# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

Our Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess our results of operations and financial condition for the fiscal year ended December 31, 2015. This MD&A should be read in conjunction with our 2015 annual consolidated financial statements and related notes and is dated March 30, 2016. Unless the context indicates otherwise, references in this MD&A to "the Corporation" refer to Brookfield Asset Management Inc., and references to "Brookfield," "us," "we," "our" or "the company" refer to the Corporation and its direct and indirect subsidiaries and consolidated entities. The company's financial statements are in U.S. dollars, and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Additional information about the company, including our 2015 Annual Information Form, is available on our website at www.brookfield.com, on the Canadian Securities Administrators' website at www.sedar.com and on the EDGAR section of the U.S. Securities and Exchange Commission's ("SEC") website at www.sec.gov.

We are a "foreign private issuer" as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended, and Rule 3b-4 under the U.S. Securities Exchange Act of 1934, as amended. As a result, among other things, we prepare our financial statements in accordance with applicable Canadian laws; we do not apply U.S. GAAP to our financial statements or reconcile our financial statements to U.S. GAAP. In addition, we are an eligible issuer under the Multijurisdictional Disclosure System ("MJDS") and we comply with U.S. continuous reporting requirements by filing our Canadian disclosure documents with the SEC.

## Organization of the MD&A



### STATEMENT REGARDING FORWARD-LOOKING STATEMENTS AND USE OF NON-IFRS MEASURES

This Report to Shareholders contains forward-looking information within the meaning of Canadian provincial securities laws and applicable regulations and "forward-looking statements" within the meaning of the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995. We may make such statements in the Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission or in other communications. See "Cautionary Statement Regarding Forward-Looking Statements and Information" on page 155.

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than IFRS. We utilize these measures in managing the business, including performance measurement, capital allocation and for valuation and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within the MD&A.

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Information contained in or otherwise accessible through the websites mentioned does not form part of this Report. All references in this Report to websites are inactive textual references and are not incorporated by reference.

# PART 1 – OVERVIEW AND OUTLOOK

## OUR BUSINESS

Brookfield is a global alternative asset manager with over $225 billion in assets under management. For more than 100 years we have owned and operated assets on behalf of shareholders and clients with a focus on property, renewable power, infrastructure and private equity.

We manage a wide range of investment funds and other entities that enable institutional and retail clients to invest in these assets. We earn asset management income including base management fees, carried interests and other forms of performance income for doing so. As at December 31, 2015, our listed partnerships, managed funds and public securities portfolios represented nearly $100 billion of invested and committed fee bearing capital. This capital includes public partnerships that are listed on major stock exchanges; private institutional partnerships that are available to accredited investors, typically pension funds, endowments and other institutional investors; and also portfolios of managed listed securities through a series of segregated accounts and mutual funds.

We align our interests with clients by investing alongside them and have over $28 billion of capital invested in our listed partnerships, private funds and directly held investments and businesses, based on our IFRS carrying values.

Our business model is simple: (i) raise pools of capital from our clients and ourselves that target attractive investment strategies, (ii) utilize our global reach to identify and acquire high quality assets at favourable valuations, (iii) finance them on a long-term basis, (iv) enhance the cash flows and values of these assets through our operating business groups to earn reliable, attractive long-term total returns, and (v) realize capital from asset sales or refinancings when opportunities arise for reinvestment or distribution to our clients.

### Organization Structure

Our operations are organized into five business groups. Our property, renewable power, infrastructure and private equity business groups are responsible for operating the assets owned by our various funds and investee companies. The equity capital invested in these assets is provided by a series of listed partnerships and private funds which are managed by us and are funded with capital from our clients and ourselves. A fifth group operates our public markets business, which manages portfolios of listed securities on behalf of clients.

Our balance sheet capital is invested primarily in our three flagship listed partnerships, Brookfield Property Partners L.P. ("BPY" or "Brookfield Property Partners"); Brookfield Renewable Energy Partners L.P. ("BREP" or "Brookfield Renewable Energy Partners"); and Brookfield Infrastructure Partners L.P. ("BIP" or "Brookfield Infrastructure Partners"). These publicly traded, large capitalization partnerships are the primary vehicles through which we invest our capital in our property, renewable power and infrastructure segments. As well as owning assets directly, these partnerships serve as the cornerstone investors in our private funds, alongside capital committed by institutional investors. This approach enables us to attract a broad range of public and private investment capital and the ability to match our various investment strategies with the most appropriate form of capital.

We are in the process of forming a listed issuer called Brookfield Business Partners L.P. ("BBP" or "Brookfield Business Partners"). BBP will be the primary vehicle through which we will own and operate the industrial and services businesses of our private equity business group. These businesses are currently included in our private equity and service activities operating segments. We intend to distribute a 30% interest in BBP to shareholders with Brookfield retaining a 70% interest; we anticipate completing the spin-off of BBP in the first half of 2016.

## STRATEGY AND VALUE CREATION

Our business is centred around the ownership and operation of real assets, which we define as long-life, physical assets that form the critical backbone of economic activity, including property, renewable power and infrastructure facilities. Whether they provide high quality office or retail space in major urban markets, generate reliable clean electricity, or transport goods and resources between key locations, these assets play an essential role within the global economy. Additionally, these assets typically benefit from some form of barrier to entry, regulatory regime or other competitive advantage that provide for relatively stable cash flow streams, strong operating margins and value appreciation over the longer term.

We currently own and manage one of the world's largest portfolios of real assets. We have established a variety of investment products through which our clients can invest in these assets, including both listed entities and private funds. We invest our own capital alongside our clients, ensuring a meaningful alignment of interests.

We are active managers of capital. We strive to add value by judiciously and opportunistically reallocating capital to continuously increase returns. Our track record shows that we can add meaningful value and cash flow through "hands-on" operational expertise, whether through the negotiation of property leases, energy contracts or regulatory agreements, or through a focus on optimizing asset development, operations or other activities. Our operating business groups include over 55,000 employees worldwide who are instrumental in maximizing the value and cash flows from our assets. As real asset operations tend to be industry specific and often driven by complex regulations, we believe operational experience is necessary in order to maximize efficiency, productivity and returns.

We strive to finance our operations on a long-term, investment-grade basis, and most of our capital consists of equity and stand-alone asset-by-asset financing with minimal recourse to other parts of the organization. We utilize relatively modest levels of corporate debt to provide operational flexibility and optimize returns and strive to maintain excess liquidity at all times in order to respond to opportunities as they arise. This provides us with considerable stability and enables our management teams to focus on operations and other growth initiatives. It also improves our ability to withstand financial downturns and provides the strength and flexibility to capitalize upon attractive opportunities.

We prefer to invest when capital is less available to a specific market or industry and in situations that tend to require a broader range of expertise and be more challenging to execute. We believe these situations provide much more attractive valuations than competitive auctions and we have considerable experience in this specialized field, while at the same time they may appear out of favour and generate lower initial returns.

We maintain development and capital expansion capabilities and a large pipeline of attractive opportunities. This provides flexibility in deploying capital, as we can invest in both acquisition and development initiatives, depending on the relative attractiveness of returns.

As an asset manager, we create value for shareholders in the following ways:

- We offer attractive investment opportunities to our clients through our managed funds and entities that will, in turn, enable us to earn base management fees based on the amount of capital that we manage and additional performance based returns such as incentive distributions and carried interests. Accordingly, we create value by increasing the amount of fee bearing capital under management and by achieving strong investment performance that leads to increased cash flows and asset values.
- We invest significant amounts of our own capital, alongside our clients in the same assets. This differentiates us from many of our competitors, creates a strong alignment of interest with our clients, and enables us to create value by directly participating in the cash flows and value increases generated by these assets in addition to the performance returns that we earn as the manager.
- Our operating capabilities enable us to increase the value of the assets within our businesses, and the cash flows they produce. Through our operating expertise, development capabilities and effective financing, we believe our specialized real asset experience can help to ensure that an investment's full value creation potential is realized. We believe this is one of our most important competitive advantages as an asset manager.
- We aim to finance assets effectively, using a prudent amount of leverage. We believe the majority of our assets are well suited to support an appropriate level of investment-grade secured debt with long-dated maturities given the predictability of the cash flows and tendency of these assets to retain substantial value throughout economic cycles. This is reflected in our return on net capital deployed, our overall return on capital and our cost of capital. While we tend to hold our assets for extended periods of time, we endeavour to own our businesses in a manner that maximizes our ability to realize the value and liquidity of our assets on short notice and without disrupting our operations.
- Finally, as an investor and capital allocator with a value investing culture and expertise in recapitalizations and operational turnarounds, we strive to invest at attractive valuations, particularly in situations that create opportunities for superior valuation gains and cash flow returns.

## ECONOMIC AND MARKET REVIEW AND OUTLOOK
(As at February 12, 2016)

The predictions and forecasts within our Economic and Market Review and Outlook are based on information and assumptions from sources we consider reliable. If this information or these assumptions are not accurate, actual economic outcomes may differ materially from the outlook presented in this section. For details on risk factors from general business and economic conditions that may affect our business and financial results, refer to Part 5 – Operating Capabilities, Environment and Risks.

### Overview and Outlook

Inflation remains muted across much of the developed world – particularly Europe and Japan – and as a result, interest rates are expected to remain near historic lows in many OECD countries. U.S. real GDP grew by 0.7% in the fourth quarter and by 2.4% overall in 2015. In a widely anticipated move, the Federal Reserve raised its policy rate from 0.25% to 0.50% in December as the economy nears full employment. U.S. dollar strength has cooled off some segments of the economy and recent stock market volatility may affect confidence, but overall the U.S. economy remains on solid footing. Growth slowed in Canada, where real GDP is estimated to have grown by 0.7% in the fourth quarter and by 1.2% in 2015, as the economy continues to adjust to low oil prices and a weak currency. The unemployment rate increased in 2015 for the resource-based Western provinces, while the manufacturing and services-oriented economies of the Eastern provinces are benefitting from the weaker Canadian dollar. UK real GDP grew by 1.9% in the fourth quarter, and by 2.2% overall in 2015. The UK unemployment rate has declined to 5.1%, which is supporting rising incomes and household consumption we believe. The Bank of England is likely to delay raising interest rates until inflation is moving decidedly towards its target level. An uneven Eurozone recovery continued in the fourth quarter, supported by accommodative monetary policy, a weaker currency and low commodity prices. Ireland and Spain once again led the region, growing at 4.6% and 3.4%. Overall Eurozone growth accelerated to 1.5% in 2015, but the region will struggle to grow much faster than this due to high debt levels and the need to curb still-elevated deficits. Real GDP in Brazil declined by an estimated 5.1% in the fourth quarter, and fell by 3.7% overall in 2015. Investor and consumer confidence continued to deteriorate as the political scandal widened and the unemployment rate remained elevated. While 2016 is likely to be another challenging year for Brazil, longer term growth prospects remain strong in a large country with a young and growing middle class. China reported fourth quarter real GDP growth of 6.8%, but this does not reflect the amount of stress the industrial portion of the economy is under as the economy transitions away from its investment-driven growth model. Australian real GDP grew by an estimated 2.5% in the fourth quarter, for an annual rate of 2.3%. Higher export volumes and household consumption continue to be strong points for the economy, while a sharp reduction in mining investment due to falling commodity prices is the primary weakness.

### United States

The pace of growth slowed in the fourth quarter, but the economy still grew by a respectable 2.4% in 2015. Consumption and investment were the primary contributors to growth, while weaker net exports and inventory purchases dragged on growth. The Federal Reserve raised interest rates from 0.25% to 0.50% at its December meeting as the unemployment rate steadily declined to 5%, nearing full employment. In anticipation of interest rate divergence with other developed markets, the U.S. dollar appreciated significantly over the past 12-18 months. As a result of the appreciation, the manufacturing and export sectors have cooled off recently, evidenced by declines in both industrial production and the purchasing managers index (PMI). While weakness in these sectors may continue in the near term, the formation of 1.4 million new households in 2015 bodes well for a U.S. housing market that only saw 1.1 million new housing units started last year. Combining the pent-up housing demand with steady income growth and low mortgage rates should make 2016 a strong year for the U.S. housing market. Despite the recent stock market volatility, the U.S. economy remains solid and should continue to grow by 2.0% to 3.0% annually over the next few years.

### Canada

A further decline in oil prices and the Canadian dollar in the fourth quarter placed additional pressure on the Canadian economy, which struggled to grow throughout 2015. Regionally, the reversal of fortunes continued between resource-based economies and manufacturing and services-oriented economies, as unemployment has surged in Alberta and Saskatchewan and declined in Ontario. Despite the fall in the value of energy exports, total exports have remained stable as non-energy exports rose sharply to compensate. The Bank of Canada will continue to favour an accommodative monetary policy in 2016, which will keep the Canadian dollar weak. In the near-term, government infrastructure spending should support a growth rate of 1.0 to 2.0%. Longer term, highly indebted households and housing affordability issues in some major cities remain key areas of concern which may keep Canadian growth below that of the U.S. for a few years.

### United Kingdom

UK real GDP growth slowed to 2.2% in 2015 after growing by 2.9% in 2014. Household consumption continued to be the largest driver of growth. The UK added nearly 270,000 jobs from August to November and the unemployment rate fell to 5.1%, the lowest level since 2006. The labour market improvement led to wage growth of 2% to 3% throughout 2015, and while wage growth was one of the indicators the Bank of England was keying on to initiate rate hikes, they have decided to delay until inflation is rising firmly towards the 2% target from the current rate of 0.2%. There are lingering concerns regarding household debt levels and the fast pace of credit growth that has helped support consumption growth over the past two years, which may portend slower consumption growth in the future. The pound depreciated recently against most trading partners after several years of strengthening, which could give a needed boost to the UK manufacturing sector and exporters more generally.

### Eurozone

Eurozone real GDP is estimated to have risen by 1.6% in the fourth quarter, led by strong growth in Ireland and Spain of 4.6% and 3.4%, respectively. Major Eurozone economies – including Germany, France and Italy – all grew in the 1.0% to 1.5% range. Consumer spending was the primary growth driver in 2015, a positive sign for the region after several years of declining or sub-par growth in consumption. Government spending was also a positive contributor to growth in 2015, which along with a lack of meaningful progress being made on deficit reductions, indicates that fiscal austerity has been relaxed. The ECB's quantitative easing program and near-zero interest rate policy is having the desired effect of low bond yields and a weak currency, which is stimulating business investment and improving the competitiveness of exporters. Despite the positive headline numbers, there are still many risks, including high debt-to-GDP levels, an increasingly volatile political environment, and weaker external demand from emerging markets.

### Brazil

Brazil's real GDP contracted a further 5.1% in the fourth quarter, the seventh consecutive quarterly decline in GDP. Weak business and consumer sentiment caused both investment and consumption to contract significantly. Negative sentiment is partly due to rising interest rates and unemployment, and partly due to investment paralysis related to the corruption scandal. Some large domestic companies, particularly in the construction sector; are reluctant to commit to new investment before there is clarity on the business impact of the current investigations, which continue to broaden in scope. In regard to interest rates, the central bank has been forced to hike the SELIC rate to 14.25% to combat inflation above 10%, which is being driven by one-off tariff increases and the impact of a depreciating currency. These pressures are expected to ease in 2016 and will provide room to reduce nominal interest rates. While the situation in Brazil will remain challenging in the near term, currency depreciation combined with wages rising slower than inflation are leading to an improvement in the competitive position of Brazilian exporters and a strong increase in net exports. We are optimistic that a number of positive reforms will be implemented as a result of the current crisis that will serve to increase Brazil's already significant long-run growth potential.

### China

Chinese real GDP growth slowed again to 6.8% in the fourth quarter and grew at an annual pace of 6.9% – the lowest in 25 years. The slowdown in the industrial portion of the economy appears to be more severe, with annual steel consumption declining by 3% and electricity demand barely growing at 2%. Trade data was also soft, as fourth quarter exports declined 5% year over year and imports fell by 12%. Some of this weakness can be traced back to the residential housing sector, where new construction is declining after a decade of very high growth. The government is playing an active role in helping the economy digest the over-investment in certain sectors, pledging to reduce overcapacity in industries such as steelmaking and coal mining. At the same time, the government is trying to stimulate consumption by reducing interest rates and bank reserve requirement ratios in order to increase lending activity. The transition from an investment-driven economy to a consumption-driven economy will take years to complete and there will be volatility along the way, but it is an essential step to placing the country on a sustainable long-term path.

### Australia

Australian real GDP grew at a steady pace of 2.3% in 2015, boosted by higher export volumes from recently completed mining and LNG projects. However, with the construction of the projects now largely completed and commodity prices falling, investment is dropping sharply and is reducing on GDP by approximately one percentage point. As export volumes finish ramping-up and resource investment finishes ramping-down over the next few years, fluctuations in consumption and non-mining business investment will become the major drivers of the economy. Deterioration in Australia's trade balance from low commodity prices, combined with the potential for further monetary easing will keep pressure on the Australian dollar in 2016. Despite this, consumer spending remains strong and the labour market saw solid improvement as 129,000 jobs were added in the fourth quarter, the best quarter of job creation since monthly records begin in 1978. A hot housing market is also fueling consumption through a positive wealth effect in cities like Sydney, where prices are up 20% year over year. The government is continuing to support the economy with accommodative fiscal and monetary policy, and has room to ease conditions further if necessary.

