Northwest (“PNW”) regions represented 61% and 33% of the value, respectively, and 68% and 21% of the area. The U.S. Northeast (“Northeast”) and U.S. Lakes States (“Lake States”) accounted for the remainder.

The total return of the index was 7.76% for 2012, with a 2.68% EBITDDA return complemented by 4.97% appreciation return. The South sub-index experienced a positive total return for the first time since 2008 at 5.41%, while the PNW and Northeast sub-indices continued to show growing positive returns at 13.54% and 4.42%, respectively. The recently added Lake States sub-index returned 4.33%².

Figure 1: NCREIF Timberland Index Fourth Quarter 2012

| Percentages | | South | PNW | NE | Lake States | Total |
|--------------|-----|-------|-------|------|-------------|-------|
| EBITDDA | Q/Q | 0.41 | 0.97 | 0.78 | 0.21 | 0.59 |
| Return | Y/Y | 2.29 | 3.86 | 1.69 | 0.27 | 2.68 |
| Appreciation | Q/Q | 3.73 | 9.05 | 3.38 | 1.47 | 5.33 |
| Return | Y/Y | 3.07 | 9.41 | 2.71 | 4.05 | 4.97 |
| Total Return | Q/Q | 4.14 | 10.02 | 4.17 | 1.68 | 5.92 |
| | Y/Y | 5.41 | 13.54 | 4.42 | 4.33 | 7.76 |

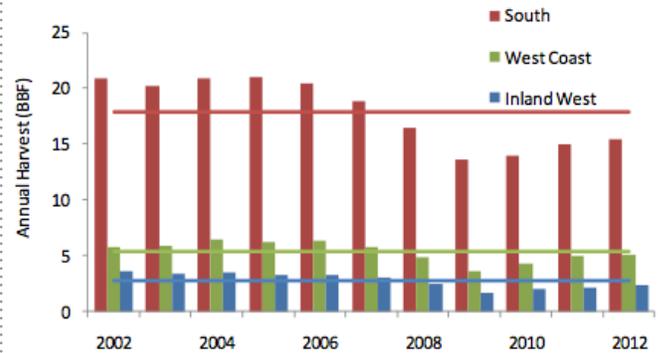
Source: NCREIF

EBITDDA return in all regions showed significant improvement year-over-year.

While U.S. harvest volumes continue to increase slowly from the lows in 2009, with the most significant increase in the PNW in response to an improving U.S. housing

market and continued offshore demand, volumes continued to be below 10-year historical averages in all regions, as shown in Figure 2.

Figure 2: U.S. Regional Softwood Sawtimber Harvest



Source: Forest Economic Advisors

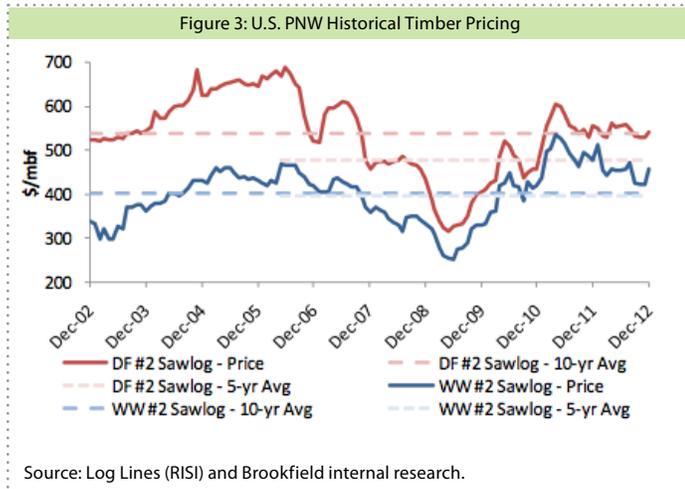
As discussed in our Q2 2012 research report, a reasonably confident near-consensus appears to be concluding that a U.S. housing recovery is underway, with many suggesting that risks to their forecasts are on the upside. Seasonally adjusted annualized U.S. housing starts of 973 thousand in December 2012 were 40% above December 2011 levels, while permits were up 30% year-over-year and inventories of new homes available for sale remain at 50-year record lows. U.S. home pricing has clearly moved off the early 2012 bottom with the December 2012 Case-Schiller 20-City Home Price Index showing a national increase of 7.0% year-over-year while the most recent statistics from CoreLogic show home prices nationwide, including distressed sales, moved up 8.3% year-over-year. This represents the biggest increase since May 2006 and the tenth consecutive increase in home prices nationally year-over-year. The recovery of home prices removes a major psychological impediment to potential home buyers and should support increased rates of household formation, expected to result in very strong U.S. domestic markets for timber aimed at solid wood products markets.

