Letter to Shareholders

Overview

Total net income for the first quarter was $1.4 billion or $1.09 per share and Funds from Operations (FFO) was $557 million or $0.82 per share. Our U.S. businesses generated strong results, partly offset by our foreign operations once converted to U.S. dollars.

Fundraising continued to be very active and we expect our current private fundraising efforts to achieve or exceed the original fund expectations with several final closes by the end of this year. Based on our pace of investing, we also expect to be in position to commence marketing an additional $10 billion of funds later this year.

We had an active three months in which we acquired the balance of Canary Wharf, completed a $1.2 billion corporate equity issue, closed on the acquisition of the balance of our North American residential business, added a number of assets into our opportunity funds, bought out our partner in our global facilities business, and made our first significant oil investment since the change in oil valuations by acquiring a 50% interest in a U.S. public company's Australian business.

Operations

Our asset management fees rose 18% year over year to $791 million over the last 12 months and our assets under management are now well over $200 billion. Fee bearing capital is $93 billion and we continue to see institutional and high net worth investors allocate increasing amounts of their portfolios to real asset strategies.

Our three flagship partnerships in property, renewable energy and infrastructure are all performing well, and each announced increases in their cash distribution targets late last year reflecting continued growth in their underlying FFO. These businesses are all benefitting from new acquisitions as well as operational improvements at existing businesses.

Over the course of this year and into 2016, we expect to be marketing in excess of $20 billion in flagship private funds, including for select new funds focused on specific opportunities we see in certain sectors and markets.

Brookfield Property Group

We had strong leasing activity across our operations with strong results recorded in our office, retail and industrial property portfolios, generating FFO in the quarter of $283 million, up 37% year over year.

We completed the acquisition of Canary Wharf, increasing our interest in one of the world's leading commercial real estate developments. We are working with management of Canary Wharf to launch a number of new office and residential buildings. Our future development density is over 11 million square feet in one of the most sought after real estate markets in the world.

We launched construction of our second tower at Manhattan West, after signing a long-term lease with a leading New York professional services firm for over 500,000 square feet. We financed this tower with a $1.2 billion construction loan and we expect to complete the tower for occupancy in 2019.

Institutional investors are continuing to allocate an increasing portion of their capital to high quality real estate, and we recently sold a 37.5% stake in our Ala Moana project in Honolulu to two institutional clients in a transaction that valued the property at $5.5 billion. We also made significant progress on the sale of mature assets in Seattle, Washington D.C., Boston and London during the quarter. We expect to generate approximately $1.5 billion from the sale of these mature office properties over the balance of this year.

Brookfield Renewable Energy Group

Our renewable energy group continues to expand and generated FFO in the quarter of $81 million, slightly below our expectations, largely due to weak hydrology in Brazil.

North American electricity prices continue to increase from the cyclical lows seen in the last few years. As a result, we are starting to sign long-term contracts to supply both energy and generation capacity on attractive terms at our facilities in New England and the southeast U.S., which will increase future cash flows.

Brazil is in the midst of a serious drought, so going into the year we reduced the amount of electricity we were contracted to supply by 20%, in anticipation of both weak hydrology and higher market prices. The rainy season in Brazil has now passed and reservoirs remain at relatively low levels by historic standards. We expect hydrology to remain weak this year. But, in the long term, Brazil's renewable energy market remains an extremely attractive place to invest, and the sector and country's short-term challenges are creating attractive acquisition opportunities.

In Europe, we acquired a 123 MW wind farm in Portugal during the quarter, and we are looking at a number of other opportunities. We completed construction of two new wind facilities in our 700 MW Irish portfolio acquired last year, and this platform should continue to generate good organic growth initiatives.

Brookfield Infrastructure Group

Our core infrastructure businesses performed well in the quarter, with strong results from our UK utility, Australian rail and port assets, and newly-acquired Brazilian rail business. FFO for the quarter, on a comparable currency basis, rose 10% to $57 million.