## BASIS OF PRESENTATION AND USE OF NON-IFRS MEASURES

### Basis of Accounting

We are a Canadian corporation and, as such, we prepare our consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. We are listed on the Toronto Stock Exchange, New York Stock Exchange and Euronext. The following discussion contains a summary of two key IFRS accounting policies that we believe are particularly relevant to users of our financial statements. Our significant accounting policies are described in Note 2 to our consolidated financial statements, which also contains a summary of critical judgments and estimates.

#### *Election of Fair Value Accounting*

We account for a number of our consolidated assets at fair value including our commercial properties, renewable power assets, and certain of our infrastructure and financial assets.

We classify the vast majority of our property assets within our office, retail and opportunistic portfolios as investment properties. We have elected to record our investment properties at fair value, and accordingly changes in the value of these assets are recorded as fair value changes within net income on a quarterly basis. Depreciation is not recorded on investment properties.

Our renewable power facilities, certain of our infrastructure assets and hospitality assets within our property portfolio are classified as property, plant and equipment and we have elected to record these assets at fair value using the revaluation method. Unlike investment properties, these assets are fair valued on an annual basis and changes in value are recorded as revaluation surplus within other comprehensive income and accumulated within common equity. Depreciation is determined on the revalued carrying values at the beginning of each year and recorded in net income. If a revaluation results in the fair value declining below the depreciated cost of the asset, then an impairment is charged to net income. Impairments of this nature may be subsequently reversed through increases in value. A significant portion of our infrastructure operation's assets such as public service concessions are classified as intangible assets and reflect the fair value of the regulatory rate base or other characteristics at acquisition. These intangible assets are carried at amortized cost, subject to impairment tests, and are amortized over their useful lives.

Property, plant and equipment and inventory included within our private equity, service activities and residential development operations are typically recorded at amortized historic cost or the lower of cost and net realizable value. Other intangible assets and goodwill are recorded at amortized cost or cost.

Financial assets, financial contracts and other contractual arrangements that are treated as derivatives are recorded at fair value in our financial statements and changes in their value are recorded in net income or other comprehensive income, depending on their nature and business purpose (i.e. whether a security is held for trading, classified as available-for-sale, or whether a financial contract qualifies for hedge accounting or not). The more significant and more common financial contracts and contractual arrangements employed in our business that are fair valued include: interest rate contracts, foreign exchange contracts, and agreements for the sale of electricity.

Equity accounted investments follow the same accounting principles as our consolidated operations and accordingly, include amounts recorded at fair value and amounts recorded at amortized cost or cost, depending on the nature of the underlying assets.

### *Consolidated Financial Information*

We consolidate a number of entities even though we hold only a minority economic interest. This is the result of our exercising control, as determined under IFRS, over the affairs of these entities due to contractual arrangements and our significant economic interest in these entities.

As a result, we include 100% of the revenues and expenses of our subsidiaries in our consolidated statement of operations, even though a substantial portion of the net income of the entity is attributable to non-controlling interests. On the other hand, revenues earned and expenses paid between us and our subsidiaries, such as asset management fees, are eliminated in our consolidated statement of operations; however these items impact the attribution of net income between shareholders and non-controlling interests. For example, asset management fees paid by BPY to the Corporation are not included within revenues and expenses and accordingly have no impact on net income. Instead, the attribution of BPY's net income to shareholders is higher due to fees received from our general partners interest in BPY equally offset by a reduction in the income attributable to non-controlling interests.

Interests in entities over which we exercise significant influence, but where we do not exercise control, are accounted for as equity accounted investments. We record our proportionate share of their net income on a "one-line" basis as equity accounted income within net income and "two-lines" within other comprehensive income as equity accounted income that will be reclassified to net income and equity accounted income that will not be reclassified to net income. As a result, our share of items such as fair value changes, that would be included within fair value changes if the entity was consolidated, are instead included within equity accounted income.

Certain of our consolidated subsidiaries and equity accounted investments do not utilize IFRS for their own statutory reporting purposes. The comprehensive income utilized by us for these entities is determined using IFRS and may differ significantly from the comprehensive income pursuant to the accounting principles reported elsewhere by the investee. For example, IFRS provides a reporting issuer a policy election to fair value its investment properties, as described above, whereas other accounting principles such as U.S. GAAP may not. Accordingly, their statutory financial statements, which may be publicly available, may differ from those which we consolidate.

## Use of Non-IFRS Measures

We disclose a number of financial measures in this Report that are calculated and presented using methodologies other than in accordance with IFRS. These measures are used primarily in Part 3 of the MD&A. We utilize these non-IFRS measures in managing the business, including performance measurement, capital allocation and valuation and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within Part 3 of this MD&A and elsewhere as appropriate.

## PART 2 – FINANCIAL PERFORMANCE REVIEW

### SELECTED ANNUAL FINANCIAL INFORMATION

| FOR THE YEARS ENDED DECEMBER 31<br>(MILLIONS, EXCEPT PER SHARE AMOUNTS) | 2015 | 2014 | 2013 | Change<br>2015 vs 2014 | Change<br>2014 vs 2013 |
|---|---|---|---|---|---|
| **CONDENSED STATEMENT OF OPERATIONS** | | | | | |
| Revenues | **$ 19,913** | $ 18,364 | $ 20,093 | $ 1,549 | $ (1,729) |
| Direct costs | **(14,433)** | (13,118) | (13,928) | (1,315) | 810 |
| Other income and gains | **145** | 190 | 1,262 | (45) | (1,072) |
| Equity accounted income | **1,695** | 1,594 | 759 | 101 | 835 |
| Expenses | | | | | |
| Interest | **(2,820)** | (2,579) | (2,553) | (241) | (26) |
| Corporate costs | **(106)** | (123) | (152) | 17 | 29 |
| Fair value changes | **2,166** | 3,674 | 663 | (1,508) | 3,011 |
| Depreciation and amortization | **(1,695)** | (1,470) | (1,455) | (225) | (15) |
| Income taxes | **(196)** | (1,323) | (845) | 1,127 | (478) |
| Net income | **4,669** | 5,209 | 3,844 | (540) | 1,365 |
| Non-controlling interests | **(2,328)** | (2,099) | (1,724) | (229) | (375) |
| **Net income attributable to shareholders** | **$ 2,341** | $ 3,110 | $ 2,120 | $ (769) | $ 990 |
| **Net income per share** | **$ 2.26** | $ 3.11 | $ 2.08 | $ (0.85) | $ 1.03 |
| **CONDENSED STATEMENT OF OTHER COMPREHENSIVE INCOME (LOSS)** | | | | | |
| Revaluation of property, plant and equipment | **$ 2,144** | $ 2,998 | $ 825 | $ (854) | $ 2,173 |
| Financial contracts and other | **(475)** | (483) | 444 | 8 | (927) |
| Foreign currency translation | **(3,461)** | (1,717) | (2,429) | (1,744) | 712 |
| Equity accounted investments | **515** | 223 | 239 | 292 | (16) |
| Income taxes | **(448)** | (610) | (280) | 162 | (330) |
| Other comprehensive (loss) income | **(1,725)** | 411 | (1,201) | (2,136) | 1,612 |
| Non-controlling interests | **945** | (110) | 406 | 1,055 | (516) |
| **Other comprehensive (loss) income attributable to shareholders** | **(780)** | 301 | (795) | (1,081) | 1,096 |
| **Comprehensive income attributable to shareholders** | **$ 1,561** | $ 3,411 | $ 1,325 | $ (1,850) | $ 2,086 |

**SELECT BALANCE SHEET INFORMATION**

| AS AT DECEMBER 31<br>(MILLIONS) | 2015 | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 |
|---|---|---|---|---|---|
| Consolidated assets | **$ 139,514** | $ 129,480 | $ 112,745 | $ 10,034 | $ 16,735 |
| Borrowings and other non-current financial liabilities | **65,420** | 60,663 | 53,061 | 4,757 | 7,602 |
| Equity | **57,227** | 53,247 | 47,526 | 3,980 | 5,721 |

Dividends declared for each class of issued securities for the three most recently completed years are presented on page 35.

### Foreign Currency Translation

Changes in the rate of exchange between the U.S. dollar and the currencies in which we conduct our non-U.S. operations impact our operating results and our financial position. As a general rule, changes in the average annual rate of exchange will impact the value at which the results of non-U.S. operations are included in consolidated net income, whereas changes in the spot rates will impact the values at which non-U.S. assets and liabilities are included in our consolidated balance sheet. Please refer to Note 2(d) of our consolidated financial statements (Significant Accounting Policies – Foreign Currency Translation).

As at December 31, 2015, our IFRS net equity represented the following currencies: United States dollar – 52%; Brazilian real – 11%; United Kingdom pound – 16%; Australian dollar – 11%; Canadian dollar – 5%; and other currencies – 5%. From time to time, we utilize financial contracts to adjust these exposures.

The most significant exchange rates that impact our business are shown in the following table:

| | Year-end Spot Rate | | | Change | | Average Annual Rate | | | Change | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 | **2015** | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 |
| Australian dollar | **0.7287** | 0.8172 | 0.8918 | (11)% | (8)% | **0.7523** | 0.9023 | 0.9682 | (17)% | (7)% |
| Brazilian real | **3.9604** | 2.6504 | 2.3635 | (49)% | (12)% | **3.2776** | 2.3469 | 2.1505 | (40)% | (9)% |
| British pound | **1.4736** | 1.5578 | 1.6556 | (5)% | (6)% | **1.5285** | 1.6478 | 1.5647 | (7)% | 5% |
| Canadian dollar | **0.7227** | 0.8608 | 0.9414 | (16)% | (9)% | **0.7832** | 0.9057 | 0.9713 | (14)% | (7)% |

The average and year-end foreign currency exchange rates relative to the U.S dollar during 2015 was lower than in 2014 and 2013, in several of our major regions, mostly Australia, Brazil and Canada. As a result of these rate variations, the U.S. dollar equivalents of the contributions from our subsidiaries and investments in these regions were lower in 2015 than in 2014 and 2013, all other things being equal. The net impact on common equity of the change in period-end translation rates on assets and liabilities of foreign operations for 2015 was a decrease of $1.3 billion recorded within other comprehensive income.

## ANNUAL FINANCIAL PERFORMANCE

The following section contains a discussion and analysis of line items presented within our consolidated financial statements. We have disaggregated several of the line items into the amounts that are attributable to our eight operating segments in order to facilitate the review. The financial data in this section has been prepared in accordance with IFRS for each of the three most recently completed financial years.

### Overview

#### *2015 vs. 2014*

Consolidated net income for the year ended December 31, 2015 was $4.7 billion, representing a decrease of $540 million or 10% from the prior year. The contribution from recently acquired assets, completed developments and new leases in our commercial office portfolio was largely offset by a lower contribution from our renewable power operations, due to below average generation, and reduced deliveries in our residential operations. A $1.5 billion decline in fair value changes compared to the prior year, combined with a higher provision for depreciation and amortization, was partially offset by a reduction in deferred income taxes. Lastly, a larger proportion of net income was attributable to non-controlling interests which further reduced net income attributable to Brookfield shareholders.

Revenue less direct costs increased by $234 million or 4%, primarily due to the contributions from recently acquired and developed assets which added incremental revenue of $2,190 million and direct costs of $1,539 million. These were partially offset by the absence of revenues and direct costs from assets sold since the 2014 period and the impact of lower exchange rates on non-U.S. dollar denominated revenues and costs within existing operations. Fair value changes includes $2.3 billion of appraisal gains on investment properties held within consolidated subsidiaries, however, the amount of these gains decreased by $991 million compared to the prior year. In addition, gains arising within fair value changes, on the value of warrants we hold in General Growth Properties Inc. ("General Growth Properties" or "GGP") were $556 million lower in the current year. Income taxes in the current year includes a $464 million deferred income tax recovery on a change in the effective tax rates of some of our commercial properties, and an overall lower level of deferred income taxes associated with the lower level of investment property fair value gains.

Net income attributable to shareholders decreased by $769 million to $2.3 billion or $2.26 per share. Much of the increase in revenues net of direct costs relates to acquisitions within consolidated funds in which Brookfield has a lower economic interest while the decrease in fair value changes occurred within our property operations in which we have a higher ownership interest.

### *2014 vs. 2013*

Consolidated net income was $5.2 billion for the year ended December 31, 2014, representing a $1.4 billion increase from the $3.8 billion recorded in 2013. The largest variance was the significant increase in fair value gains recognized on investment properties held within consolidated subsidiaries and equity accounted investments as valuations for many of our office and retail properties benefitted from lower discount rates and increasing cash flows reflecting strengthening leasing environments. We recorded a lower amount of other income and gains, which in 2013 included $1,189 million of gains on the sale of an investment and the settlement of a long-dated interest rate swap. Revenues less direct costs decreased by $919 million in aggregate, as 2013 included $558 million of additional realized carried interests on the wind up of a private fund consortium and we sold two private equity investments and non-core timberlands, which contributed revenues less direct costs of $348 million in the prior year. Income taxes increased by $478 million due to a $320 million non-recurring deferred tax expense related to a change in tax laws in one of our core property operations, as well as deferred taxes associated with a higher level of investment property fair value gains.

Net income on a per share basis increased by $1.03 to $3.11 in 2014. Net income attributable to shareholders increased by a greater proportion than on a consolidated basis primarily due to our increased ownership interest in our office property portfolio in 2014, which meant that shareholders participated to a greater extent in the significant fair value gains recognized during the year.

## Statements of Operations

### *Revenues and Direct Costs*

The following tables present consolidated revenues and direct costs, which we have disaggregated into our operating segments in order to facilitate a review of year-over-year variances:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Revenue | | Direct Costs | | Change | | |
|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | Revenue | Direct Costs | Net |
| Asset management | **$ 992** | $ 771 | **$ 425** | $ 372 | $ 221 | $ 53 | $ 168 |
| Property | **5,444** | 5,010 | **2,665** | 2,628 | 434 | 37 | 397 |
| Renewable power | **1,632** | 1,679 | **560** | 530 | (47) | 30 | (77) |
| Infrastructure | **2,126** | 2,193 | **890** | 991 | (67) | (101) | 34 |
| Private equity | **3,041** | 2,559 | **2,609** | 2,244 | 482 | 365 | 117 |
| Residential development | **2,329** | 2,912 | **2,076** | 2,519 | (583) | (443) | (140) |
| Service activities | **5,055** | 3,599 | **4,868** | 3,472 | 1,456 | 1,396 | 60 |
| Corporate activities | **78** | 199 | **24** | 108 | (121) | (84) | (37) |
| Eliminations and adjustments[1] | **(784)** | (558) | **316** | 254 | (226) | 62 | (288) |
| Total | **$ 19,913** | $ 18,364 | **$ 14,433** | $ 13,118 | $ 1,549 | $ 1,315 | $ 234 |

1. Adjustment to eliminate base management fees and interest income earned from entities that we consolidate. See Note 3 to our Consolidated Financial Statements

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Revenue | | Direct Costs | | Change | | |
|---|---|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | Revenue | Direct Costs | Net |
| Asset management | $ 771 | $ 1,183 | $ 372 | $ 318 | $ (412) | $ 54 | $ (466) |
| Property | 5,010 | 4,569 | 2,628 | 2,333 | 441 | 295 | 146 |
| Renewable power | 1,679 | 1,620 | 530 | 550 | 59 | (20) | 79 |
| Infrastructure | 2,193 | 2,326 | 991 | 1,125 | (133) | (134) | 1 |
| Private equity | 2,559 | 4,124 | 2,244 | 3,391 | (1,565) | (1,147) | (418) |
| Residential development | 2,912 | 2,521 | 2,519 | 2,297 | 391 | 222 | 169 |
| Service activities | 3,599 | 3,817 | 3,472 | 3,687 | (218) | (215) | (3) |
| Corporate activities | 199 | 352 | 108 | 66 | (153) | 42 | (195) |
| Eliminations and adjustments[1] | (558) | (419) | 254 | 161 | (139) | 93 | (232) |
| Total | $ 18,364 | $ 20,093 | $ 13,118 | $ 13,928 | $ (1,729) | $ (810) | $ (919) |

1. Adjustment to eliminate base management fees and interest income earned from entities that we consolidate. See Note 3 to our Consolidated Financial Statements

Acquisitions can have a significant impact on revenues, as can changes in the basis of presentation of businesses such as between consolidation and equity accounting following changes in control. Revenues from our property and infrastructure assets tend to be relatively consistent between periods because they are largely determined by contractual arrangements; whereas renewable power revenues can be impacted by changes in water availability. Service activity revenues fluctuate significantly with the award of large contracts, and the revenues within our private equity and residential development operations can vary in line with changes in the level of economic activity.

### *2015 vs. 2014*

*Asset management:* Revenues in our asset management operations increased by $221 million (29%) due primarily to a $155 million increase in base management fees to $780 million. Base management fees from private funds increased by $93 million (38%) to $339 million, including $83 million of fees earned on new fund commitments. We also earned an additional $24 million of incentive distributions reflecting our incentive participation in our listed partnerships' unitholder distribution increases. In addition, we realized $49 million (2014 – $8 million) of carried interest on the monetization of properties in a mature private fund. Direct costs increased from $372 million to $425 million, primarily due to $36 million of additional costs incurred associated with the expansion of our operations as well as $17 million of incentive compensation paid on the realization of carried interest.