While total returns in the South moved into positive territory this year, a significant variance in the NCREIF results for the PNW and South remains. This is primarily attributable to the trend in log pricing. As illustrated in Figure 3, timber prices in the PNW are very strong with

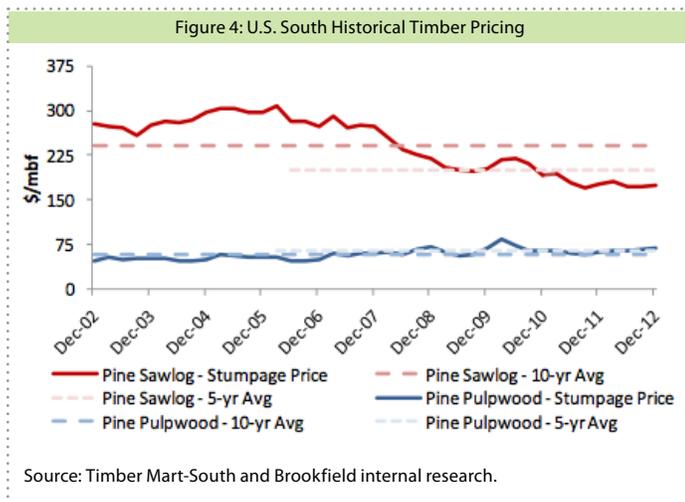
² National Council of Real Estate Investment Fiduciaries.



domestic Whitewood now more than 15% and 14% above the 5- and 10-year averages, respectively, while domestic Douglas-fir is 13% above the 5-year average and just slightly above the 10-year average.



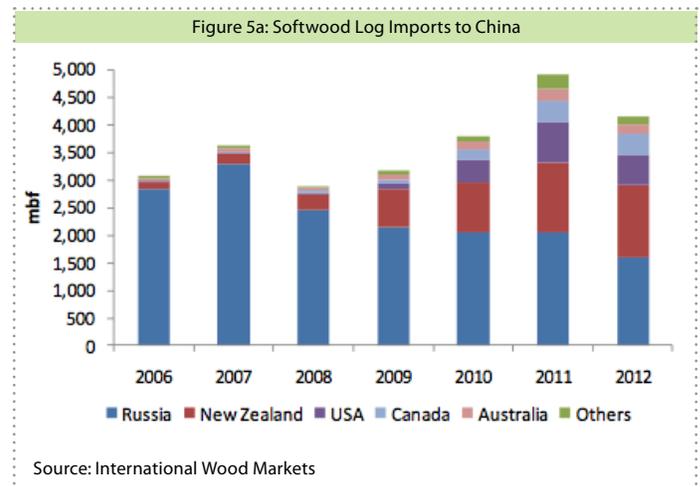
The PNW is particularly well-positioned to benefit from improved timber pricing as the U.S. housing market recovers while also benefiting from strong lumber and timber export markets and reduced lumber supply owing to sawmill closures and allowable annual cut reductions in Canada.



Although domestic southern pine sawlog prices remained relatively stable year-over-year, a surplus of sawlogs, the weak U.S. housing market and the lack of alternative markets continues to result in domestic southern pine sawlog prices trading at 13% and 28% below the 5- and 10-year averages, respectively, as

illustrated in Figure 4. Meanwhile, pine pulpwood prices increased 12% year-over-year, with the strong global pulp market keeping pine pulpwood prices 6% and 17% above the 5- and 10-year averages.

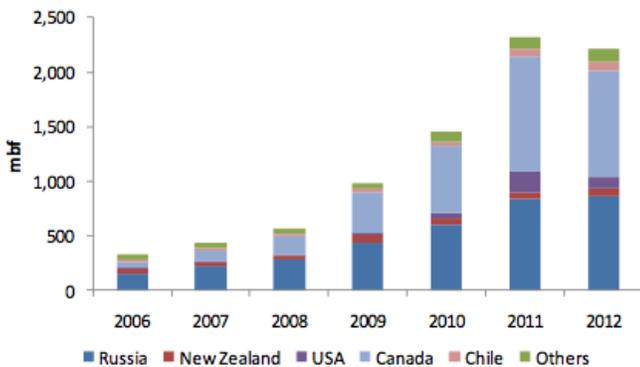
Softwood log exports to China continued to play a significant role in log pricing trends in the PNW; however volumes decreased from the highs in 2011, as shown in Figure 5a, when log exports accounted for nearly 30% of the PNW's total sawlog demand. In 2012, year-over-year export volumes to China from the U.S. decreased 27% or approximately 2.0 mmbf while exports from Canada were relatively stable. Part of the decline in PNW exports to China reflects stronger demand from domestic consumers offering better margin alternatives. According to Forest Economic Advisors; domestic mills in the PNW increased their consumption of logs by an estimated 3.7% or approximately 2.2 mmbf in 2012. Softwood lumber exports to China experienced a greater year-over-year decline in 2012, as shown in Figure 5b, with exports from the U.S. and Canada declining 45% and 8%, respectively.