Our flagship listed partnership raised $950 million in an equity offering. We invested $350 million in this financing to maintain our ownership. We plan to invest this capital in a number of attractive investment opportunities. In our most recent growth initiative, we closed the $2.3 billion acquisition of a French telecom tower portfolio. We are now working with management on growth opportunities in this business, as media and telecom clients are demanding increased network capacity.

We set the stage for future growth in our natural gas storage business, as energy companies look to sell infrastructure to raise capital during a period when oil and gas prices are lower than the industry expected. We struck long-term labour agreements in our U.S. ports business that paved the way for automation projects that will make our West Coast terminals the most efficient and cost-effective in the United States.

We continue to explore opportunities to invest in high quality infrastructure assets in South America and in commodity-related sectors, as capital is scarce and most companies are now willing to consider the sale of non-core assets.

Brookfield Private Equity Group

We have been consolidating the majority of our balance sheet investments into our private equity group, while at the same time increasing the scale of our private funds to scale up this business. These initiatives should significantly increase FFO from this group in the future. Cash flow from these investments will always be intermittent, often with the full value of the business not being recognized until it is sold. For the quarter, FFO was $62 million, compared to $94 million in the same period a year ago.

We completed the privatization of our North American housing operations and took 100% control of our facilities management business. We closed the merger of our two oriented strand-board businesses, and now control 53% of North America's leading wood products company.

We recently committed to invest in a U.S. graphite electrodes producer, a Canadian manufacturer of infrastructure products, and the recapitalization of a palladium mining company. We continue to grow our cold storage business and recently acquired three facilities that provide specialized warehouse space to a wide spectrum of food producers, primarily in the seafood industry. This added to the 16 million cubic feet of facilities we currently own.

Subsequent to quarter end, we partnered to acquire an oil and gas business in Western Australia for $2.1 billion from a U.S. energy company that was refocusing on its home market. As part of this acquisition, we received $500 million from a major industrial customer as prepayment on future sales of natural gas, which mitigates our risk on this investment.

Common Share Equity Issue

We recently completed a public offering of common shares in Brookfield Asset Management for $1.225 billion. We issued these shares to increase our financial resources in order to capitalize on what we perceive to be an exceptional investment environment, predominately outside of the United States. To indicate our confidence in the company, members of the management partnership who run Brookfield and who own upwards of 20% of the capital of the company, acquired $75 million of these shares.

Over the past 20 years, we have rarely issued common share equity. The only recent occurrence was in 2011 when we completed a $1.5 billion common share equity issue to acquire a strategic stake in General Growth Properties (GGP). Looking back, this was clearly the right decision despite the increase in shares outstanding as it provided us the resources to solidify our investment in GGP which then facilitated the launch of Brookfield Property Partners (BPY). Since then BPY has been able to privatize Brookfield Office Properties into BPY, and more recently allowed us to acquire the balance of Canary Wharf. We are well on our way to creating the pre-eminent global property entity in the capital markets.

We believe that we are entering an investment phase which will offer us a number of great opportunities. First, in oil, there are some very significant energy infrastructure and private equity opportunities which we are working on. Second, the capital availability in Brazil today is even more constrained than it was in the United States in 2009. We believe that this will result in large scale, high quality opportunities for each of our four businesses. Given our scale and platform in Brazil, we are one of the few capable of capitalizing on these. And third, due to the volatility in commodities, and substantially lower commodity prices than just a few years ago, we believe that we will be able to assist a number of entities by providing capital for quality infrastructure while allowing companies to focus on their core businesses.

As a result of the above, we have recently increased the resources of our three listed partnerships, and are currently raising a new round of large private funds. Capital raising initiatives have included debt placements, asset sales or equity issues at Brookfield Infrastructure Partners (BIP), Brookfield Renewable Energy Partners (BREP) and Brookfield Property Partners (BPY).

Seldom do we recommend selling a small piece of what we all own (by increasing the number of common shares outstanding by 3%) to expand the business. But, at this juncture, we believed that it is worth re-stocking our cash resources in order to augment our flexibility in pursuing these opportunities. While there are never any guarantees, we believe we will be able to put these funds to work very productively.