*Property:* We completed a number of acquisitions within our property operations over the past three years which increased revenues and direct costs by $803 million and $251 million respectively, in comparison to 2014. Acquisitions in 2015 include a large UK resort operator and multifamily properties in the U.S. Margins in our property operations increased significantly as a large triple net lease portfolio acquired in the second half of 2014 incurs no direct costs. The contribution from these investments and same-store growth in occupancy and rental rates in our office portfolio, particularly in Lower Manhattan, was partially offset by the effects of lower exchange rates on results from our foreign operations and the elimination of $176 million of revenues and $72 million of direct costs following the disposal of assets throughout the year. Significant dispositions during the year included Southern Cross in Melbourne, a portfolio of Washington, D.C. office assets and 75 State Street in Boston.

*Renewable power:* Generation from facilities acquired and completed developments coming online increased revenues by $202 million, compared to the prior year. This positive variance was more than offset by lower generation from assets held in both periods, reduced pricing and negative foreign currency variation. Lower hydrology conditions in the northeast U.S. and in Brazil, and lower overall wind conditions, reduced revenues from assets held throughout both periods by $84 million during the year. In addition, North American short-term electricity pricing decreased relative to the prior year, which decreased revenue by $42 million in aggregate. Direct costs increased by $30 million over the prior year reflecting costs associated with new assets partially offset by impact of lower exchange rates on costs at our foreign operations.

*Infrastructure:* Revenues in our infrastructure operations declined by $67 million compared to the prior year. Incremental revenue from acquisitions and internal growth initiatives in the last year contributed $84 million of additional revenues. Improved volumes across our businesses, along with higher rates and tariff increased revenues by $180 million from the prior year. These increases were more than offset by a decline in revenue from the depreciation of currencies at our non-U.S. subsidiaries. Direct costs declined by $101 million compared to the prior year as increased costs of $53 million from acquisitions completed in the last twelve months and $24 million in costs associated with higher volumes were more than offset by a decrease from the depreciation of the non-U.S. dollar currencies in which we operate and a decrease of $25 million resulting from cost reduction programs.

*Private equity:* The increases in revenues and costs are substantially attributable to revenues, and costs contributed by recently acquired assets of $520 million and $495 million, respectively, including a U.S. industrial manufacturing operation, an infrastructure products manufacturing operation and a Canadian palladium mine. Revenues at our directly held panelboard operations decreased by $103 million or 7% in 2015, primarily due to lower prices partially offset by a 4% increase in shipment volumes, however direct costs decreased by $101 million as these operations benefitted from increased scale and lower exchange rates with the U.S. dollar.

*Residential development:* Revenue from our Brazilian operations decreased by $691 million; we delivered fewer projects in the current year due to a slowing economy in Brazil and delivery dates for a number of projects were moved to future quarters due to construction and permitting delays. The decline in the Brazilian currency also reduced the translated value of revenues and direct costs by $364 million and $342 million respectively. In our North American business, revenues increased by $67 million due to increased housing sales volumes, particularly in the U.S., although these were partially offset by the mix of deliveries being more weighted to lower priced homes and the decreased impact of the lower Canadian dollar on sales in our Canadian operations. Gross margins also declined with the increased proportion of lower-priced product sold.

*Service activities:* Construction revenue and direct costs increased by $776 million and $766 million, respectively as a number of large projects were commenced during the year. A large percentage of revenues are earned and incurred in non-U.S. dollars and a decline in the value of local currencies reduced the translated value of these revenues and direct costs by $446 million and $427 million, respectively. Property service revenues and direct costs increased by $873 million and $831 million, respectively, as a result of the acquisition of an integrated facilities management business during the first quarter of 2015. This increase was partially offset by reduced volumes in our residential real estate services business, where revenues and direct costs decreased by $193 million and $201 million, respectively.

*Corporate activities:* Revenues declined in our corporate activities due to reduced investment gains in our portfolio of financial assets during 2015 compared to 2014.

### *2014 vs. 2013*

*Asset management:* Revenues decreased by $412 million in 2014 due to the recognition of $558 million of carried interest in the prior year, which we earned upon the crystallization of a particularly large client investment gain. Fee bearing capital increased by 20%, which contributed to a $123 million increase in base management fees to $625 million. Direct costs increased by $54 million to $372 million due to the expansion of our asset management operations.

*Property:* Commercial property revenue increased by $441 million reflecting the addition of revenues from recent acquisitions in our multifamily and industrial businesses and a portfolio of triple net lease assets. These increases were partially offset by lower revenues in our office business due to a significant lease expiry in Lower Manhattan in October 2013 that resulted in lower occupancy during 2014 and the elimination of revenues on mature assets that had been sold in 2013 and early 2014. Direct costs increased due to the inclusion of costs associated with newly acquired assets.

*Renewable power:* Newly acquired or commissioned assets, along with a full year's contribution from facilities acquired in 2013, contributed $151 million of additional revenue. This more than offset the reduction in revenue from facilities owned throughout both years due to a contractual price decrease, limited operations of a gas-fired plant in 2014 and the impact of lower exchange rates on facilities in Canada and Brazil. Direct costs are largely fixed and the impact of lower exchange rates on non-U.S. operations was partially offset by additional operating costs from recently acquired facilities.

*Infrastructure:* Revenues decreased due to the elimination of $304 million of revenues from Pacific Northwest timberlands that were sold in July 2013. This decrease was partially offset by revenues generated from recently completed development projects and acquisitions as well as higher volumes across our transport businesses. The sale of our Pacific Northwest timberlands decreased costs by $173 million. This was partially offset by acquisitions and capital expansions completed in the last year which increased operating costs by approximately $50 million.

*Private equity:* Revenues decreased by $1,565 million and direct costs decreased by $1,147 million. We sold two forest products investments which contributed $1,439 million of revenues and $1,222 million of direct costs in 2013. In addition, a 31% decline in panelboard prices compared to the prior year decreased revenues by a further $250 million. These decreases were partially offset by higher sales volumes at our energy-related investments due to higher natural gas production compared to the prior year.

*Residential development:* Revenues and direct costs increased by $391 million and $222 million, respectively, reflecting the completion and delivery of a larger number of projects in our Brazilian operations. Our North American operations revenues increased by $120 million due to increased U.S. housing sales and stronger pricing. We also sold two commercial properties within our North American operations in the first quarter of 2014, which generated revenues of $83 million.

*Service activities:* Construction revenues and direct costs decreased by $551 million and $541 million, respectively. These operations recognize revenue using the percentage-of-completion methodology and project delays experienced in the first three quarters of 2014 across several geographies reduced construction progress and the associated revenue recognition. In addition, the majority of these revenues and costs are earned and incurred in Australia and were thus impacted by the lower translated value of that currency.

*Corporate activities:* Revenues declined in our corporate activities due to reduced investment gains in our portfolio of financial assets during 2014 compared to 2013.

### *Other Income and Gains*

Other income and gains in 2013 included a $664 million gain on the sale of a pulp and paper investment as well as a $525 million gain on the termination of a long-dated interest rate swap contract.

### *Equity Accounted Income*

Equity accounted income represents our share of the net income recorded by investments over which we exercise significant influence and is reported as a single line item in our consolidated statement of operations. The following table disaggregates consolidated equity accounted income to facilitate analysis:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs. 2013 |
|---|---|---|---|---|---|
| Property operations | | | | | |
| General Growth Properties | **$ 526** | $ 1,006 | $ 426 | $ (480) | $ 580 |
| Canary Wharf | **461** | — | — | 461 | — |
| Other operations | **600** | 387 | 447 | 213 | (60) |
| Infrastructure operations | **125** | 81 | (193) | 44 | 274 |
| Private equity and other | **(17)** | 120 | 79 | (137) | 41 |
| | **$ 1,695** | $ 1,594 | $ 759 | $ 101 | $ 835 |

Our share of GGP's equity accounted income decreased by $480 million, of which $466 million was due to a reduction in the level of fair value gains recognized by GGP during the year compared to the prior year. Excluding these fair value changes, GGP's net income for the year decreased by 3% compared to 2014 as improved operating results at its retail properties on a same store basis and interest cost savings on the reduction in borrowing levels were offset by a reduction in income following the sale of interests in core retail properties. Our share of GGP's equity accounted income increased from 2013 to 2014 due to a 6% increase in our ownership of GGP from 23% to 29% in December 2013. In addition, 2014 includes the reversal of a $249 million impairment, which was recorded in 2013, following an increase in values.

In February 2015, we increased our ownership interest in Canary Wharf Group plc ("Canary Wharf") from 22% to 50% and commenced equity accounting for our investment. Equity accounted income from Canary Wharf includes $332 million of fair value gains related to increases in the value of Canary Wharf's investment property portfolio since the date of acquisition.

During 2015, we partially disposed of our interest in a portfolio of Boston and Washington D.C. office properties and commenced equity accounting for the portfolio, which increased equity accounted income from other property operations by $33 million. In addition, we exercised our conversion option for preferred shares in a Shanghai property group, converting our interest into common equity and commenced equity accounting for the investment, recording $46 million of additional equity earnings in 2015. The decrease in 2014 compared to 2013 was due primarily to a $34 million decrease in our share of net income at Rouse Properties Inc. ("Rouse Properties"), as a result of a higher level of appraisal gains being recorded in 2013 than in 2014.

In our infrastructure operations, we acquired a large communications infrastructure operation in the first quarter of 2015, which earned $38 million of equity accounted earnings in 2015. In 2013 we recorded a valuation charge of $275 million against the carrying value of our North American natural gas pipeline investment reflecting weaker market fundamentals. These conditions persisted through 2014 and 2015 impacting our equity accounted earnings from this investment. In 2014 this decrease was partially offset by additional equity accounted earnings at our Brazilian toll road operations following an increase in our ownership interest and the acquisition of an equity accounted Brazilian integrated logistics business during that year.

The decline in equity accounted income from our private equity investments is primarily a result of valuation charges on oil and gas reserves recorded by investee companies. Other equity accounted income also includes inventory impairments in equity accounted Brazilian residential projects. Equity accounted income in 2013 and 2014 includes earnings from a forest products investment which we disposed of in August of 2014.

### *Interest Expense*

The following table presents interest expense organized by the balance sheet classification of the associated liability:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs 2013 |
|---|---|---|---|---|---|
| Corporate borrowings | **$ 225** | $ 228 | $ 204 | $ (3) | $ 24 |
| Non-recourse borrowings | | | | | |
| Property-specific mortgages | **2,124** | 2,047 | 1,837 | 77 | 210 |
| Subsidiary borrowings | **330** | 272 | 464 | 58 | (192) |
| Subsidiary equity obligations | **141** | 32 | 48 | 109 | (16) |
| | **$ 2,820** | $ 2,579 | $ 2,553 | $ 241 | $ 26 |

The majority of our borrowings are fixed rate long-term financings. Accordingly, changes in interest rates are typically limited to the impact of refinancing borrowings at current rates or changes in the level of debt as a result of acquisitions and dispositions. Borrowings are generally denominated in the same currencies as the assets they finance and therefore the overall increase in the value of the U.S. dollar during the period resulted in a decrease in the translated value of the interest expense on non-U.S. dollar denominated borrowings.

Interest expense on property-specific mortgages increased in 2015 over the prior year reflecting additional borrowings associated with acquisitions across our portfolio and particularly in our property operations, which increased interest expense by $61 million, partially offset by a reduction in the translated amount of interest expense due to the lower currency exchange rates on non-U.S. borrowings. The $210 million increase in 2014 over 2013 reflects additional borrowings associated with acquisitions and capital projects in our property, renewable power and infrastructure operations as well as increased borrowing levels on property specific mortgage refinancings albeit at reduced rates.

Interest expense on subsidiary borrowings increased in 2015 due to higher average borrowings in our property operations during the year in addition to interest incurred on public bonds issued in 2015 by BIP, BREP and Brookfield Residential. We refinanced high cost subsidiary borrowings in the third quarter of 2013 with lower coupon corporate debt, which decreased subsidiary borrowings interest expense by $87 million in 2014 compared to 2013 and consolidated interest expense by $60 million in aggregate in those years. Subsidiary borrowings also decreased between 2014 and 2013 as we replaced unsecured debt at subsidiaries with asset-secured non-recourse financings.

Interest expense on subsidiary equity obligations increased in 2015 due to $117 million of interest incurred during the year on preferred equity units issued by BPY in December 2014.

### *Fair Value Changes*

The following table disaggregates fair value changes into major components to facilitate analysis:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs 2013 |
|---|---|---|---|---|---|
| Investment properties | **$ 2,275** | $ 3,266 | $ 1,031 | $ (991) | $ 2,235 |
| Transaction related gains | **232** | 230 | — | 2 | 230 |
| Investment in Canary Wharf | **150** | 319 | 89 | (169) | 230 |
| Redeemable fund units | **(2)** | (283) | (20) | 281 | (263) |
| General Growth Properties warrants | **(30)** | 526 | 53 | (556) | 473 |
| Other private equity investments | **(120)** | (31) | (94) | (89) | 63 |
| Impairments and other | **(339)** | (353) | (396) | 14 | 43 |
| | **$ 2,166** | $ 3,674 | $ 663 | $ (1,508) | $ 3,011 |

*Investment Properties*

The following table presents fair value gains in our investment properties, disaggregated by asset type:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs 2013 |
|---|---|---|---|---|---|
| Office | **$ 1,638** | $ 2,937 | $ 711 | $ (1,299) | $ 2,226 |
| Retail | **(109)** | (71) | 113 | (38) | (184) |
| Opportunistic | **746** | 400 | 207 | 346 | 193 |
| | **$ 2,275** | $ 3,266 | $ 1,031 | $ (991) | $ 2,235 |

Our investment properties are recorded at fair value, generally determined using discounted cash flow analysis or, in limited circumstances, direct capitalization methodology. External appraisals and market comparables, when available, are used to support our valuations.

Office property appraisal gains in 2015 were $1.6 billion, compared to $2.9 billion in the prior year. The current year appraisal gains primarily related to properties in New York, London, Sydney, Melbourne and Toronto, due to a reduction in capitalization and discount rates as a result of improving market conditions, as evidenced by transaction activity during the year, and a positive impact on cash flows from leases signed during the year. In addition, we completed two commercial office developments during the year, which resulted in an increase in their value following the elimination of the associated development risk premium. The decline in discount and capitalization rates contributed approximately 54% of the current year gains, while improvements in projected cash flows contributed approximately 46% of the gains. Office appraisal gains in 2014 primarily related to our U.S. office portfolio due to a decline in capitalization and discount rate as a result of improving economic conditions in the U.S. Fair value gains were lower in 2013 compared to 2014 due to relatively smaller declines in discount rates and terminal capitalization rates in 2013.

Our consolidated retail properties primarily consist of our retail mall portfolio in Brazil. Overall valuations of this portfolio decreased in 2014 and 2015, due to an increase in discount rates and terminal capitalization rates, consistent with the overall increase in rates experienced in Brazil.

Opportunistic properties consist of our industrial, multifamily, hospitality and other portfolios. We have been investing additional capital into this property class over the last three years, increasing the asset base on which we may accrue fair value increments. These properties benefit from similar value drivers as our office properties and have increased in value in the last three years due to rising rental rates and contractual price escalators, capital project completions and increasing investor demand for this asset class which has resulted in higher transaction values for comparable properties.

We discuss the key valuation inputs of our investment properties on page 29.

*Transaction Related Gains*

In January 2015 we acquired natural gas production facilities in western Canada valued at $652 million for total consideration of $481 million, including debt financing. The fair value of the proven producing and probable reserves at acquisition was greater than the consideration paid, resulting in a $171 million gain being recorded in net income.

In February 2015 we acquired the remaining 50% interest in an integrated real estate management services business, increasing our ownership to 100%. We commenced consolidation of the business which required us to revalue our existing 50% investment to reflect the acquisition cost resulting in a $101 million gain.

During the first quarter of 2014 we disposed of a partial interest in a private equity investee company, resulting in the de-consolidation of the business from our results and revaluing our retained interest based on its quoted market price. This gave rise to a $230 million revaluation gain.

*Investment in Canary Wharf*

We recognized a $150 million revaluation gain in 2015 based on the price paid when we acquired our additional interest in Canary Wharf. We commenced equity accounting for our investment after increasing our interest from 22% to 50% and valuation gains are now recorded in equity accounted income. In 2014 and 2013 we recorded increases of $319 million and $89 million, respectively, in the value of this investment, which related to increases in the value of Canary Wharf's development activities, as well as the impact of lower discount rates on its commercial office properties.

*Redeemable Funds Units*

We record changes in the value of units held by others in funds where these units are classified as liabilities, rather than equity in our consolidated financial statements. In 2014 we recorded larger fair value changes on our Los Angeles office portfolio than either 2015 or 2013, which resulted in a higher value attributable to our partners' interests in this portfolio.

*General Growth Properties Warrants*

We hold warrants that are convertible into approximately 70 million common shares of GGP. GGP's share price decreased by 6% between December 31, 2014 and December 31, 2015, after having increased by almost 40% during the comparative period, resulting in $30 million loss in 2015 compared to a $526 million gain in the prior year.