Appreciation returns were led by the PNW. While the total number of U.S. timberland transactions remained relatively stable year-over-year; the total number of acres transacted increased significantly, due primarily to the sale by Forest Capital Partners of approximately 1.9 million acres across the South and PNW. While this represented the largest timberland transaction since 2008, the overall level of transaction activity in 2012 remained modest compared to previous years, as shown in Figure 6.

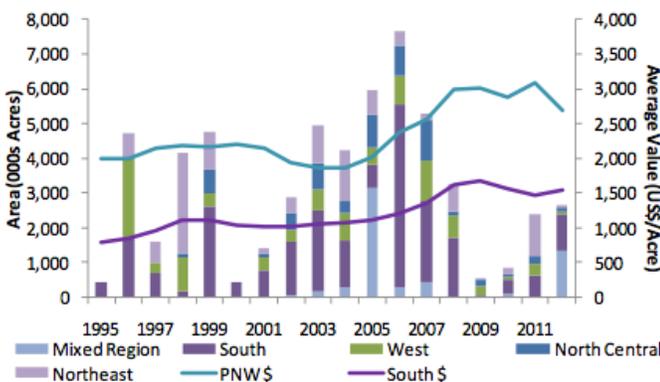


Figure 5b: China: Softwood Lumber Imports by Country



Source: International Wood Markets Group

Figure 6: U.S. Timberland Transactions by Area and Average Value per Acre



Source: RISI, NCREIF Timberlands Index and Brookfield internal research.

The NCREIF Timberland Index saw 50 new properties added to the index this year, 44 of which came into the index in the fourth quarter. The PNW sub-index saw 22 new properties added in the fourth quarter and although the appreciation return for this region significantly out-paced other regions, the average value per acre dropped by 14%, as shown in Figure 6. It appears that the value of these additional properties has pulled the overall index down. While the PNW sub-index includes properties in Washington, Oregon and California, the value per acre in this region may vary depending on the specific location, for example eastern Oregon and Washington experience a much drier climate and as such are less productive than coastal areas. The inclusion of immature timberlands into the sub-index could also explain lower values per acre, in which case the appreciation of values is expected over time as the timber inventory grows.

Conclusion

The NCREIF Timberland Index showed a total return of 7.76% for 2012, with a 2.68% EBITDDA return and a 4.97% appreciation return. For the first time since 2008, all regions showed positive year-over-year returns. Although the PNW has continued to benefit from economic access to export markets, there is increasing evidence of a recovery in the U.S. housing market, which should lead to increased domestic demand for logs and lumber benefitting all regions. A continued slow recovery is expected in 2013 with somewhat similar total returns and transaction activity as investors cautiously remain optimistic.

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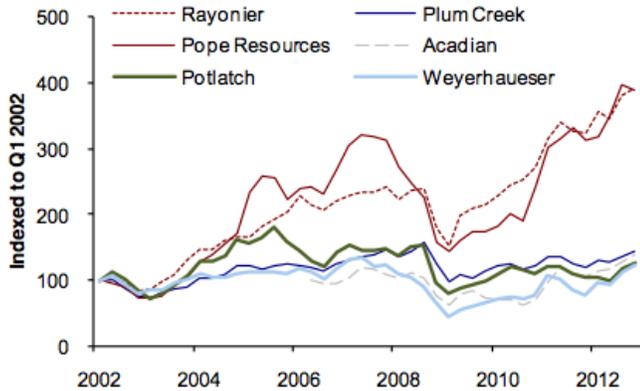
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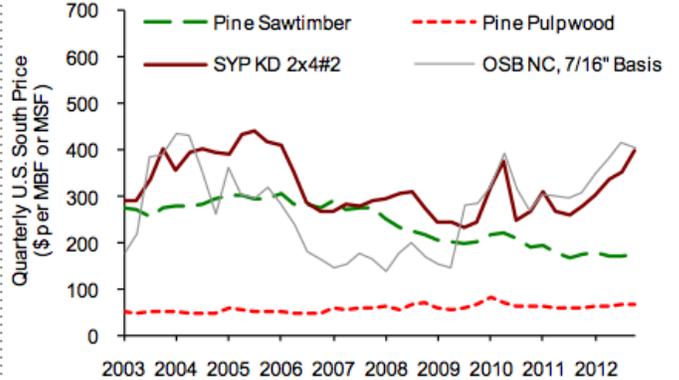
Key Timberland Metrics

