

Letter to Shareholders

Overview

Net income for the first quarter was \$636 million or \$0.23 per share. Funds from operations (FFO) totalled \$703 million or \$0.69 per share. Operating results in most of our businesses were ahead of last year.

Fundraising during the last twelve months was particularly strong. We closed \$25 billion of private fund commitments across our latest round of flagship funds, including the final close for our \$9 billion global real estate fund, as well as major interim closings of just shy of \$12 billion for our infrastructure fund and \$3.5 billion for our private equity fund. In aggregate, \$15 billion of private fund commitments have been closed since the start of 2016. This is the largest amount of private fund capital that we have ever closed for a series of funds, and resulted in total assets under management (AUM) increasing to \$240 billion.

With the continued growth in AUM, our asset management results grew both quarter over quarter and sequentially. Total annualized fees plus carry increased to almost \$2 billion, and our run rate of annual fees to over \$1.2 billion. With recent fundraising, this should continue to grow in the coming years. In respect of our investments, FFO in our property business grew 32% as new leases and projects came on-line, our infrastructure operations performed well, and water levels recovered, leading to improved generation in our power operations.

Market Environment

The S&P 500 advanced to over 2,000, most sub-indexes are near their highs, 70% of Americans' homes are valued near their 2006 peaks (with the average home price increasing upwards of 30% in the past five years); corporations have record earnings, record amounts of cash, and the lowest amounts of liabilities in history; and U.S. banks are the best capitalized they have ever been.

In the context of the above, one would think that people would be content. On the contrary, most generally feel stressed. As a result, volatility is very high and the social media effect on people's psyches amid the barrage of news – from the commodities pricing collapse, currency movements, Brexit, a China slowdown, and technology changes – is greater than ever.

Today, the tenets of value investing are even more important than ever as the 24-hour news cycle constantly affects stocks. In the face of this, we continue to analyze our investments by running 10 to 20 year discounted cash flow models based on using the best information we have about our expectations of the future. Over the longer term, this enables us to have a grounding in our analysis rather than reacting to the latest positive or negative news.

Most importantly, real assets generate long-term streams of cash flow which respond to supply and demand. Over time these assets must generate a cash return that justifies replacement value, or supply will ultimately contract. We consistently find that by sticking to real assets and by trying to acquire assets at less than replacement cost, the odds favour us being able to achieve our return targets over the longer term.

Fundraising

There has been a great deal of discussion related to capital withdrawals from sovereign wealth funds, but as can happen from time to time, the real story can get obscured by the headlines. Contrary to some reports, sovereign fund assets actually increased in the quarter to approximately \$6.5 trillion at quarter end. While the pace of increase was slower than recent years, the funds are so large today that merely

compounding current capital at 5% adds over \$300 billion annually without regard to inflows or outflows. As a result, while there are some exceptions, we do not see sovereign funds slowing their investments in real assets any time soon. Furthermore, the above excludes the many trillions of capital for real assets in pension funds and insurance plans, and these plans are also looking for returns in real assets to supplement bonds' anemic returns.

The closing of \$15 billion of commitments to our private funds sets us up with a total of \$25 billion of dry powder and balance sheet liquidity, the largest amount of investable capital across our strategies that we have ever had. We will continue to put this money to work alongside our approximately \$70 billion of discretionary equity capital to generate returns. We received nearly 300 commitments from institutional and sovereign fund partners to our three flagship funds to date, with the expectation of 50 or more before the final closes. The average commitment size was approximately \$70 million with the largest ones over \$500 million and some less than \$25 million.

Our capital is raised throughout the world, and we continued to see strong support from U.S. and Canadian corporate and state pension plans. Our Middle Eastern fund partners continue to support us with major commitments, and we are seeing very meaningful increases from Asia in every fund we have raised.

We believe the largest increases in fundraising over the next 10 years will be from Asia for a few reasons: the attractiveness of our areas of investment; their current lack of investments outside Asia; our brand recognition with them; and our growing presence in the region. Our offices in Singapore, Hong Kong, Seoul, Tokyo, and Shanghai will continue to be important to this effort and we plan to build out these operations. Longer term we believe upwards of one third of our capital will come from Asia, up from approximately 10% today.

Isagen

During the quarter, we acquired control of a 3,000 megawatt operating portfolio of hydro plants from the government of Colombia. We have completed acquiring an 83% interest in the listed entity and we are in the process of acquiring the remaining 17% with a final mandatory tender offer in the stock market. The total purchase price was \$5 billion.

We are often asked how we are able to earn strong returns on the capital we invest for you and other investors in such a competitive world. This transaction is a great example. It comes down to our main competitive advantages: size, global scale, and our operating capabilities.