*Other Private Equity Investments*

Private equity fair value changes primarily reflect impairments of oil and gas reserve valuations at investee companies in the energy sector, due to reductions in future pricing expectations, primarily due to a decline in oil and natural gas prices during 2015.

*Impairments and Other*

We recognized $79 million of impairments in 2015, and $121 million in 2014, which related primarily to condominium development inventory at our Brazilian residential operations, which are experiencing weaker market fundamentals. This has resulted in a decrease in margins relating to cost overruns and a slowing consumer demand. Additionally we recognized a $87 million impairment of goodwill at these operations in 2014 as result of an overall decrease in market conditions.

Other fair value changes also include mark-to-market losses on financial contracts used to offset foreign currency and interest rate exposure and transaction costs incurred on the acquisition of consolidated subsidiaries.

### *Depreciation and Amortization*

Depreciation and amortization includes the depreciation of property, plant and equipment as well as the amortization of intangible assets. The two largest contributions to depreciation and amortization come from our renewable power and infrastructure facilities. Most of the assets in these businesses are revalued annually with changes recorded in other comprehensive income ("OCI"), but which are depreciated in net income. Depreciation is based on their carrying value at the beginning of each year. We do not record depreciation on assets that are classified as investment properties (e.g. commercial office and retail properties) or biological assets (e.g. our timberlands and agricultural assets). The amount of depreciation and amortization is generally consistent year over year with large changes typically due to the addition or removal of depreciable assets and the revaluation carrying values and the impact of foreign currency revaluation on non-U.S. assets.

Depreciation and amortization is summarized in the following table:

| | | | | Change | |
|---|---|---|---|---|---|
| FOR THE YEARS ENDED DECEMBER 31<br>(MILLIONS) | **2015** | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 |
| Renewable power | **$ 638** | $ 566 | $ 553 | $ 72 | $ 13 |
| Infrastructure | **390** | 395 | 346 | (5) | 49 |
| Private equity | **337** | 225 | 275 | 112 | (50) |
| Property | **267** | 261 | 256 | 6 | 5 |
| Other | **63** | 23 | 25 | 40 | (2) |
| | **$ 1,695** | $ 1,470 | $ 1,455 | $ 225 | $ 15 |

The increase in depreciation and amortization expense over 2014 is primarily attributable to depreciation recorded on assets acquired within our renewable power operations, and the higher book value of our property, plant and equipment, following our annual revaluation. These increases were partially offset by a reduction in depreciation of our non-U.S. operations due to changes in currency exchange rates.

The increase in infrastructure depreciation in 2014 and 2015 relates to recently acquired property plant and equipment and completed developments including those at our Australian rail operations.

Depreciation and amortization in our private equity operations increased as a result of the acquisition of a U.S. industrial manufacturing operation and a Canadian palladium mine in 2015. Our private equity operations sold a forest products business in 2014, eliminating the associated depreciation.

### *Income Taxes*

Income tax expense decreased by $1,127 million to an expense of $196 million in 2015, which follows an increase of $478 million in 2014 compared to 2013.

The two largest factors in the change in income tax expense were the effect of a reorganization of the ownership of certain office properties that resulted in a reduction in the applicable tax rate and the statutory decrease in the tax rates in the United Kingdom which together reduced our deferred tax expense by $486 million in the current year, both of which are non-recurring. Additionally, we recorded lower fair value gains on our investment properties in 2015 compared to 2014 which comparatively resulted in lower deferred income taxes. The prior year included a $320 million non-recurring deferred income tax expense that resulted from a change in tax laws that affected our North American office property operations in the first quarter of that year. Changes in tax rates tend to have a disproportionately large impact on the current year provision because the impact of the change on deferred tax assets and liabilities which would otherwise be reflected in future years are recorded in the current period.

Income tax expense includes both current taxes of $132 million (2014 – $114 million) and a deferred tax provision of $64 million (2014 – $1,209 million). The current tax provision represents the portion of the provision that gives rise to a current tax liability. The deferred tax provision arises from income that is subject to tax in future periods (commonly referred to as "timing differences") and the utilization of existing tax assets such as accumulated tax losses.

In our case, the deferred tax provision relates principally to fair value gains, which are not taxable until the assets are sold, and therefore do not give rise to a current tax liability, as well as the depreciation of assets which are depreciated for tax purposes at rates that differ from the rates used in our financial statements.

Our income tax provision does not include a number of non-income taxes paid that are recorded elsewhere in our financial statements. For example, a number of our operations in Brazil are required to pay non-recoverable taxes on revenue, which are included in direct costs as opposed to income taxes. In addition, we pay considerable property, payroll and other taxes that represent an important component of the tax base in the jurisdictions in which we operate.

Our effective income tax rate is different from the Canadian domestic statutory income tax rate due to the following differences:

| | | | | Change | |
|---|---|---|---|---|---|
| FOR THE YEARS ENDED DECEMBER 31 | **2015** | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 |
| Statutory income tax rate | **26%** | 26% | 26% | —% | —% |
| Increase (reduction) in rate resulting from: | | | | | |
| International operations subject to different tax rates | **(7)** | (5) | (3) | (2) | (2) |
| Taxable income attribute to non-controlling interests | **(6)** | (5) | (7) | (1) | 2 |
| Recognition of previously unrecorded deferred tax assets | **—** | (1) | (2) | 1 | 1 |
| Non-recognition of the benefit of current year's tax losses | **4** | 2 | 3 | 2 | (1) |
| Change in tax rates and new legislation | **(11)** | 4 | — | (15) | 4 |
| Other | **(2)** | (1) | 1 | (1) | (2) |
| Effective income tax rate | **4%** | 20% | 18% | (16)% | 2% |

As a global company, we operate in countries with different tax rates, most of which vary from our domestic statutory rate and we also benefit from tax incentives introduced in various countries to encourage economic activity. Differences in global tax rates gave rise to a 7% (2014 – 5%) reduction in our effective tax rate. The difference will vary from year to year depending on the relative proportion of income in each country.

As detailed in the above table, the aforementioned property reorganization and decrease in tax rates in the United Kingdom reduced our effective tax rate by 11%, whereas the non-recurring deferred tax expense in 2014 increased the effective tax rate in 2014 by 4%.

A portion of our consolidated taxable income is attributable to non-controlled interests because it relates to operations (and the associated net income earned) within partially owned entities managed by us that are transparent for tax purposes, such as partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated net income includes income attributable to non-controlling ownership interest in these entities, our consolidated tax provision includes only our proportionate share of the tax provision of these entities and not the portion that is attributable to the non-controlling interest. In other words, we are consolidating all of their net income, but only our share of the associated tax provision. This gave rise to a 6% (2014 – 5%) reduction in our effective tax rate.

### *Non-controlling Interests*

Non-controlling interests represent the portion of net income of consolidated entities that is attributable to other investors. Non-controlling interests totalled $2.3 billion in 2015 compared to $2.1 billion in 2014 and $1.7 billion in 2013, representing 50%, 40% and 45% of consolidated net income, respectively, in each of these years. The change in the proportionate interest reflects the acquisitions of assets and business within fund entities in which we have a differing ownership interests as well as changes in the amount of income generated within entities with different ownership levels.

In 2015, net income decreased in operations where we have a higher ownership, particularly in our office properties where we recorded a lower level of fair value gains compared to 2014, and Brookfield has a lower proportionate interest in operations were net income increased, particularly our infrastructure operations. In 2013 the proportion of net income attributable to shareholders was higher due to the recognition of a large gain and carried interests which were recorded in wholly owned operations.

## Other Comprehensive Income ("OCI")

### *Revaluation of Property, Plant and Equipment*

The following table summarizes revaluations of property, plant and equipment:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 | 2013 | Change: 2015 vs 2014 | Change: 2014 vs 2013 |
|---|---|---|---|---|---|
| Renewable power | **$ 1,305** | $ 1,966 | $ (151) | $ (661) | $ 2,117 |
| Infrastructure | **688** | 708 | 781 | (20) | (73) |
| Property and other | **151** | 324 | 195 | (173) | 129 |
| | **$ 2,144** | $ 2,998 | $ 825 | $ (854) | $ 2,173 |

Revaluations of property, plant and equipment are primarily influenced by changes in estimated future cash flows and discount rates. Estimated future electricity prices are the primary determining factor of future cash flows in our renewable power operations. In our infrastructure operations, future cash flows are impacted by regulated rates of return on rate bases in our utility assets and tariffs or capacity charges in our transport and energy assets, while expected hotel stays and room rates increase or decrease cash flows in our hospitality assets within our property operations. In 2015 and 2014 decreases in long-term rates of return expectations decreased, evidenced by comparable asset sales, which increased valuations of these assets, with the 2014 change in return expectations being slightly larger than in 2015. Additionally, in each year expected future cash flows increased at most of our operations as a result of expansion projects, business growth and inflation-linked revenue assumptions. In 2013 our renewable power operations experienced a decline in value as increases in expected cash flows were more than offset by an increase in interest rates and return expectations.

We discuss the key valuation inputs on page 30.

### *Financial Contracts and Other*

The following table presents the components of financial contracts and other:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 | 2013 | Change: 2015 vs 2014 | Change: 2014 vs 2013 |
|---|---|---|---|---|---|
| Financial contracts and power sales agreements | **$ (22)** | $ (301) | $ 442 | $ 279 | $ (743) |
| Available-for-sale securities | **(485)** | (105) | (24) | (380) | (81) |
| Revaluation of pension obligations | **32** | (77) | 26 | 109 | (103) |
| | **$ (475)** | $ (483) | $ 444 | $ 8 | $ (927) |

Changes in the fair value of financial investments that are designated as "available-for-sale" are recorded through OCI unless we believe that a permanent impairment in value has occurred in which case a provision is recorded in net income. During 2014 and 2015 we invested in debt securities where our intention was to convert our interest into an equity interest during a court-supervised restructuring process, leaving us with a meaningful equity stake in the restructured company. Through the restructuring process, public pricing for these debt securities has decreased, lowering the fair value equivalent of the debt we hold.

The decrease in value during 2014 reflects a decrease in interest rates during the year. The increase in the value of financial contracts in 2013 primarily relates to gains on interest rate contracts that "lock in" interest rates and for future financings as rates increased during that year.

### *Foreign Currency Translation*

We record the impact of changes in foreign currencies on the carrying value of our net investments in non-U.S. operations in other comprehensive income. Changes in the value of currency contracts that qualify as hedges are included in foreign currency translation.

The following table disaggregates the impact of foreign currency translation on our business by the most significant non-U.S. currencies:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs 2013 |
|---|---|---|---|---|---|
| Australian dollar | **$ (496)** | $ (392) | $ (892) | $ (104) | $ 500 |
| Brazilian real | **(2,432)** | (736) | (987) | (1,696) | 251 |
| British pound | **(360)** | (327) | 85 | (33) | (412) |
| Canadian dollar | **(1,415)** | (922) | (748) | (493) | (174) |
| Other | **(349)** | (337) | (148) | (12) | (189) |
| | **(5,052)** | (2,714) | (2,690) | (2,338) | (24) |
| Currency hedges | **1,591** | 997 | 261 | 594 | 736 |
| | **$ (3,461)** | $ (1,717) | $ (2,429) | $ (1,744) | $ 712 |

Currency hedges include financial contracts that we utilize to manage foreign currency exposures as well as foreign currency debt which we have elected as a hedge. In 2015, we generally hedged a significant portion of our Australian dollar, British pound and Canadian dollar exposures, mitigating a significant portion of the impact of the decrease in those currencies. We did not hedge our Brazilian real equity, which produced the majority of our foreign currency translation loss in 2015.

### *Equity Accounted Other Comprehensive Income*

The following table disaggregates consolidated equity accounted OCI to facilitate analysis:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs 2013 |
|---|---|---|---|---|---|
| Property | **$ 54** | $ 11 | $ 31 | $ 43 | $ (20) |
| Renewable power | **76** | 58 | 13 | 18 | 45 |
| Infrastructure | **303** | 164 | 196 | 139 | (32) |
| Private equity and other | **82** | (10) | (1) | 92 | (9) |
| | **$ 515** | $ 223 | $ 239 | $ 292 | $ (16) |

Equity accounted OCI in our infrastructure operations includes revaluation surplus recorded within our Chilean transmission investment, our Brazilian toll road portfolio and, commencing in 2015, our European communications infrastructure investment.

We acquired a Western Australia oil and gas investment in 2015 within our private equity operations and entered into financial contracts to lock in the price of its scheduled production. The decrease in commodity prices in 2015 resulted in an $85 million gain on these contracts.

# FINANCIAL PROFILE

## Consolidated Assets

The following table presents our consolidated assets at December 31, 2015, compared to the two previous years:

| AS AT DECEMBER 31 (MILLIONS) | **2015** | 2014 | 2013 | Change 2015 vs 2014 | Change 2014 vs 2013 |
|---|---|---|---|---|---|
| Investment properties | **$ 47,164** | $ 46,083 | $ 38,336 | $ 1,081 | $ 7,747 |
| Property, plant and equipment | **37,273** | 34,617 | 31,019 | 2,656 | 3,598 |
| Equity accounted investments | **23,216** | 14,916 | 13,277 | 8,300 | 1,639 |
| Cash and cash equivalents | **2,774** | 3,160 | 3,663 | (386) | (503) |
| Financial assets | **6,156** | 6,285 | 4,947 | (129) | 1,338 |
| Accounts receivable and other | **7,044** | 8,845 | 7,168 | (1,801) | 1,677 |
| Inventory | **5,281** | 5,620 | 6,291 | (339) | (671) |
| Intangible assets | **5,170** | 4,327 | 5,044 | 843 | (717) |
| Goodwill | **2,543** | 1,406 | 1,588 | 1,137 | (182) |
| Deferred income tax asset | **1,496** | 1,414 | 1,412 | 82 | 2 |
| Assets held for sale | **1,397** | 2,807 | — | (1,410) | 2,807 |
| | **$ 139,514** | $ 129,480 | $ 112,745 | $ 10,034 | $ 16,735 |

Consolidated assets increased to $139.5 billion at December 31, 2015, representing an increase of $10.0 billion during 2015 and $16.7 billion during 2014 due primarily to increases in the carrying value of our investment properties, property, plant and equipment and equity accounted investments which are discussed below.

We present our consolidated balance sheets on a non-classified basis, meaning that we do not distinguish between current and long-term assets or liabilities. We believe this classification is appropriate given the nature of our business strategy.

### *Investment Properties*

The following table presents the major contributors to the year-over-year variances for our investment properties:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 |
|---|---|---|
| Balance, beginning of year | **$ 46,083** | $ 38,336 |
| Acquisitions and additions | **6,932** | 10,601 |
| Dispositions[1] | **(5,924)** | (4,800) |
| Fair value changes | **2,275** | 3,266 |
| Foreign currency translation | **(2,202)** | (1,320) |
| Net increase | **1,081** | 7,747 |
| Balance, end of year | **$ 47,164** | $ 46,083 |

1. Includes reclassification of investment properties that are held-for-sale

Acquisitions and additions of $6.9 billion in 2015 included the acquisition of a U.S. multifamily portfolio, a UK resort operator, a portfolio of office properties in Brazil and ongoing investment in development projects. Significant acquisitions in 2014 include a portfolio of triple net leases, multifamily units in New York City and office properties in Brazil, the United Kingdom, India and Australia. The largest dispositions in the current year were mature office properties, including the sale of partial interests in office buildings in Washington D.C. and Boston and the partial sale of a large mixed-use development in Manhattan.

Fair value changes added $2.3 billion to the carrying values of our investment properties. The fair value of investment properties is generally determined by discounting the expected future cash flows of the properties, typically over a term of 10 years and using discount and terminal capitalization rates reflective of the characteristics, location and market of each property.

Valuation metrics in most of our investment property classes reflect continued declines in capitalization and discount rates, particularly in the New York, London, Sydney and Toronto markets. Additionally, improving market conditions positively impacted expected future cash flows, primarily as a result of new leases signed during the year. An exception to this trend is in Brazil where macroeconomic uncertainty has resulted in higher discount rates that in turn gave rise to lower fair values for our investment properties there.