Brookfield Residential

We closed on the privatization of Brookfield Residential this quarter. We purchased the remaining 30% of the company that we did not already own for $845 million.

Brookfield Residential has approximately $4.5 billion of total assets based on our privatization value. There are two main businesses in this operation. The first is a traditional homebuilder which currently sells 2,500 single and multifamily homes per year. Through market recovery and expansion of the business, we should be able to sell 5,000 homes annually within five years. This portion of the company should earn $150 million to $200 million annually if we can achieve our performance objectives.

The second business is the ownership of largely residential land. We own land which we entitle by working with local authorities to plan home communities, invest in services such as roads and utilities, and then either sell lots to other builders or use the lots in our homebuilding company, which builds a home on the land. Over the next 15 to 20 years this business in California, Texas, Colorado, Washington D.C., Toronto, Calgary and Edmonton should generate $7.5 billion to $10 billion of cash, net of servicing costs, on an undiscounted basis. The range results from whether we will see normal increases in lot values, or more muted increases. The cash generated will be used to regenerate the business and will also generate substantial free cash flow.

We have significant exposure to the Alberta housing market, where demand is linked to oil industry sentiment. In the short run, there is no doubt that results in our Alberta business will not be as robust as recent years. But while the past is no guarantee of the future, our investment over the past 20 years with this business, despite many cycles, has been extremely positive. This business has generated compound returns in excess of 20% on total capital for over 20 years. If we are anywhere near as successful in the next 20 years, shareholders should be very pleased having this business tucked away on the balance sheet of Brookfield for a long time.

Transaction Sourcing

Despite stock markets being at highs and many assets being fully valued, we continue to find many opportunities on a day-to-day basis.

Our investment strategy is generally focused on acquiring assets in out of favour markets, or assets which have been burdened with too much financial leverage. In 2009, we invested most of our capital into the U.S. Today, we are not investing substantial capital in the U.S. but instead are seeing many opportunities in Australia, Brazil, Canada, Asia and Europe. Each situation is different but they generally arise due to a market suffering lack of capital, a company which needs to deleverage, or they come from out-of-favour sectors or countries.

Our strategic advantage in sourcing deals continues to be our size, our operating platforms and our network of people and offices around the world, which combine to enable us to invest in transactions where most investors cannot.

One interesting new area of deal opportunities for us over the past year has been assisting corporations accomplish goals such as raising capital and focusing the business when they come under pressure from shareholders. During the last quarter we have been involved in four situations of scale. These could well be a pre-cursor of more to come. A few examples are as follows:

- We had a 15 year very successful partnership to manage facilities of global corporations. The venture was a 50/50 partnership which we started from nothing and operated in Canada, Australia and New Zealand. Last year, investors of their company wanted them to sell “low margin” businesses and we therefore purchased the other half of our business for $200 million. Our view is that we made an excellent purchase. We never look at margins per se, instead as entrepreneurs we are focused on return on capital invested. We acquired these businesses at 9x cash flows and think we can expand them globally, starting first with the U.S. where we were prohibited from operating previously on behalf of external parties, but happen to be the largest owner of commercial properties.

- In Australia, a U.S.-owned oil company managing a number of oil and gas operating and development assets came under pressure from their shareholders. As a result, and due to our broad Australian business, we were able to acquire an interest in a group of these assets. The output from the operating assets is largely contracted with take-or-pay off-take contracts. This investment required $2.1 billion of capital and was split 50/50 with another private equity firm.

- In Brazil, the largest owner of the highest quality office company in the country decided to take the company private but needed capital to accomplish this. We have agreed to purchase seven high quality assets from them valued at close to $1 billion, subject to the completion of the privatization.

- In the U.S., we recently acquired a multifamily residential business for $2.5 billion as the board of the company had come under pressure from shareholders. We had the ability to quickly diligence the situation, and commit to a $2.5 billion investment, ensuring certainty in their process.