Figure 7: Publicly Traded Timberland Company Trading Performance



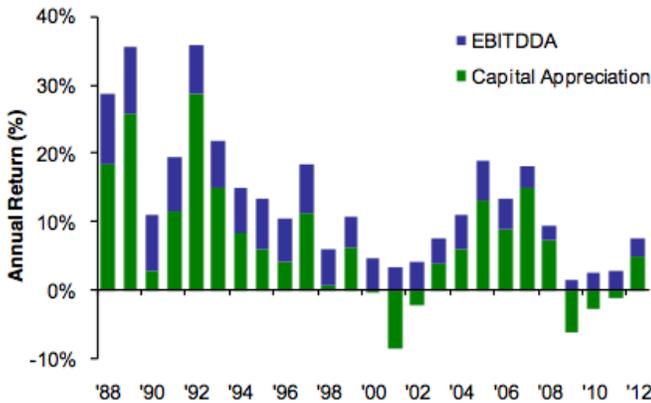
Source: Bloomberg and Brookfield internal research.

Figure 10: Quarterly Average Prices for U.S. South Sawlogs, Pulpwood, Lumber, and OSB



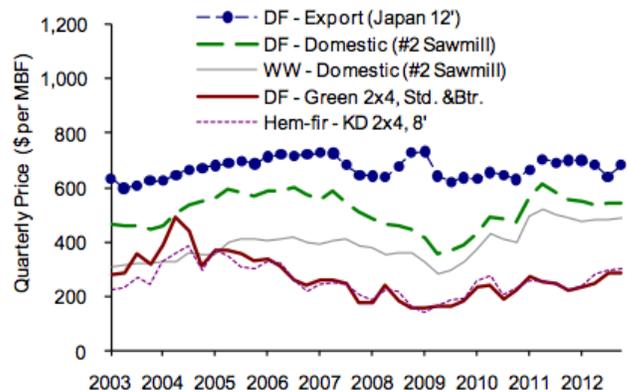
Source: Timber Mart-South and Forestweb.

Figure 8: Annual Returns for Private U.S. Timberlands



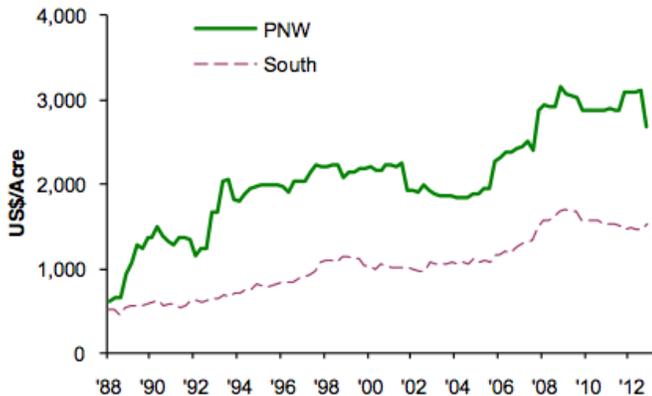
Source: NCREIF Timberlands Index.

Figure 11: Quarterly Average Prices for PNW Sawlogs and Lumber



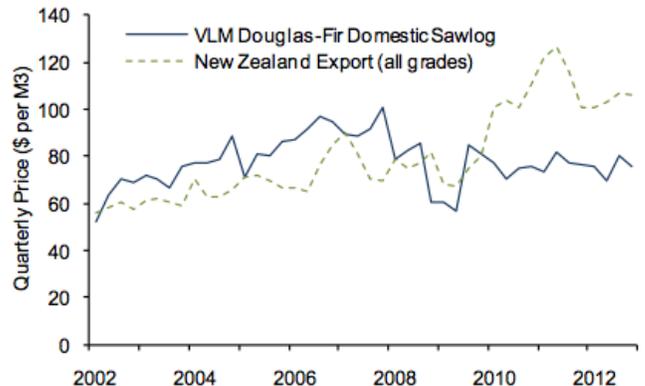
Source: LogLines and Forestweb.

Figure 9: Quarterly U.S. Timberland Values (\$ per Acre)



Source: NCREIF Timberland Index.

Figure 12: Global Sawlog Prices



Source: B.C. Ministry of Forest and Range, NZ Ministry of Agriculture.



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