The key valuation metrics of our consolidated investment properties (i.e. excluding those held within equity accounted investments such as GGP or Canary Wharf) are presented in the following table on a weighted average basis, disaggregated into the principal operations of our property segment for analysis purposes. The valuations are most sensitive to changes in cash flows, discount rates and terminal capitalization rates. It is important to note that changes in cash flows and discount/terminal capitalization rates are usually inversely correlated as the circumstances that typically give rise to increased interest rates (i.e. strong economic growth, inflation) usually give rise to increased cash flows, although timing may vary.

| | Office | | Retail | | Opportunistic and Other | | Weighted Average | |
|---|---|---|---|---|---|---|---|---|
| AS AT DECEMBER 31 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Discount rate | **7.2%** | 7.1% | **9.8%** | 9.2% | **6.0%** | 6.7% | **6.9%** | 7.1% |
| Terminal capitalization rate | **5.9%** | 6.0% | **7.2%** | 7.2% | **6.8%** | 7.3% | **6.0%** | 6.1% |
| Investment horizon (years) | **11** | 10 | **10** | 10 | **10** | 10 | **11** | 10 |

### *Property, Plant and Equipment*

The following table presents the major components of the year-over-year variances for our property, plant and equipment ("PP&E"), disaggregated by operating business group for analysis purposes:

| | Renewable Power | | Infrastructure | | Property | | Private Equity and Other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Balance, beginning of year | **$19,970** | $16,611 | **$ 9,061** | $ 8,564 | **$ 2,872** | $ 3,042 | **$ 2,714** | $ 2,802 | **$34,617** | $31,019 |
| Acquisitions and additions | **1,444** | 2,876 | **571** | 1,004 | **2,708** | 33 | **2,081** | 676 | **6,804** | 4,589 |
| Dispositions[1] | **(298)** | (16) | **(536)** | (243) | **(71)** | (259) | **(192)** | (294) | **(1,097)** | (812) |
| Fair value changes | **1,324** | 1,990 | **654** | 757 | **161** | 324 | **(67)** | (41) | **2,072** | 3,030 |
| Depreciation | **(612)** | (560) | **(338)** | (332) | **(189)** | (149) | **(337)** | (224) | **(1,476)** | (1,265) |
| Foreign currency translation | **(2,090)** | (931) | **(1,074)** | (689) | **(165)** | (119) | **(318)** | (205) | **(3,647)** | (1,944) |
| Net change | **(232)** | 3,359 | **(723)** | 497 | **2,444** | (170) | **1,167** | (88) | **2,656** | 3,598 |
| Balance, end of year | **$19,738** | $19,970 | **$ 8,338** | $ 9,061 | **$ 5,316** | $ 2,872 | **$ 3,881** | $ 2,714 | **$37,273** | $34,617 |

1. Includes reclassifications for property, plant and equipment that are held-for-sale

We record PP&E in our renewable power, infrastructure, and hospitality properties within our property operations using the revaluation method, which results in these assets being revalued at the end of each fiscal year. PP&E within our private equity and other operations are carried at amortized cost.

#### *Renewable Power*

Acquisitions and additions increased renewable power PP&E by $1.4 billion, and relate to the acquisitions of 210 MW of hydroelectric facilities and 694 MW of wind generation and other assets in Brazil. During the year we disposed of a California wind farm and hydroelectric facilities in Brazil which decreased PP&E by $245 million. During 2014, we acquired 502 MW of hydroelectric facilities and a 326 MW wind portfolio.

The revaluation of property, plant and equipment in our renewable power operations resulted in an increase in the recorded fair value of $1.3 billion on our assets of which $0.7 billion primarily related to discount rate compression on recent acquisitions upon full integration in our portfolio and overall reductions in discount and terminal capitalization rates in Canada.

Valuations of our renewable power assets are impacted primarily by discount rates and long-term power prices. Discount rates are based on our after-tax cost of capital and reflect whether revenues are subject to long-term contracts or spot market pricing. Projected cash flows are based on in-place contracts and expected market prices for non-contracted power. Forward market prices are used for the first four years and thereafter prices are determined using internal projections that reflect our view of future market capacity, cost of capital, costs of fuel for competing forms of generation and competitive attributes of renewable power. Our long-term view of electricity prices reflects our views on the cost of securing new energy from renewable sources to meet future demand growth by the year 2023. This year is viewed as the point when generators in North America and Europe must build additional capacity to maintain system reliability and provide an adequate level of reserve generation with the retirement of older coal fired plants and with the Environmental Protection Agency emission compliance deadlines. We determine these costs by applying a discount to these estimated new-build wind prices to determine renewable electricity prices for hydroelectric facilities. Our generation facilities in Brazil are held under concessions and authorizations which have a fixed maturity date and accordingly, we do not ascribe a terminal value to these assets under IFRS, although we believe that we will be able to renew these concessions upon maturity. Our estimated future electricity prices in Brazil are based on a similar approach as applied in North America using a forecast of the all-in cost of hydroelectric and wind development. The key valuation metrics of our hydro and wind generating facilities at the end of 2015 and 2014 are summarized below.

| | United States | | Canada | | Brazil | | Europe | |
|---|---|---|---|---|---|---|---|---|
| AS AT DECEMBER 31 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Discount rate | | | | | | | | |
| Contracted | **5.4%** | 5.2% | **4.7%** | 4.8% | **9.2%** | 8.4% | **5.0%** | n/a |
| Uncontracted | **7.1%** | 7.1% | **6.4%** | 6.7% | **10.5%** | 9.7% | **6.8%** | n/a |
| Terminal capitalization rate | **6.9%** | 7.1% | **6.3%** | 6.5% | **n/a** | n/a | **n/a** | n/a |
| Exit date | **2035** | 2034 | **2035** | 2034 | **2033** | 2029 | **2031** | n/a |

*Infrastructure*

Acquisitions and additions of $571 million in 2015 included a number of tuck-in acquisitions within our district energy businesses in the current year. In 2014 we acquired a district energy business in North America and North American gas storage operations which increased PP&E by $1.0 billion. We revalue our infrastructure assets on an annual basis using discounted cash flow analysis, which includes estimates of forecasted revenues, operating costs, maintenance and other capital expenditures. Discount rates are selected for each asset giving consideration to the assets revenue streams and geography where they are located. The $0.7 billion increase in value of our infrastructure assets was primarily due to higher cash flows from increased connections in our UK regulated distribution business and increased volumes following the completion of development initiatives across the portfolio.

The key valuation metrics of our utilities, transport and energy operations are summarized below:

| | Utilities | | Transport | | Energy | |
|---|---|---|---|---|---|---|
| AS AT DECEMBER 31 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Discount rate | **8% – 12%** | 8% – 12% | **11% – 15%** | 11% – 15% | **10% – 15%** | 10% – 13% |
| Terminal capitalization multiples | **8x – 17x** | 8x – 16x | **10x – 14x** | 10x – 12x | **7x – 12x** | 8x – 12x |
| Investment horizon (years) | **10 – 20** | 10 – 20 | **10 – 20** | 10 – 20 | **10** | 10 |

*Property*

Property PP&E primarily consists of hotel and resort operations, which increased by $2.4 billion due to the acquisition of a UK property resort operator with $2.7 billion of PP&E. This was partially offset by depreciation expense and downward currency revaluation.

Key valuation assumptions for our hotel operations included a weighted average discount rate of 10.0% (2014 – 10.0%), terminal capitalization rate of 7.4% (2014 – 7.0%) and investment horizon of 7 years (2014 – 6 years).

*Private Equity and Other*

PP&E in our private equity and other operations increased by $1.2 billion, primarily relating to $1.8 billion in acquisitions across three industrial asset groups which include industrial manufacturing facilities in the U.S. ($640 million), natural gas production assets in western Canada ($502 million), and $278 million relating to a palladium mine in Canada. These increases were partially offset by currency translation, primarily relating to the decline in the value of the Canadian dollar.

### *Equity Accounted Investments*

The following table presents the major components of the period-over-period variances for our equity accounted investments, disaggregated by operating business group for analysis purposes:

| AS AT AND FOR THE YEARS ENDED DEC. 31 (MILLIONS) | Property GGP | Property Canary Wharf | Property Other | Renewable Power | Infrastructure | Private Equity and Other | **2015 Total** | 2014 Total |
|---|---|---|---|---|---|---|---|---|
| Balance, beginning of year | $ 6,887 | $ — | $ 3,700 | $ 273 | $ 3,544 | $ 512 | **$ 14,916** | $ 13,277 |
| Additions | — | 3,041 | 4,280 | — | 1,710[1] | 545 | **9,576** | 1,912 |
| Dispositions[2] | — | — | (1,724) | (144) | (9) | (122) | **(1,999)** | (901) |
| Share of net income | 526 | 461 | 600 | 10 | 125 | (27) | **1,695** | 1,594 |
| Share of other comprehensive income | (12) | (102) | 168 | 76 | 303 | 82 | **515** | 223 |
| Distributions received | (186) | — | (84) | (19) | (126) | (65) | **(480)** | (674) |
| Foreign currency translation and other | — | — | (61) | 1 | (857) | (90) | **(1,007)** | (515) |
| Net change | 328 | 3,400 | 3,179 | (76) | 1,146 | 323 | **8,300** | 1,639 |
| Balance, end of year | **$ 7,215** | **$ 3,400** | **$ 6,879** | **$ 197** | **$ 4,690** | **$ 835** | **$ 23,216** | $ 14,916 |

1. Includes the reclassification of equity accounted investments that were previously classified as held-for-sale
2. Includes reclassifications of equity accounted investments that are held-for-sale

Our largest equity accounted investments is within our property operations and includes a 29% interest in GGP with a carrying value of $7.2 billion at December 31, 2015. During the first quarter we acquired an additional 28% interest in Canary Wharf for $1.6 billion, increasing our interest to 50%. We commenced equity accounting for our investment and reclassified our previous 22% interest from financial assets to equity accounted investments for an aggregate addition of $3.0 billion.

In the third quarter of 2015, we converted preferred shares in a Shanghai property group into common equity interests and commenced equity accounting for our investment, reclassifying our previously held $600 million of preferred shares from financial assets to equity accounted investments.

Also during 2015, we sold interests in nine consolidated office properties in Boston and Washington, D.C., and a 44% interest in a large mixed use development in Manhattan resulting in us deconsolidating the operations and reclassifying our remaining net interest of $2.9 billion in these properties to equity accounted investments. In addition, we acquired a mixed use development in Berlin through a 50/50 joint venture for $320 million.

We also disposed of equity accounted investments which primarily related to building sales within our investments that resulted in a return of capital to us.

In our infrastructure operations we acquired a 45% interest in a communications tower operator in France for approximately $1.1 billion in the first quarter of 2015.

Additions to private equity and other investments include a $365 million investment in a natural gas production business in Western Australia and additions to residential land development joint ventures. Also within these operations we acquired the remaining 50% of a property services operation which resulted in us consolidating this investment.

Certain of our investee entities, including GGP and Canary Wharf, carry their assets at fair value, in which case we record our proportionate share of any fair value adjustments, which increases the carrying value of these investments. We recorded $567 million (2014 – $705 million) in fair value gains through our proportionate interests in these investments, which primarily relate to the increase in the value of the office properties owned by Canary Wharf and the portfolio of U.S. retail malls held by GGP.

### *Financial Assets*

In February 2015, we reclassified the $1.3 billion carrying value of our original 22% investment in Canary Wharf to equity accounted investments, following an additional investment in Canary Wharf and the commencement of equity accounting. We also exercised a conversion option on our $600 million of preferred shares in a Shanghai property group, which were acquired in 2014, converting our interest into common equity interests and commenced equity accounting for this investment in the third quarter of 2015. Partially offsetting these decreases, we purchased a 19.3% investment in an Australian port and logistics operator for $1.2 billion and invested approximately $1.0 billion in high yield and other securities. The increase in 2014 over 2013 reflects $0.8 billion of fair value gains on our investment in GGP warrants and assigned interest in Canary Wharf.

***Accounts Receivable and Other***

Accounts receivable and other assets decreased by $1.8 billion as the 2014 balance included $1.8 billion of restricted cash reserved for our acquisition of an additional 28% interest in Canary Wharf, which was released upon completing the acquisitions in early 2015.

***Intangible Assets***

Intangible assets relate primarily to concession arrangements within our infrastructure operations, in particular our Australian coal terminal ($1.8 billion) and Chilean toll roads ($0.9 billion). Intangible assets increased by $843 million during 2015. Acquisitions contributed $1.5 billion, which included $1.1 billion of intangible assets associated with a UK resort operator acquired in the second quarter of 2015.

***Goodwill***

The increase in goodwill primarily relates to goodwill recognized on acquisitions completed during the year which included a UK resort operator ($941 million), a U.S industrial manufacturing facility ($170 million) and an integrated facilities management business ($173 million).

***Assets Held for Sale***

Assets held for sale include approximately $805 million of property assets including two office properties in Sydney and Vancouver, as well as a portfolio of industrial assets near the U.S.-Mexico border and two multifamily assets in the United States, and $580 million of infrastructure assets including a Canadian electricity transmission utility and a UK regulated distribution business.

At December 31, 2014 assets held for sale included $2.2 billion of investment properties and $566 million of infrastructure assets including our equity accounted North American gas transmission investment.

***Borrowings and Other Non-Current Financial Liabilities***

Assets and liabilities are disaggregated into current and long-term components in the relevant notes to our consolidated financial statements.

| AS AT DECEMBER 31 (MILLIONS) | 2015 | 2014 | 2013 | 2015 vs 2014 | 2014 vs 2013 |
|---|---|---|---|---|---|
| Corporate borrowings | **$ 3,936** | $ 4,075 | $ 3,975 | $ (139) | $ 100 |
| Non-recourse borrowings | | | | | |
| Property-specific borrowings | **46,044** | 40,364 | 35,495 | 5,680 | 4,869 |
| Subsidiary borrowings | **8,303** | 8,329 | 7,392 | (26) | 937 |
| Non-current accounts payable and other liabilities[1] | **3,806** | 4,354 | 4,322 | (548) | 32 |
| Subsidiary equity obligations | **3,331** | 3,541 | 1,877 | (210) | 1,664 |
| | **$ 65,420** | $ 60,663 | $ 53,061 | $ 4,757 | $ 7,602 |

1. Excludes accounts payable and other liabilities that are due within one year. See Note 16 to our Consolidated Financial Statements for 2015 and 2014 balances

Corporate borrowing decreased by $139 million as the issuance of corporate notes during the year with face values of $500 million and C$350 million were more than offset by repayment of $384 million of short-term borrowings and $531 million of foreign currency translation, as many of our corporate borrowings are denominated in Canadian dollars.

Property-specific borrowings increased by $5.7 billion during 2015 which reflects additional borrowings relating to acquisitions, principally within our property operations where property-specific borrowings increased by $5.6 billion, reflecting the acquisition of a UK resort operator and a portfolio of U.S. multifamily buildings. These acquisitions were made in private funds managed by us and approximately $2.5 billion of the borrowings related to these acquisitions are temporarily funded on subscription lines which are repaid when fund partner capital calls are made. In our private equity operations, borrowings increased by $1.5 billion also primarily relating to acquisitions. These increases were partially offset by foreign currency translation rates, repayment of borrowings within our Brazilian residential operations and the impact of dispositions.

Subsidiary borrowings remained consistent as note issuances by BIP and BREP and Brookfield Residential completed since the prior year were more than offset by a decrease in leverage in our property operations were we have used the proceeds from asset sales to pay down in full the $1.5 billion acquisition facility which partially funded the privatization of our North American office company.

Subsidiary equity obligations and increased in December 2014 following the issuance of $1.8 billion of convertible preferred equity units by BPY.

## Equity

Equity consists of the following components:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Common Equity | | Preferred Equity | | Non-Controlling Interests | | Total Equity | |
|---|---|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Balance, beginning of year | **$ 20,153** | $ 17,781 | **$ 3,549** | $ 3,098 | **$ 29,545** | $ 26,647 | **$ 53,247** | $ 47,526 |
| Net income | **2,341** | 3,110 | **—** | — | **2,328** | 2,099 | **4,669** | 5,209 |
| Other comprehensive loss | **(780)** | 301 | **—** | — | **(945)** | 110 | **(1,725)** | 411 |
| Shareholder distributions | **(584)** | (542) | **—** | — | **(1,500)** | (2,428) | **(2,084)** | (2,970) |
| Equity issuances, net of repurchase | **926** | 45 | **190** | 451 | **2,371** | 2,505 | **3,487** | 3,001 |
| Ownership changes and other | **(488)** | (542) | **—** | — | **121** | 612 | **(367)** | 70 |
| Total change | **1,415** | 2,372 | **190** | 451 | **2,375** | 2,898 | **3,980** | 5,721 |
| Balance, end of year | **$ 21,568** | $ 20,153 | **$ 3,739** | $ 3,549 | **$ 31,920** | $ 29,545 | **$ 57,227** | $ 53,247 |

Common equity increased from 2014 by 7% to $21.6 billion at December 31, 2015. We issued 32.9 million Class A Limited Voting Shares ("Class A Shares") during the second quarter of 2015 for gross proceeds of $1.2 billion. We also repurchased 12.3 million Class A Shares for $424 million during the year, of which 10.1 million Class A Shares are in respect of long-term share employee ownership programs. This was offset by a decrease in common equity due to changes in the ownership of consolidated subsidiaries, the largest of which was a $382 million decrease recognized on the privatization of our North American residential homebuilding business during the first quarter of 2015. This loss represented the difference between the purchase price and the historical book value of non-controlling interest acquired. Virtually all of the net assets of our residential development business are carried at historical cost as opposed to fair value.

We also issued C$250 million in preferred equity during the year.

Non-controlling interests increased by $2.4 billion. Net issuances of equity to non-controlling interest include an equity issuance at BIP with gross proceeds from third parties of $600 million, $1.7 billion of capital calls issued by our private funds to our co-investors, and $100 million of preferred equity issued by BIP.

We provide a more detailed discussion of our capitalization in Part 4 of the MD&A.