Culture as a Competitive Advantage

We are often asked whether Brookfield can continue to increase the amount of capital we have invested in global opportunities, on a profitable basis. The short answer is that we believe we can.

While acknowledging the normal challenges, we believe we have three distinct competitive advantages which will help us accomplish our goals:

- Team Approach – The first advantage is that over the years, we have invested significant capital and human resources to build out the backbone and support structure of our operations, creating a first-in-class global company. Operating decisions are a culmination of the views of approximately 40 members of the management partnership, our 18 senior managing partners, our 700 investment executives and our more than 28,000 employees. We try to mix entrepreneurship, institutional stewardship, best-in-class professionalism, global scale and localized expertise; all with a focus on generating long-term capital appreciation. Our team approach to our business, the pursuit of excellence and commitment to our colleagues and investment partners drives this success.

- Our Global Reach – Brookfield's second advantage is the scale and global reach of our operations, enabling us to invest in and manage assets and opportunities across many investment products and jurisdictions, efficiently and effectively. The flexibility to opportunistically invest capital in this manner is rarely possible with smaller firms. We have built a global company operating today in the major cities of the world including London, New York, Sydney, São Paulo, Toronto, Shanghai, Dubai and Mumbai and many other locations. We are diversified: culturally, financially and geographically. As an investor in our company you acquire exposure to global economic and business diversification which few other investments offer.

- A Distinct Culture – The third advantage and possibly our most important is our distinct corporate culture. We have written extensively over the years on our first two advantages, but seldom have we attempted to explain "how" we operate and "why" we believe our culture provides us with an important competitive advantage.

While admittedly it is difficult to define culture precisely (the Oxford Dictionary defines it as "the attitudes and behaviour characteristic of a particular group"), ours is based on the following key principles:

- Principles of Business – Our core fundamental business principles are set out in our annual report and were formed by our early founders, and refined over the years. These principles include: building our business and all our relationships based on integrity, value investing in how we allocate and invest capital, fair-sharing in our relationships and measuring success based on total return on capital over the long term. We are required to report quarterly, but regardless of short-term reported results, our investment focus is always on creating long-term sustainable appreciation on invested capital.

- Personal Financial Commitment – We promote long-term ownership stability and orderly management succession and encourage our senior executives to devote most of their financial resources to investing in Brookfield. As a result, collectively our management partnership owns approximately 20% of Brookfield, which is consistent with our efforts to align our interests with investors and clients throughout the organization.

- Operating as a Partnership – We operate internally as a "true partnership" with long-term investment horizons. Our management partners are highly specialized, but all recognize that by working collaboratively together as a team, we can achieve far more than if we were structured on a more traditional basis.

Our global platform enables us to finance and invest in a wide variety of opportunities, and few asset management firms offer as diverse a platform of specialized investment products. As we look forward to future decades, we believe that we are well positioned to build on our successes.

Lastly, on behalf of the corporation, our senior partners also commit their time and financial resources to charitable and community causes. We do this not for personal attribution; in fact most of our personal donations are made to benefit our corporate brand, rather than ourselves. But, we do believe this obligation goes along with building an enduring corporate franchise.

We feel privileged to be associated with the development of Brookfield, and believe our culture should assist us to be able to continue to profitably generate long-term capital appreciation for our clients and investors.

Summary

We remain committed to being a world-class alternative asset manager, and investing capital for you and our investment partners in high quality, simple to understand assets which earn a solid cash return on equity, while emphasizing downside protection for the capital employed.

The primary objective of the company continues to be generating increased cash flows on a per share basis, and as a result, higher intrinsic value per share over the longer term.

And, while I personally sign this letter, it is done so on behalf of all of the members of the Brookfield team, who collectively generate the results for you. Please do not hesitate to contact any of us, should you have suggestions, questions, comments, or ideas you wish to share with us.

J. Bruce Flatt
Chief Executive Officer

May 6, 2015