First, with respect to size, very few managers can invest \$5 billion in one transaction. Our capital committed was drawn from a \$750 million bridge loan arranged by our bank partners, \$600 million from our latest private infrastructure fund partners, \$625 million from our renewable power permanent capital balance sheet, \$1.1 billion from two direct institutional co-investors and \$500 million which was committed to up front by us from our Brookfield Asset Management balance sheet, and which will be syndicated to other clients over the next few months.

The second is the global scale of our business. We set up an office in Colombia over seven years ago and we have been pursuing transactions in the country with a team of people since then. We acquired a local electricity distribution company in 2012 and have been successful with that company and with getting to know all the local players. Few firms we compete with have offices with local people in over 30 countries as we do.

Third are our operating capabilities. Within our renewable power operating business, we already own over 200 hydroelectricity plants like the ones we acquired in Isagen. Over the past year, we were able to utilize our people to underwrite all the assets from the ground up.

Lastly, the process to sell this asset was very fragmented; it started and stopped four times over two years. Most bidders were fatigued by the process but because we have large scale resources, we were

able to continue to monitor this situation while we worked on many other things. In the end, the government of Colombia sold Isagen to us in a sanctioned auction process. Over the longer term we expect to earn good returns owning a best-in-class portfolio of assets, while being excellent stewards of these assets in Colombia.

This is just one example of how we are able to leverage our strengths to find and execute transactions to the advantage of all of our investors.

Asciano

In mid-2015 we committed to acquire Asciano, a rail and port logistics company in Australia, for approximately A\$12 billion.

In early 2016, we concluded that the Australian regulator would likely not grant us approval to own a major part of the rail business because of other assets we own in the country, and in any event we had always been more interested in the port business. As a result, we agreed with management, the board and a competing consortium to split up the business so virtually everyone got part of what they wanted.

As a part of the deal, we and three of our institutional fund partners will acquire 100% of a ports logistics business and 50% of a container terminal business valued at a \$3 billion enterprise value, with a local Australian partner who is in that business.

Our new ports business operates four container ports in Australia – in Sydney, Melbourne, Perth and Brisbane – which handle containers and which are integral to landed products into Australia. The operations have been automated with arguably the most advanced technologies in the world, and should continue to allow us to expand margins over time.

In the end, we will invest \$1.3 billion of equity into a very high-quality ports business in Australia, will earn for our group of investors approximately \$50 million of profit on our toe-hold position in shares of Asciano, have received a break fee of \$50 million, and most importantly, brought greater certainty to the deal so we can move onto other things.

Relentless Incrementalism

We have found that the only way to ensure the avoidance of life threatening mistakes in growing a business is to start slowly and grow methodically. We term this “Relentless Incrementalism.” Our goal for our management teams is to set long-term growth strategies in each of our businesses, but then be relentless about growing these businesses only when it makes sense financially to do so. As a result, this growth usually occurs for us when it is not happening for others, because of external pressures they face. It is in these periods that we are often able to acquire assets at less than replacement cost, and this has a tendency to enable greater odds of success with the type of assets we acquire.

In every business we build and every country we enter, we have found that the way to ensure the fewest mistakes is to build incrementally. We try to never use the word “transformation,” as most often transformative transactions are done at the wrong time, or with the wrong people or assets. Business history books are littered with transformative disasters – Time Warner/AOL, Vivendi/Seagram’s, RBS/ABN, and countless others.

To be successful with Relentless Incrementalism, one has to be in multiple businesses in multiple locations, as human nature doesn’t allow most businesses to stand still. These two things allow us to be patient, have staying power, and be extremely disciplined. In addition, Relentless Incrementalism offers a form of “dollar-cost averaging,” both with capital invested and with intimate knowledge of a business.

We follow the above, both when entering new countries and adjacent businesses to those we are already invested in. Most often we have been introduced to a new country or new business by having a small exposure through an acquisition, and have learned about the market or business with relatively little risk.

One of two things usually occurs: either we find good people and continue to build out the business over time, or we decide that the business is not for us and we exit.

As an example, we acquired a district heating and cooling business in downtown Toronto (we provide outsourced heating and cooling services to property owners). Once we learned the business, we decided we could grow it by providing best-in-class services across many cities. Since then we have acquired systems in Chicago, Seattle, New Orleans, Houston, Las Vegas and Windsor, and we hope many more. Today, these operations contribute significantly to our infrastructure business.