# QUARTERLY FINANCIAL PERFORMANCE

Our financial performance for the eight most recent quarters is summarized as follows:

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| FOR THE THREE MONTHS ENDED (MILLIONS EXCEPT PER SHARE AMOUNTS) | **Q4** | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| Revenue | **$ 5,538** | $ 5,056 | $ 4,923 | $ 4,396 | $ 4,694 | $ 4,659 | $ 4,673 | $ 4,338 |
| Net income for shareholders | **678** | 289 | 645 | 729 | 1,050 | 734 | 785 | 541 |
| Per share | | | | | | | | |
| – diluted | **$ 0.66** | $ 0.26 | $ 0.62 | $ 0.73 | $ 1.06 | $ 0.73 | $ 0.79 | $ 0.53 |
| – basic | **0.67** | 0.27 | 0.64 | 0.75 | 1.09 | 0.75 | 0.81 | 0.54 |

In the past two years the quarterly variances in revenues are due primarily to acquisitions and dispositions. Variances in net income to shareholders relate primarily to the timing and amount of our fair value changes and deferred tax provisions as well as seasonality and cyclical influences in certain businesses. Changes in ownership have resulted in the consolidation and deconsolidation of revenues from some of our assets, particularly in our property business. Other factors include the impact of foreign currency on non-U.S. revenues, as well as seasonal and cyclical influence in certain of our businesses.

Our property operations typically generate consistent results on a quarterly basis due to the long-term nature of contractual lease arrangements subject to the intermittent recognition of disposition and lease termination gains. Our office property results tend to exhibit the least amount of seasonality whereas our retail properties typically experience seasonally higher retail sales during this fourth quarter, and our resort hotels tend to experience higher revenues and costs as a result of increased visits during the first quarter.

Renewable power operations are seasonal in nature. Generation tends to be higher during rainy season and spring thaws; however this is mitigated to an extent by prices, which tend not to be as strong as they are the summer and winter seasons due to the more moderate weather conditions and reductions in demand for electricity. Water and wind conditions may also vary from year to year.

Our infrastructure operations are generally stable in nature as a result of long-term sales contracts with our clients, certain of which guarantee minimum volumes. Over the last two years we have been deploying more capital within these portfolios into businesses that benefit from increasing volumes, to complement our investments in rate-regulated assets, which may lead to more volatility but also, we believe, to growth in revenues and net income.

Our private equity, residential development and service activities operations are seasonal in nature and a large portion is correlated with the ongoing U.S. housing recovery and, to a lesser extent, economic conditions in Brazil. Results in these businesses are typically higher in the third and fourth quarters compared to the first half of the year, as weather conditions are more favourable in the latter half of the year which tends to increase construction activity levels.

Over the last eight completed quarters, the following factors caused significant variations in revenues and net income to shareholders on a quarterly basis:

In the third quarter of 2015 we acquired a large UK resort operator and U.S. multifamily portfolio in our institutional private fund which increased revenues by $146 million and $214 million, respectively, in the third and fourth quarters of 2015.

In the second quarter of 2015 we recognized a $464 million deferred income tax recovery as our office property operations reorganized its interest in certain subsidiaries that resulted in a change in the tax rate applicable to those entities with a resulting benefit of $314 million attributable to shareholders.

In the first quarter of 2015 we recorded a higher level of fair value changes from our consolidated investment properties, particularly office properties in Manhattan and Sydney, where strong market conditions and leasing activities increased expected future cash flows, leading to increased appraisal values. In addition, we recognized $270 million of gains on the acquisition of control of two businesses, of which $132 million was attributable to shareholders.

Net income in the fourth quarter of 2014 included $1.3 billion in fair value gains, primarily from increased appraised values of our investment properties, of which $762 million was attributable to shareholders.

In the second and third quarters of 2014 we also recognized a higher level of fair value changes from our property investments, particularly on consolidated office properties held by BPY and on our investment in Canary Wharf.

Net income in the first quarter of 2014 included $320 million of deferred income taxes due to a change in tax legislation which increased the tax rate utilized in one of our key property markets.

### Fourth Quarter Results

We recognized $678 million of net income for Brookfield shareholders in the fourth quarter of 2015 or $0.66 per share representing a 35% decrease from the comparative quarter in 2014. Net income during the fourth quarter of 2015 included $594 million in fair value gains, primarily from increased appraisals at our office properties, compared to $1.3 billion of gains recognized in the prior year period.

## CORPORATE DIVIDENDS

The dividends paid by Brookfield on outstanding securities by class during the past three years are as follows:

| | Distribution per Security | | |
|---|---|---|---|
| | **2015** | 2014 | 2013 |
| Class A and B[1] Shares[2] | **$ 0.47** | $ 0.45 | $ 0.40 |
| Special distribution to Class A and B Shares[3] | **—** | — | 0.98 |
| Class A Preferred Shares | | | |
| Series 2 | **0.39** | 0.48 | 0.51 |
| Series 4 + Series 7 | **0.39** | 0.48 | 0.51 |
| Series 8 | **0.55** | 0.68 | 0.73 |
| Series 9 | **0.74** | 0.86 | 0.92 |
| Series 12[4] | **—** | 0.33 | 1.31 |
| Series 13 | **0.38** | 0.47 | 0.51 |
| Series 14 | **1.40** | 1.71 | 1.83 |
| Series 15 | **0.24** | 0.38 | 0.41 |
| Series 17 | **0.93** | 1.08 | 1.15 |
| Series 18 | **0.93** | 1.08 | 1.15 |
| Series 21[5] | **—** | — | 0.62 |
| Series 22[6] | **—** | 1.20 | 1.70 |
| Series 24 | **1.06** | 1.22 | 1.31 |
| Series 26 | **0.67** | 1.02 | 1.09 |
| Series 28 | **0.90** | 1.04 | 1.12 |
| Series 30 | **0.94** | 1.09 | 1.17 |
| Series 32[7] | **0.88** | 1.02 | 1.09 |
| Series 34[8] | **0.82** | 0.95 | 1.02 |
| Series 36[9] | **0.95** | 1.10 | 1.29 |
| Series 37[10] | **0.96** | 1.11 | 0.64 |
| Series 38[11] | **0.86** | 0.80 | — |
| Series 40[12] | **0.88** | 0.58 | — |
| Series 42[13] | **0.88** | 0.23 | — |
| Series 44[14] | **0.23** | — | — |

1. Class B Limited Voting Shares (“Class B Shares”)
2. 2014 and 2013 dividend amounts reflect the change in the dates on which we pay dividends. Dividend per Class A and B Share declared in November 2013 and paid in February 2014 was $0.13 for the period from November to March
3. Distribution of a 7.6% interest in Brookfield Property Partners, paid April 15, 2013. Amount is based in IFRS values
4. Redeemed April 7, 2014
5. Redeemed July 2, 2013
6. Redeemed September 30, 2014
7. Issued March 13, 2012
8. Issued September 12, 2012
9. Initial distribution in 2013 includes $0.11 for the period from November 27, 2012 to December 31, 2012
10. Issued June 13, 2013
11. Issued March 13, 2014
12. Issued June 5, 2014
13. Issued October 8, 2014
14. Issued October 2, 2015

Dividends on the Class A and B Shares are declared in U.S. dollars whereas Class A Preferred Share dividends are declared in Canadian dollars.

# PART 3 – OPERATING SEGMENT RESULTS

## BASIS OF PRESENTATION

### How We Measure and Report Our Operating Segments

Our operations are organized into five business groups in addition to our corporate activities, and collectively represent eight reportable segments. We measure performance primarily using funds from operations generated by each operating segment and the amount of capital invested by the Corporation in each segment using common equity by segment.

Our operating segments are as follows:

i. Asset management operations consist of managing our listed partnerships, private funds and public market portfolios on behalf of our clients and ourselves. We generate contractual base management fees for these activities as well as performance income, including incentive distributions, based on profit sharing agreements. We also provide transaction and advisory services.

ii. Property operations include the ownership, operation and development of office, retail, industrial, multifamily, hospitality and other properties.

iii. Renewable power operations include the ownership, operation and development of hydroelectric, wind power and other generating facilities.

iv. Infrastructure operations include the ownership, operation and development of utilities, transport, energy, communications and agricultural assets.

v. Private equity operations include the investments and operations overseen by our private equity group which include both direct investments and investments made by our private equity funds. Our private equity funds have a mandate to invest in a broad range of industries.

vi. Residential development operations consist predominantly of homebuilding, condominium development and land development.

vii. Service activities include construction management and contracting services and property services operations which include global corporate relocation, facilities management and residential brokerage services.

viii. Corporate activities include the investment of cash and financial assets, as well as the management of our corporate capitalization, including corporate borrowings and preferred equity which fund a portion of the capital invested in our other operations. Certain corporate costs such as information technology, facilities and internal audit are incurred on behalf of all of our operating segments and allocated to each operating segment based on an internal pricing framework.

In connection with the formation and spin-off of Brookfield Business Partners we are evaluating how we intend to assess performance, the amount of capital invested and how our Chief Operating Decision Maker will review the financial results of our private equity and service activities operating segments. The initial businesses to be owned by BBP are currently within our private equity and service activities operating segments.

### Segment Financial Measures

Funds from Operations ("FFO") is a key measure of our financial performance and we use FFO to assess operating results and the performance of our businesses on a segmented basis. We define FFO as net income prior to fair value changes, depreciation and amortization and deferred income taxes. When determining FFO, we include our proportionate share of the FFO of equity accounted investments on a fully diluted basis.

FFO includes gains or losses arising from transactions during the reporting period adjusted to include fair value changes and revaluation surplus recorded in prior periods net of current taxes payable or receivable, as well as amounts that are recorded directly in equity, such as ownership changes ("realized disposition gains"). We include realized disposition gains in FFO because we consider the purchase and sale of assets to be a normal part of the company's business.

Our definition of funds from operations may differ from the definition used by other organizations, as well as the definition of funds from operations used by the Real Property Association of Canada ("REALPAC") and the National Association of Real Estate Investment Trusts, Inc. ("NAREIT"), in part because the NAREIT definition is based on U.S. GAAP, as opposed to IFRS. The key differences between our definition of funds from operations and the determination of funds from operations by REALPAC and/or NAREIT are that we include the following: realized disposition gains or losses and current taxes payable or receivable on those gains or losses, if any; foreign exchange gains or losses on monetary items not forming part of our net investment in foreign operations; and foreign exchange gains or losses on the sale of an investment in a foreign operation.

We illustrate how we derive funds from operations for each operating segment and reconcile total reportable segment FFO to net income in Note 3 of the consolidated financial statements and on page 40. We do not use FFO as a measure of cash generated from our operations.

We measure segment assets based on Common Equity by Segment, which we consider to be the amount of common equity allocated to each segment. We utilize Common Equity by Segment to review our deconsolidated balance sheet and to assist in capital allocation decisions.

In assessing results, we identify the portion of FFO that represents realized disposition gains or losses, as well as the FFO and Common Equity by Segment that relates to our primary listed partnerships: Brookfield Property Partners, Brookfield Renewable Energy Partners and Brookfield Infrastructure Partners. We believe that identifying the segment FFO and Common Equity by Segment attributable to our listed partnerships enables investors to understand how the results of these public entities are integrated into our financial results and that identifying realized disposition gains is helpful in understanding variances between reporting periods.

### Segment Operating Measures and Definitions

The following are non-IFRS operating measures and definitions of terms that we employ to describe and assess the performance on a segmented basis. The calculation of these measures may differ from others and as a result, may not be comparable to similar measures presented by other issuers.

***Average In-place Net Rents*** are a measure of leasing performance within our property segment, and calculated as the annualized amount of cash rent receivable from leases on a per square foot basis including tenant expense reimbursements, less operating expenses. This measure represents the amount of cash generated from leases in a given period and excludes the impact of rent escalations and free rent amortization.

***Base Management Fees*** are determined by contractual arrangements, are typically equal to a percentage of Fee Bearing Capital, are accrued quarterly, include base fees earned on fee bearing capital from both clients and ourselves and are typically, but not always, earned on both invested and uninvested capital.

***Carried Interests*** are contractual arrangements whereby we receive a fixed percentage of investment returns generated within a private fund provided that the investors receive a predetermined minimum return. Carried interests are typically paid towards the end of the life of a fund after the initial capital and minimum return has been returned to investors and is subject to variability until all investments have been monetized and minimum investment returns are sufficiently assured. We defer recognition of carried interests in our financial statements until they are no longer subject to adjustment based on future events. Unlike fees and incentive distributions, we only include carried interests earned in respect of third-party capital when determining our segment results.

***Economic Ownership Interest*** represents the company's proportionate interest in BPY, BREP and BIP, which can include redemption-exchange units (REUs), Class A limited partnership units, special limited partnership units and general partnership units in each subsidiary, where applicable. REUs share the same economic attributes with the Class A limited partnership units in all respects except for our redemption right, which the partnership can satisfy through the issuance of Class A limited partnership units. The REUs and general partnership units participate in earnings and distributions on a per unit basis equivalent to the per unit participation of the Class A limited partnership units of the subsidiary. The company's economic ownership interest in BPY is determined after considering the conversion of BPY's preferred equity units into limited partnership units.

***Fee Bearing Capital*** represents the capital committed, pledged or invested in our listed partnerships, private funds and public markets that we manage which entitle us to earn fee revenues and/or carried interests. Fee bearing capital includes both invested and uninvested (i.e. "uncalled") amounts, as well as amounts invested directly by clients ("co-investments") for which we earn fees. We believe this measure is useful to investors as it provides additional insight into the capital base upon which we earn asset management fees and other forms of compensation.

***Fee Related Earnings*** is comprised of fee revenues less direct costs (other than costs related to carried interests). We use this measure to provide additional insight into the operating profitability of our asset management activities and believe that it is useful to investors for the same reason.

***Fee Revenues*** include base management fees, incentive distributions, performance fees and transaction and advisory fees presented within our asset management segment. Many of these items are not included in consolidated revenues because they are earned from consolidated entities and are eliminated on consolidation. Fee revenues exclude carried interest.

***Incentive Distributions*** are determined by contractual arrangements and are paid to us by our three primary listed partnerships and represent a portion of distributions paid by listed partnerships above a predetermined threshold. Incentive distributions are accrued when the associated distributions are declared by the board of directors of the entity.

***Long-term Average Generation*** is determined based on assets in commercial operation during the year. For assets acquired or reaching commercial operation during the year, long-term generation is calculated from the acquisition or commercial operation date. In Brazil, assured generation levels are used as a proxy for long-term average. We compare long-term average generation to actual generation levels to assess the impact on revenues and FFO of hydrology and wind generation levels, in our renewable power segment, which vary from one period to the next.

***Performance Fees*** are paid to us when we exceed predetermined investment returns on certain portfolios managed in our public markets activities. Performance fees are typically determined on an annual basis and are not subject to "clawback."

***Realized Disposition Gains/Losses*** include gains or losses arising from transactions during the reporting period together with any fair value changes and revaluation surplus recorded in prior periods and are presented net of cash taxes payable or receivable. Realized disposition gains include amounts that are recorded in net income, other comprehensive income and as ownership changes in our consolidated statement of equity and exclude amounts attributable to non-controlling interests unless otherwise noted. We use realized disposition gains/losses to provide additional insight regarding the performance of investments on a cumulative realized basis, including any unrealized fair value adjustments that were recorded in prior periods and not otherwise reflected in current period FFO and believe it is useful to investors to better understand variances between reporting periods.

***Same-Store*** analysis within this report represents the earnings contribution from assets or investments held throughout both the current and prior year on a constant ownership basis. We utilize same-store analysis to illustrate the growth in earnings excluding the impact of acquisitions or dispositions.

***Uninvested Capital*** represents capital that has been committed or pledged to private funds managed by us. We typically, but not always, earn base management fees on this capital from the time that the commitment or pledge to our private fund is effective. In certain cases, we earn fees only once the capital is invested or earn a higher fee on invested capital than committed capital. In certain cases, clients retain the right to approve individual investments before providing the capital to fund them. In these cases, we refer to the capital as "pledged" or "allocated."

***Unrealized Carried Interests*** is a non-IFRS measure that represents the amount of carried interest that we would be entitled to if private funds were wound up on the last day of the reporting period, based on the estimated value of the underlying investments. We use this measure to gain additional insight into how investment performance is impacting our potential to earn carried interests in future periods and believe that it is useful to investors for the same reason.

## SUMMARY OF RESULTS BY OPERATING SEGMENT

The following table presents segment measures on a year-over-year basis for comparison purposes:

| | Funds from Operations | | | Common Equity by Segment | | |
|---|---|---|---|---|---|---|
| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 | Variance | **2015** | 2014 | Variance |
| Asset management | **$ 551** | $ 387 | $ 164 | **$ 328** | $ 323 | $ 5 |
| Property | **1,387** | 884 | 503 | **16,265** | 14,877 | 1,388 |
| Renewable power | **233** | 313 | (80) | **4,424** | 4,882 | (458) |
| Infrastructure | **252** | 222 | 30 | **2,203** | 2,097 | 106 |
| Private equity | **125** | 369 | (244) | **1,198** | 1,028 | 170 |
| Residential development | **135** | 164 | (29) | **2,221** | 2,080 | 141 |
| Service activities | **186** | 152 | 34 | **980** | 1,242 | (262) |
| Corporate activities | **(310)** | (331) | 21 | **(6,051)** | (6,376) | 325 |
| | **$ 2,559** | $ 2,160 | $ 399 | **$ 21,568** | $ 20,153 | $ 1,415 |

### Funds from Operations

Funds from operations increased 18% to $2.6 billion in 2015. FFO in 2015 included $842 million of realized dispositions gains, which represented an increase of $273 million over the prior year, as we continue to monetize assets at favourable valuations. FFO excluding realized disposition gains and carried interest increased 6% to $1.7 billion, due to strong growth in fee-based revenues and favourable operating results across most of our portfolio, reflecting the contribution from accretive acquisitions and operational improvements, despite facing several unfavourable variances due to lower water levels, energy prices and currency exchange rates.