As a further example, we decided over 10 years ago that we should have an operation in India. When we first went there, capital was flowing in with reckless abandon. None of the valuations made sense to us, given the risks. Between 2003 to 2008, we built up our resources there and completed some small transactions, risking very little capital. We took that time to learn the market. In 2008, the markets cracked and India became a value market. After the changes in the capital markets in 2013, we began to invest in India across most of our businesses and we continue to grow each incrementally. Our investments have all done well to date and this gives us the confidence that we will successfully be able to build this business.

Performance Across Our Platforms

Asset Management

Our asset management franchise continues to expand as clients allocate larger amounts of capital to real asset strategies, and our reputation and market presence increases. The closing of \$15 billion of new fund capital commitments during the first four months of 2016 increased total assets under management to \$240 billion and fee bearing capital to approximately \$114 billion at the date of this letter. This compares with \$104 billion at March 31, 2016 and \$99 billion at the end of 2015.

Fee related earnings year over year increased by 71% to \$185 million, reflecting fees earned from the additional capital managed for our clients. Our overall annual fee run rate is now \$1.2 billion and including annualized carry increased to nearly \$2 billion.

<i>As at March 31 and for the twelve months ended (millions)</i>	Q1'12	Q1'13	Q1'14	Q1'15	Q1'16	Apr'16	CAGR
Annual run rate of fees plus target carry	\$ 581	\$ 830	\$ 1,044	\$ 1,264	\$ 1,638	\$ 1,923	35%
Fee related earnings (LTM)	130	199	324	401	596	–	46%

We are close to completing fundraising for our latest series of flagship private funds. We have raised \$25 billion, ahead of our \$20 billion target, benefitting from strong investor demand. In addition to these, we have several other funds focused on specific opportunities we see in certain sectors and regions.

We recently completed the fundraising for our follow-on global opportunistic real estate fund. We held a first close of \$4 billion in June 2015 and final close in April 2016. Total capital commitments were \$9 billion, exceeding our original \$7 billion target, and double the size of the predecessor fund. We committed \$2.3 billion to the fund through our listed real estate partnership (BPY) which enables us to participate in the fund's returns.

We experienced strong client demand during fundraising, with over half of the client commitments generated by current clients and the other half from new investors to our real estate fund. We are also well advanced in deploying the fund's capital and have already announced or completed acquisitions for over 50% of the fund's commitments in assets across the U.S., Europe and Brazil.

We also recently closed on \$11.8 billion of commitments to our follow-on flagship infrastructure fund in April, representing our largest single fundraising close to date.

Our three listed partnerships in property, renewable power and infrastructure are all performing well, and each announced increases in their cash distribution targets earlier this year, reflecting continued growth in their underlying FFO. The launch of Brookfield Business Partners (BBP) is expected to be completed in the second quarter of 2016 and will establish our fourth listed entity.

Brookfield Property Group

Our property group generated FFO of \$450 million, of which our share was \$373 million, up 32% from last year. Our results benefitted from incremental income from recently signed leases in the office property portfolio, strong performance from our core retail business, and new investments we made last year.

Real estate fundamentals in the majority of our core office markets remain strong. New York and London continue to lead the way, although overall activity has slowed, in part reflecting uncertainty over both the U.S. election and the UK Brexit referendum. Commodity-based markets continue to be on pause, but our property portfolios in those cities are well leased and represent the best product. Government markets are stable with continued healthy private investment demand.

Our core retail portfolio has continued its strong performance and positive momentum. Class A U.S. malls are experiencing stable occupancy, increasing traffic, same-store sales growth of 3% to 5%, and fewer tenant bankruptcies than a year ago. Brick-and-mortar and e-retailers alike are seeking the appropriate balance between physical stores and online retail. In our view, high-quality malls will continue to serve as the centrepiece of all retail. Redevelopment initiatives are the current hallmark of our mall growth program as asset acquisitions are rare or otherwise near full value for premier mall product.

Globally, private demand for real estate investment backed by a strong sponsor has not abated, either at the asset or fund level. Fulfilling this demand, during the quarter we sold an office property in Vancouver and a retail centre in Sydney, both at premiums to our IFRS carrying values.

Recent growth initiatives in the property business include the acquisition of a 108-property self-storage portfolio in the U.S. for approximately \$1 billion. We believe there are significant follow-on investment and consolidation opportunities in this sector. We also continue to build out our multifamily business through asset acquisitions and new development. We acquired land parcels zoned for multifamily developments in a number of markets across the U.S. and continue to build out our projects in London. We made smaller add-on investments to augment our existing office portfolios in Boston, London and Sydney, and entered into a 50/50 joint venture on a 768,000 square foot office development in Washington, D.C., concurrently securing a 70% anchor lease.