*Asset management:* Asset management FFO increased by $164 million to $551 million in 2015. We added $10.4 billion of fee bearing capital, which contributed to a 25% increase in base management fees to $780 million. Operating costs increased by $39 million as we continued to expand our operations both geographically and broadening our capabilities. Asset management FFO in 2015 included $32 million of realized carried interest compared to $3 million in the prior year.

*Property:* We recorded $1.4 billion of FFO from our property operations, representing a $503 million increase over the $884 million in 2014. Realized disposition gains increased by $455 million to $785 million as we continue to sell interests in mature assets at attractive valuations. Excluding realized disposition gains, FFO increased to $602 million primarily due to the completion of a number of acquisitions in our real estate funds, including an increase in the ownership of our office portfolio and Canary Wharf, and the acquisitions of a UK resort property operator and a multifamily portfolio in the U.S. FFO further benefitted from new leases in Lower Manhattan and rising lease rates in our core office and retail portfolio. These positive variances were partially offset by interest costs on debt associated with the aforementioned acquisitions, and the negative impact of foreign exchange on FFO from our non-U.S. operations.

*Renewable power:* FFO decreased by $80 million to $233 million. Recently acquired facilities contributed $23 million of FFO; however this was more than offset by the impact of lower hydrology and electricity prices. Low water levels resulted in generation that was 9% below long-term average and a $49 million same-store reduction in FFO. Electricity prices and ancillary revenues such as capacity payments were lower than those experienced in 2014, particularly in the first quarter of 2014, which resulted in a further reduction in FFO by $32 million. During 2015 we disposed of a 102 MW wind portfolio in California and two hydroelectric assets in Brazil, generating $25 million of realized disposition gains. There were no realized gains in 2014.

*Infrastructure:* FFO increased by $23 million from the prior year to $245 million prior to $7 million of realized disposition gains. On a same-store basis, infrastructure FFO increased by 12%, due primarily to growth in our utilities rate base, higher volumes in our transport operations and inflation indexation across most of our businesses. FFO also benefitted from recent additions, including our communications infrastructure investment. These positive variances were partially offset by foreign currency variations.

*Private equity:* FFO in our private equity operations was $135 million, 4% above the prior year excluding realized disposition gains. FFO increased due to the contribution from capital deployed, which increased FFO by $41 million, but was partially offset by reduced commodity prices and the absence of FFO from businesses sold in the prior year. Realized disposition gains decreased by $249 million, as the prior year included $239 million of realized disposition gains related primarily to the sale of a forest products business, compared to $10 million of losses in 2015.

*Residential development:* Our North American operations FFO decreased by 7% to $171 million as the increased contribution from our greater ownership in these operations was more than offset by reduced margins caused by a change in product mix and the impact of foreign currency translation on FFO from our Canadian operations. In our Brazilian operations, FFO declined due to an overall softening of the real estate industry and consumer demand in Brazil, and our operations experienced increased costs on completed units, while construction delays resulted in reduced deliveries. These negatives variances were partially offset by lower interest costs following the repayment of debt.

*Service activities:* Construction FFO increased by $16 million to $124 million due to an increase in the number of projects in progress, particularly in the UK, partially offset by foreign currency variations on non-U.S. operations and lower margins. FFO increased due to the acquisition of an integrated facilities management business during the first quarter, however the increased FFO contribution from this business was offset by lower volumes in our residential real estate business.

*Corporate activities:* FFO includes investment income derived from our cash and financial assets as well as interest expense incurred on our corporate leverage and unallocated corporate costs. Corporate FFO increased by $21 million in the current year, and reflects a $17 million reduction in corporate operating costs and $8 million of reduced interest expense compared to the prior year. This was partially offset by lower returns on our portfolio of cash and financial assets.

## Common Equity by Segment

Common equity increased by $1.4 billion from $20.2 billion to $21.6 billion as at December 31, 2015. Significant variances in common equity on a segmented basis consist of the following:

*Property:* Common equity by segment increased by $1.4 billion to $16.3 billion, due to the FFO contribution and the recognition of $1.5 billion of fair value gains in 2015, at our proportionate share. The fair value gains included $1.2 billion of gains on consolidated investment properties primarily in our office properties, and $225 million of gains on our investment in Canary Wharf. These positive variances were partially offset by foreign currency translation, and $528 million of common and preferred share distributions received from BPY.

*Renewable power:* Common equity by segment was $4.4 billion at December 31, 2015, representing a $458 million decrease over the prior year. The contribution from $233 million of FFO and $621 million of revaluation gains on property, plant and equipment, at our proportional share, was partially offset by $288 million of depreciation and amortization and the recognition of deferred income taxes on fair value gains. Common equity by segment was also reduced by $288 million of distributions received from BREP and negative foreign currency revaluation.

*Residential development:* We completed the privatization of our North American residential development business, investing $846 million of capital. As a result of us carrying our residential inventory at historical cost, we paid a premium to book value, resulting in a $382 million charge being recorded as a reduction in equity. Subsequent to the privatization, we received a $176 million distribution from the business. We also invested an additional $265 million in our Brazilian residential operations to repay borrowings, which was primarily offset by operating losses and foreign currency losses due to the depreciation of the Brazilian real relative to the U.S. dollar.

*Service Activities:* Common equity by segment decreased by 19% primarily due to the FFO contribution from our operations being offset by negative currency revaluation and the return of capital following the partial disposition of an integrated facilities management business.

### Reconciliation of Non-IFRS Measures

The following table reconciles total reportable segment FFO to net income:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Total reportable segment FFO | **$ 2,559** | $ 2,160 |
| Realized disposition gains in fair value changes or prior periods | **(847)** | (477) |
| Non-controlling interest in FFO | **2,288** | 2,096 |
| Financial statement components not included in FFO | | |
| Equity accounted fair value changes and other non-FFO items | **262** | 435 |
| Fair value changes | **2,166** | 3,674 |
| Depreciation and amortization | **(1,695)** | (1,470) |
| Deferred income taxes | **(64)** | (1,209) |
| Net income | **$ 4,669** | $ 5,209 |

# ASSET MANAGEMENT

### Overview

Our asset management operations consist of managing listed partnerships, private funds and listed securities within our public markets portfolios. As at December 31, 2015, fee bearing capital totalled $99 billion, of which approximately $79 billion was from clients and $20 billion was from the Corporation. We also provide transaction and other advisory services.

*Listed Partnerships:* We manage publicly listed perpetual capital entities with over $43 billion of fee bearing capital, including Brookfield Property Partners, Brookfield Renewable Energy Partners and Brookfield Infrastructure Partners. We are compensated for managing these entities through base management fees which are primarily determined by the market capitalization of these entities. We are also eligible to receive incentive distributions equal to a portion of increases in partnership distributions above predetermined hurdles.

We expect to complete the launch of BBP in the first half of 2016. We believe BBP will provide an attractive investment opportunity for investors and complement our listed property, renewable power and infrastructure real asset strategies. We will be compensated for managing BBP through base management fees, similar to our other listed partnerships, and incentive distributions which will be based on increases in the market capitalization of BBP.

*Private Funds:* We manage $39 billion of fee bearing capital through 35 private funds. Private fund capital is typically committed for 10 years with two one-year extension options. Our private fund investor base consists of 340 third-party clients with an average commitment of $90 million. We are compensated through base fees which are generally determined on both invested and uninvested capital. We are also entitled to receive carried interests, which represents a portion of investment returns provided that clients receive investment returns in excess of a minimum predetermined threshold.

We are seeking to raise an additional $13 billion of private fund commitments in 2016 for six funds that we are currently marketing.

*Public Markets:* We manage numerous funds and separately managed accounts totalling $17 billion on behalf of third-party clients, focused on fixed income and equity securities. We act as an advisor for these clients and earn base management and performance fees.

Revenues in this segment include fees earned by us in respect of capital managed for clients as well as the capital provided by Brookfield, with the exception of carried interests which exclude amounts earned on Brookfield capital. This is representative of how we manage the business and we believe more appropriately measures the returns from our asset management activities and the returns from the capital invested in our funds. Fee bearing capital provided by Brookfield consists largely of our equity capital in BPY, BREP, and BIP along with $9.1 billion invested in private funds, of which the Corporation has committed $1.9 billion and our listed partnerships have committed the remaining $7.2 billion. The $7.2 billion of committed capital from the listed partnerships are subject to a fee credit arrangement to avoid potential double payment of fees.

The following table disaggregates our asset management FFO into fee related earnings, carried interests and realized disposition gains to facilitate analysis:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Funds from operations | | |
| Fee related earnings | $ **519** | $ 378 |
| Carried interests | **32** | 3 |
| Realized disposition gains | **—** | 6 |
| | $ **551** | $ 387 |

We do not recognize carried interests until the end of the relevant determination period under IFRS, which typically occurs at or near the end of a fund term, however, we do provide supplemental information on the estimated amount of unrealized carried interests that have accumulated based on fund performance up to the date of the financial statements. Unrealized carried interests are determined as if the fund was wound up at the reporting date, based on the estimated value of the underlying investments.

We disposed of a low margin, fixed income insurance asset management business in 2014, which generated a $6 million realized disposition gain.

Segment equity in our asset management operations was $328 million at December 31, 2015 (2014 – $323 million) and consists of goodwill acquired through business combinations and working capital. We do not fair value our asset management operations under IFRS and as a result, the fair value of these operations is not included within our common equity.

## Fee Related Earnings

We generated the following fee related earnings during 2015 and 2014:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Fee revenues | | |
| Base management fees | $ **780** | $ 625 |
| Incentive distributions | **72** | 48 |
| Performance fees | **2** | 21 |
| Transaction and advisory fees | **89** | 69 |
| | **943** | 763 |
| Direct costs and other | **(424)** | (385) |
| Fee related earnings | $ **519** | $ 378 |

Fee related earnings increased by 37% to $519 million for the year, primarily as a result of increases in fee bearing capital and the associated base management fees, along with growth in incentive distributions from our participation in BIP and BREP unitholder distributions. These increases were partially offset by increases in operating costs which are largely attributable to expansion of our activities.

Base management fees increased by $155 million (25%) to $780 million. Base management fees from our listed partnerships increased by $56 million to $360 million and include $340 million (2014 – $278 million) of base management fees from BPY, BIP and BREP. The increase in listed partnership base fees was primarily due to an increase in BPY's capitalization following the investment of $1.8 billion of cash towards the acquisition of Canary Wharf. Our private funds contributed $339 million of base fees, representing a $93 million increase over the prior year due to $83 million of fees generated on new capital commitments in the second and fourth quarters of 2015 and $10 million of additional fees on the investment of commitments. Base fees from our public market accounts increased by $16 million to $111 million due to the continued re-orientation towards higher margin strategies on net inflows, offsetting market depreciation. Fee credits increased by $10 million to $30 million representing the credit applied to BPY capital committed to private funds.

We received $72 million of incentive distributions from Brookfield Infrastructure Partners and Brookfield Renewable Energy Partners, representing an increase of 50% from 2014. The growth reflects our share of increases in unit distributions by BIP and BREP of 10% and 7%, respectively.

We earned $2 million of performance fees in our public markets business (2014 – $21 million), based on exceeding performance thresholds in select strategies. The decrease reflects lower market returns compared to the prior year.

Our transaction and advisory operations are primarily focused on real estate and infrastructure transactions. Advisory fees totalled $70 million (2014 – $51 million) and we earned $19 million (2014 – $18 million) of transaction fees primarily on co-investment transactions.

Direct costs and other include $309 million (2014 – $279 million) of employee compensation and benefits; $115 million (2014 – $106 million) of professional fees, business related technology costs, other shared services, such as premises and administration and $13 million of non-controlling interests (2014 – $10 million) recorded by partially owned entities. Operating margins, which are calculated as fee related earnings divided by fee revenues, were 55% for the year, compared to 50% in 2014. Direct costs increased by $39 million year over year due to expansion in our operations.

## Carried Interests

We generated $219 million of unrealized carried interests during 2015 based on investment performance compared to $178 million in 2014. Strong investment performance in local currencies was offset by the impact of the higher U.S. dollar, which reduced accumulated carried interests by $116 million.

Accumulated unrealized carried interests totalled $658 million at December 31, 2015. We estimate that direct expenses of approximately $223 million will arise on the realization of the amounts accumulated to date, of which $66 million relates to the carried interests generated in the year. We realized $49 million of carried interests during the year, or $32 million net of directly related costs, on the sale of assets held in a property fund. The amount of accumulated unrealized carried interests and associated costs are shown in the following table:

| | **2015** | | | 2014 | | |
|---|---|---|---|---|---|---|
| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **Unrealized Carried Interest** | **Direct Costs** | **Net** | Unrealized Carried Interest | Direct Costs | Net |
| Unrealized, beginning of year | **$ 488** | **$ (174)** | **$ 314** | $ 318 | $ (118) | $ 200 |
| In-period change | | | | | | |
| Generated | **219** | **(66)** | **153** | 178 | (61) | 117 |
| Less: realized | **(49)** | **17** | **(32)** | (8) | 5 | (3) |
| Unrealized, end of year | **$ 658** | **$ (223)** | **$ 435** | $ 488 | $ (174) | $ 314 |

The funds to which unrealized carried interest relates have a weighted average term to realization of six years excluding extension options (eight years with extension options). Recognition of carried interest is dependent on future investment performance.

## Fee Bearing Capital

The following table summarizes fee bearing capital disaggregated by investment category:

| AS AT DECEMBER 31 (MILLIONS) | Listed Partnerships[1] | Private Funds[1] | Public Markets | **Total 2015** | Total 2014 |
|---|---|---|---|---|---|
| Property | $ 22,725 | $ 22,344 | $ — | **$ 45,069** | $ 37,403 |
| Renewable power | 9,621 | 2,122 | — | **11,743** | 13,049 |
| Infrastructure | 10,671 | 8,757 | — | **19,428** | 17,519 |
| Private equity | — | 5,928 | — | **5,928** | 2,588 |
| Other | — | — | 16,797 | **16,797** | 17,981 |
| **December 31, 2015** | **$ 43,017** | **$ 39,151** | **$ 16,797** | **$ 98,965** | n/a |
| December 31, 2014 | $ 42,021 | $ 28,538 | $ 17,981 | $ n/a | $ 88,540 |

1. Includes the Corporations capital of $18.2 billion (2014 – $19.1 billion) in listed partnerships and $1.9 billion (2014 – $0.9 billion) in private funds

Listed partnership capital includes the market capitalization of our listed issuers: BPY, BREP, BIP, Brookfield Canada Office Properties, and Acadian Timber Corp., and also includes corporate debt and preferred shares issued by these entities to the extent these are included in determining base management fees.

Private fund capital includes $9.3 billion of third-party uninvested capital, which is available to pursue acquisitions within each fund's specific mandate. The uninvested capital includes $4.6 billion for property funds, $2.7 billion for infrastructure funds and $2.0 billion for private equity funds, and has an average term during which it can be called of approximately three years. We expect that $1.7 billion of this capital will be called in the first half of 2016 to fund currently committed investments. Private fund fee bearing capital has a remaining average term of eight years (10 years with two one-year extension options). Private fund capital also includes approximately $3.9 billion of co-investment capital.

Public markets capital includes portfolios of fixed income and equity securities, with a particular focus on real estate and infrastructure, including high yield securities. Fee bearing capital within our public markets is typically redeemable at a client's option.

The principal changes in fee bearing capital during 2015 are set out in the following table:

| FOR THE YEAR ENDED DECEMBER 31, 2015<br>(MILLIONS) | Listed Partnerships | Private Funds | Public Markets | **Total** |
|---|---|---|---|---|
| Balance, December 31, 2014 | $ 42,021 | $ 28,538 | $ 17,981 | **$ 88,540** |
| Inflows | 1,303 | 11,962 | 4,104 | **17,369** |
| Outflows | — | (938) | (3,386) | **(4,324)** |
| Distributions | (2,043) | — | — | **(2,043)** |
| Market valuation[1] | (704) | — | (1,902) | **(2,606)** |
| Foreign exchange and changes in net non-recourse debt | 2,440 | (411) | — | **2,029** |
| Change | 996 | 10,613 | (1,184) | **10,425** |
| **Balance, December 31, 2015** | **$ 43,017** | **$ 39,151** | **$ 16,797** | **$ 98,965** |

1. Fee bearing capital for listed partnerships and public markets is based on market prices; private fund capital is based on capital committed and/or deployed

Net inflows of $10.4 billion includes $12.0 billion of capital commitments to our private funds, $1.3 billion of inflows to listed partnerships, and $0.7 billion of net inflows to private markets. These inflows were reduced by $1.0 billion and $2.0 billion of capital returned and distributed by our private funds and listed partnerships, respectively. Reduced market prices within our listed partnerships and public markets further offset inflows by $2.6 billion. Fee bearing capital for our listed partnership reflects the fee base of these entities, which is generally the total capitalization value and includes non-recourse debt net of cash. Increases in net non-recourse debt primarily within BPY and BIP resulted in an additional $2.4 billion increase to listed partnership fee bearing capital, after some offsets for foreign currency revaluations in our other listed entities. The increase in net non-recourse debt at BPY followed the investment of $1.8 billion of cash held in the prior year for the acquisition of an additional 28% interest in Canary Wharf.