Brookfield Renewable Group

Our renewable power business generated FFO of \$141 million, of which our share was \$68 million. Water inflows in North America were well above the long-term average and rebounded strongly in Brazil. Our wind portfolio also enjoyed solid performance and we ended the period with our reservoirs well positioned for future quarters.

Despite power prices in most major markets near cyclical lows, which have affected our cash flows from uncontracted power, we continue to secure long-term contracts for electricity and capacity at attractive rates that are significantly above levels seen a few years ago. As an example, we entered into a 10-year agreement to supply a leading global technology company with 100% renewable wind energy to power their international headquarters in Dublin as well as a data center under construction.

In North America, generation levels were above average due to strong hydrology across most of our plants. In Europe, we had another quarter of wind production at or above average levels, demonstrating very consistent performance from these assets. In Brazil, water conditions improved leading to increased generation and higher reservoir levels. Prices, however, were down significantly in the quarter as a result

of both improved water conditions and weaker demand for power, although we remain confident that they will increase significantly in the coming years.

As mentioned, during the quarter we acquired Isagen, a 3,000 megawatt operating portfolio in Colombia. This extremely high-quality renewable power portfolio includes six operating hydro plants, including the country's largest generation facility and its largest reservoir by volume. We also completed the acquisition of two hydro facilities in Pennsylvania, which closed subsequent to quarter end, as well as two small hydro plants in Brazil, representing \$1 billion of aggregate capital deployed.

We continue to advance the development and construction of several renewable power projects across our portfolio, including 72 megawatts of hydro in Brazil, 80 megawatts of wind in Ireland and Scotland and a 55 megawatt biomass expansion in Brazil. All of the projects remain on budget and are poised to contribute to our future results.

Brookfield Infrastructure Group

Our infrastructure group generated FFO of \$242 million, of which our share was \$71 million, up 25% from last year. This reflected contributions from our communications infrastructure business recently added in France, and an increased stake in a major U.S. pipeline. We are in the process of both deleveraging and operationally restructuring this pipeline with a part reversal of the flow of natural gas to the Gulf Coast for LNG exports.

FFO increased by 11% on a 'same-store' constant currency basis, fueled by new in-place connections and the first contribution from 200,000 newly installed smart meters, which monitor home energy use in real time. These were introduced in February at our UK regulated distribution business and we believe will offer significant long-term growth potential.

If the Asciano transaction proceeds as expected, we will deploy approximately \$3 billion of total capital including equity of approximately \$900 million from our flagship private and public infrastructure funds and \$400 million through institutional co-investment partners.

Our capacity to deploy capital into attractive opportunities in the infrastructure sector remains strong. In this regard, we are actively evaluating investment opportunities in all our markets. The highest levels of activity are in North and South America, where the energy sector and emerging markets are capital constrained, primarily due to lower commodity prices.

In Brazil, we are also moving forward with plans to build 3,000 kilometres of electrical transmission networks over the next five years, and we hope to build this operation into a major transmission business during a time when few others have capital to make these investments.

Brookfield Private Equity Group

Our private equity operations generated total FFO of \$61 million. Our building products operations have shown continued strong performance, primarily from higher OSB prices compared to this time last year. Our U.S. land and housing development operations continue to show measured improvement, while in Canada strong results in the east were offset by weakness in Alberta due to the oil and gas effects.

Our housing development business in Brazil is beginning to launch new projects on a selective basis after curtailing its activity on two years of market weakness. We are seeing several opportunities to acquire projects from developers in need of capital and continue to be optimistic on the long-term prospects for this business, having now consolidated and re-launched the business.

We continue to make progress in business services with a record backlog in our construction group and our first international contracts within our facilities management business. We remain actively focused on growing each of these businesses. Our industrial operations had mixed results, with severe commodity weakness impacting both our Canadian oil and gas businesses and global graphite electrode operations.

That said, we are proactively taking costs out of these businesses and believe that as a result, they will generate even more meaningful cash flow contributions when commodity markets recover.

During the quarter we took advantage of the weaker commodity markets by investing over \$250 million in high-yield debt of a number of high-quality businesses at valuations that appear unduly depressed. We believe these investments will likely enable us to participate in recapitalizations of these businesses. Alternatively, should markets and sentiment recover quickly, we will earn a handsome return over a short period of time.

We are working to launch Brookfield Business Partners (BBP) as our fourth flagship listed partnership in the second quarter. We believe that great opportunities lie ahead for BBP, particularly in light of today's economic environment. We continue to focus on value opportunities across the globe, and the launch of BBP will further enhance our access to investment opportunities and capital.

Closing

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, I respectfully do 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 13, 2016