### Outlook and Growth Initiatives

We continue to experience increased interest by institutions and other investors in real asset investments, which is the focus of our investment and fundraising activities. We are seeking to raise an additional $11 billion for our follow-on flagship funds and more than $2 billion for new specialized private funds. Looking forward, we continue to focus on expanding fee bearing capital and associated FFO through launching larger private funds, expanding the range of our products and selectively widening our fund focus by region.

## PROPERTY

### Overview

We own virtually all of our commercial property assets through our 62% economic ownership interest in Brookfield Property Partners. BPY is listed on the New York and Toronto Stock Exchanges and had an equity capitalization of $18.3 billion at December 31, 2015, based on its stock market price. We also own $1.3 billion of preferred shares of BPY which yield 6.2% based on their redemption value.

BPY’s operations are principally organized as follows:

*Office Properties:* We own interests in and operate commercial office portfolios, consisting of 261 properties containing approximately 123 million square feet of commercial office space. The properties are located primarily in major financial, energy, technology and government cities in North America, Europe, Australia, Brazil and India. We also develop office properties on a selective basis and our office development assets consist of interests in 29 sites totalling over 31 million square feet. Of the total properties in our office portfolio, 187 properties, consisting of 88 million square feet, are consolidated and the remaining interests are equity accounted under IFRS.

*Retail Properties:* Our retail portfolio consists of interests in 173 retail properties in the United States and Brazil, encompassing 155 million square feet. Our North American retail operations are held through our 34% fully diluted interest in GGP and a 34% interest in Rouse Properties, both of which are equity accounted. Our Brazilian operations are held through a 40% owned institutional fund managed by us. We also own an interest in a retail property company in Shanghai, China. Of the total properties in our retail portfolio, 167 properties, consisting of 153 million square feet, are equity accounted investments and the remaining are consolidated under IFRS.

*Opportunistic Properties:* Our opportunistic properties primarily consist of investments acquired by our property private funds, and consist of industrial, multifamily, hospitality and triple net lease properties. Our industrial portfolio consists of interests in 201 operating properties in North America and Europe, containing 55 million square feet of space. We also own and manage a land portfolio with the potential to build 45 million square feet of industrial properties. Of the total properties in our industrial portfolio, 144 properties, consisting of 32 million square feet, are consolidated and the remaining interests are equity accounted.

Our multifamily portfolio includes over 38,800 multifamily units in the United States, while our hospitality portfolio includes 27 properties with approximately 18,000 rooms. Our triple net lease portfolio consists of over 300 properties that are leased to automotive dealerships across the United States and Canada.

The following table disaggregates segment FFO and segment equity into the amounts attributable to our ownership interests in BPY, the amounts represented by other property assets and liabilities and realized disposition gains to facilitate analysis:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations | | Common Equity by Segment | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Brookfield Property Partners | | | | |
| Equity units[1,2] | **$ 534** | $ 499 | **$ 14,888** | $ 13,681 |
| Preferred shares | **76** | 76 | **1,275** | 1,275 |
| | **610** | 575 | **16,163** | 14,956 |
| Other | | | | |
| Property assets | **22** | 14 | **621** | 462 |
| Liabilities and other carrying costs | **(30)** | (35) | **(519)** | (541) |
| Realized disposition gains | **785** | 330 | **—** | — |
| | **$ 1,387** | $ 884 | **$ 16,265** | $ 14,877 |

1. Brookfield's equity units in BPY consist of 432.6 million redemption-exchange units, 45.2 million Class A LP units, 4.8 million special limited partnership units and 0.1 million general partnership units; together representing a 62% economic ownership interest in BPY
2. Represents our share of BPY's FFO of $839 million (2014 – $739 million), adjusted to exclude $34 million (2014 – $35 million) of FFO related to asset management activities conducted by BPY and its subsidiaries, which is aggregated within our asset management operating segment

FFO within our property segment was $1,387 million and increased from the $884 million recorded in 2014 due primarily to a $355 million increase in realized disposition gains. FFO also benefitted from our increased ownership interest in our office portfolio, including Canary Wharf, and positive leasing activities offset by increased interest expense. Realized disposition gains in the current year include a $203 million gain on the partial sale of a mixed-use development in Manhattan, $186 million of gains on the disposition of office buildings in Melbourne and London, and a $172 million gain on the sale of an interest in a large retail mall in Honolulu.

## Brookfield Property Partners

The following table disaggregates BPY's FFO by business line to facilitate analysis:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | **2015** | 2014 |
|---|---|---|
| Office | **$ 720** | $ 539 |
| Retail | **499** | 472 |
| Opportunistic | **160** | 77 |
| Corporate | **(540)** | (349) |
| Attributable to unitholders | **839** | 739 |
| Non-controlling interests and other | **(229)** | (164) |
| Brookfield's interest | **$ 610** | $ 575 |

BPY's FFO for 2015 was $839 million, of which our share was $610 million. This represents an increase of $35 million from the $575 million of FFO recorded during 2014. We received $534 million through our equity interest (2014 – $499 million) and an additional $76 million as dividends on preferred shares that were issued to us on the formation of BPY (2014 – $76 million).

### *Office Properties*

The $181 million increase in BPY's office FFO was due primarily to the increased ownership in BPY's office portfolio, including Canary Wharf, which contributed $99 million of FFO and positive same-store growth. Same-store revenues at most of our U.S. and European properties increased due to higher occupancy levels and positive leasing on expiring leases, particularly in Lower Manhattan, which contributed an additional $41 million of FFO from leases commencing in 2015. These positive variances were partially offset by the reduction in FFO from disposals and the impact of foreign currency exchange.

Leasing activity during the year consisted of 11.4 million square feet of new and renewal leases at an average in-place net rent of $27.25, which was 23.9% higher than expiring net rents of $21.99 per square foot. This, along with the impact of leases assumed on acquisitions, particularly in Canary Wharf, resulted in a 16.5% increase in average in-place net rents from $26.49 to $30.87 per square foot. Overall occupancy increased to 90.1% (2014 – 89.0%). Nearly 53% of the current year's leasing was in respect of new leases, which resulted in tenant improvements and leasing costs related to leasing activity of $40.66 per square foot of space leased compared to $73.14 per square foot in 2014. Tenant improvements and leasing costs decreased from the prior year, which included a greater percentage of leasing activity in New York City where leasing costs tend to be higher. Our overall office portfolio in-place net rents are currently 25% below market net rents.

We currently have 8.5 million square feet of development projects under construction, including Manhattan West in New York, Brookfield Place in Calgary, as well as London Wall Place, 100 Bishopsgate, 1 Bank Street and Principal Place in London. The office components of these projects are 46% pre-leased in aggregate and we estimate an additional cost of $5 billion to complete construction which will be funded by ourselves and our partners in the ownership of these properties.

*Retail Properties*

BPY's FFO from retail operations is largely derived from its ownership interest in GGP which contributed $452 million of FFO in 2015. The $27 million increase in BPY's FFO from retail properties is primarily the result of an increase in same-store net operating income at GGP and increased earnings from our investment in a portfolio of retail properties in Shanghai, China. These increases were offset by a reduction in FFO following the sale of a 37.5% interest in a Honolulu mall owned by GGP and other assets within the last two years.

Our retail portfolio occupancy rate remained relatively unchanged at 95.6% as at December 31, 2015. We leased over 7.8 million square feet during the year increasing in-place rents to $55.50 per square foot at December 31, 2015 from $54.18 per square foot, on a suite-to-suite basis, at December 31, 2015. At GGP, tenant sales, excluding anchors, increased by 2.8% compared to the prior year and suite-to-suite lease spreads increased by 10.8% for executed leases commencing in 2015.

*Opportunistic Properties*

BPY owns industrial, multifamily, hospitality and triple net leased property assets primarily through funds that are managed by us. The carrying value of BPY's investment in these operations increased by $1.2 billion in 2015 to $2.8 billion as of December 31, 2015, and its share of the associated FFO increased to $160 million (2014 – $77 million). We continued to invest capital in these operations in 2015, acquiring a UK property resort operator and approximately 12,800 multifamily units in the U.S. FFO benefitted from the contribution from these assets along with a full year's FFO contribution from our acquisition of a triple net lease portfolio in 2014 and improved operating results in our hospitality business.

*Corporate*

Corporate FFO primarily consists of $356 million (2014 – $219 million) of interest expense and $195 million (2014 – $136 million) of general and administrative expenses, which include asset management fees paid. The increase in interest expense is primarily the result of $117 million of interest incurred on preferred units issued in the fourth quarter of 2014 to finance our increased investment in Canary Wharf. Additionally, asset management fees paid during the year increased by $36 million to $136 million, primarily from an increase in BPY's capital base.

## Common Equity by Segment

Common equity by segment increased by $1.4 billion to $16.3 billion (2014 – $14.9 billion) primarily due to our share of BPY's net income, including fair value gains which are further described on page 23. This was partially offset by foreign currency revaluation, distributions paid and a net equity reduction on the privatization of our office subsidiary.

## Outlook and Growth Initiatives

Our property group remains focused on realizing value from our properties through proactive leasing and select redevelopment initiatives, as well as recycling capital from mature properties to fund new higher yielding investments, particularly in our opportunistic property business.

In our office sector, earnings from our signed leases that had previously not produced revenue have begun to do so and will build incrementally over the course of 2016. In addition, BPY has approximately $5 billion of office developments underway and should continue to increase earnings for the next several years as these projects are completed.

In our retail sector, Class A+ shopping centres, such as the ones we are invested in, have demonstrated meaningful outperformance despite a changing retail landscape which is having some impact on the performance of certain retailers. Traditional and online retailers are continuing to adapt their strategies as e-commerce becomes a more meaningful component of overall retail sales in the U.S. and high quality, destination malls continue to provide an attractive physical location for them.

In our opportunistic sector, we are continuing to acquire properties through our global opportunistic property private funds. We focus our investing activities to identify properties with attractive valuation potential where we can leverage our real asset portfolio and operating expertise.

# RENEWABLE POWER

## Overview

We hold our renewable power operations primarily through a 63% economic ownership interest in Brookfield Renewable Energy Partners. BREP is listed on both the NYSE and TSX and had an equity capitalization of $7.2 billion at December 31, 2015, based on public pricing. BREP operates renewable power facilities and owns them both directly as well as through our private infrastructure funds.

We arrange for the sale of power generated by BREP through our energy marketing business ("Brookfield Energy Marketing" or "BEMI"). We purchase a portion of BREP's power pursuant to long-term contracts at predetermined prices, providing a stable revenue profile for unitholders of BREP and providing us with continued participation in future increases (or decreases) in power prices.

The following table disaggregates segment FFO and segment equity into the amounts attributable to our ownership of BREP and the operations of BEMI and realized disposition gains:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations 2015 | Funds from Operations 2014 | Common Equity by Segment 2015 | Common Equity by Segment 2014 |
|---|---|---|---|---|
| Brookfield Renewable Energy Partners[1] | **$ 272** | $ 359 | **$ 3,405** | $ 3,806 |
| Brookfield Energy Marketing | **(64)** | (46) | **1,019** | 1,076 |
| Realized disposition gains | **25** | — | **—** | — |
| | **$ 233** | $ 313 | **$ 4,424** | $ 4,882 |

1. Brookfield's economic ownership interest in BREP consists of 129.7 million redemption-exchange units, 40.0 million Class A LP units and 2.7 million general partnership units; together representing a 63% economic ownership interest in BREP

Our share of BREP's FFO decreased by $87 million to $272 million due to lower hydrology conditions in North America and Brazil throughout the year, and negative foreign currency exchange, which was partially offset by the contribution from assets acquired or commissioned during the year. BEMI incurred a $64 million loss during the year, representing a decrease of $18 million over the prior year; pricing was particularly strong in the first quarter of 2014 relative to subsequent periods.

## Brookfield Renewable Energy Partners

BREP owns one of the world's largest, publicly traded, pure-play renewable power portfolios with 7,284 MW of installed capacity, and long-term average annual generation of 25,543 GWh. This portfolio includes 207 hydroelectric generating stations on 73 river systems and 37 wind facilities, diversified across 14 power markets in the United States, Canada, Brazil and Europe. BREP also has an approximate 3,000 MW development pipeline spread across all of our operating jurisdictions.

The following table disaggregates BREP's FFO and actual and long-term average generation by business line to facilitate analysis:

| FOR THE YEARS DECEMBER 31 (GIGAWATT HOURS AND $MILLIONS) | Actual Generation (GWh) 2015 | Actual Generation (GWh) 2014 | Long-Term Average (GWh) 2015 | Long-Term Average (GWh) 2014 | Funds from Operations 2015 | Funds from Operations 2014 |
|---|---|---|---|---|---|---|
| Hydroelectric | **18,629** | 19,234 | **20,564** | 19,531 | **$ 526** | $ 688 |
| Wind energy | **3,962** | 3,103 | **4,399** | 3,417 | **113** | 105 |
| Co-generation | **741** | 211 | **580** | 348 | **6** | 11 |
| Corporate | **n/a** | n/a | **n/a** | n/a | **(178)** | (244) |
| Attributable unitholders | **23,332** | 22,548 | **25,543** | 23,296 | **467** | 560 |
| Non-controlling interests and other | | | | | **(195)** | (201) |
| Brookfield's interests | | | | | **$ 272** | $ 359 |

Generation levels totalled 23,332 GWh, 9% below the long-term average ("LTA") of 25,543 GWh. Newly acquired facilities generated 1,637 GWh resulting in an increase of 784 GWh (3%) compared to the same period of the prior year; however these assets were acquired through partially owned funds and accordingly BREP has a reduced proportionate ownership interest. BREP's proportionate share of overall generation decreased by 511 GWh compared to 2014.

Hydroelectric generation of 18,629 GWh was 9% below long-term average compared to generation that was 2% below LTA in 2014. Generation from hydroelectric assets on a same-store basis was 17,551 GWh, 9% below the 19,234 GWh produced in the prior year, which resulted in a $79 million decrease in FFO to BREP. Recently acquired and commissioned facilities and a full year's contribution from facilities acquired in 2014 produced 1,078 GWh and contributed $15 million of FFO. Our North American hydroelectric portfolio's FFO also decreased due to a comparatively lower pricing environment experienced in 2015, particularly in the first quarter. This negative variance was partially offset by strong power prices from un-contracted power in

our Brazilian hydroelectric portfolio, albeit reduced in U.S. dollar values due to foreign currency variations. While hydrological conditions were below the long-term average across North America, particularly in the first two quarters of 2015, inflows improved in the fourth quarter of 2015.

Generation from the wind portfolio of 3,962 GWh was 10% below the long-term average of 4,399 GWh. Our recent acquisitions, including a wind portfolio in Ireland, which contributed 1,087 GWh and $15 million of FFO, partly offset the lower wind conditions across the rest of the wind portfolio in North America. Generation from the prior year includes 114 GWh from a wind facility which was sold in 2015.

Corporate FFO included $31 million of gains on the settlement of foreign currency contracts. Corporate FFO also includes interest expense on corporate debentures and preferred share distributions as well as unallocated corporate costs, which primarily consist of asset management fees paid and cash taxes.

### Brookfield Energy Marketing

Our wholly owned energy marketing group has entered into long-term purchase agreements and price guarantees with BREP as described below. We are entitled to sell the power we purchase for BREP as well as any ancillary revenues, such as capacity and renewable power credits or premiums.

BEMI purchased approximately 7,468 GWh (2014 – 8,891 GWh) of electricity from BREP during 2015 at an average price of $67 per megawatt hour ("MWh") (2014 – $73 per MWh) and sold this power at an average price, including ancillary revenues, of $59 per MWh (2014 – $68 per MWh), resulting in an FFO deficit of $64 million (2014 – $46 million). Ancillary revenues, which include capacity payments, green credits and revenues generated for the peaking ability of our plants, totalled $91 million (2014 – $127 million) and increased average realized prices by $12 per MWh (2014 – $14 per MWh). Approximately 2,667 GWh of BEMI power sales were pursuant to long-term contracts at an average price of $78 per MWh (2014 – $80 per MWh). The balance of 4,801 GWh was sold in the short-term market at an average price of $50 per MWh, including ancillary revenues (2014 – $60 per MWh).

### Common Equity by Segment

Segment equity in our renewable power operations was $4.4 billion at year end (December 31, 2014 – $4.9 billion) and primarily represents our net investment in the property, plant and equipment deployed in our generations facilities. Common equity by segment decreased compared to 2014 primarily due to the impact of foreign currency translation and cash distributions received, offsetting the contribution of FFO and increased values of our portfolio.

### Outlook and Growth Initiatives

Acquisition and development activities completed during the year increased our generation by 904 GWh, which includes the contributions from a renewable power generation portfolio in Brazil and a wind portfolio in Portugal. The acquisition of a 488 MW diversified portfolio will further expand our operating capacity in Brazil.

We also acquired a wind development portfolio with approximately 1,200 MW of potential capacity in Scotland, increasing our total development pipeline to 3,000 MW. In the latter half of 2015, we entered into agreements to acquire two hydroelectric facilities in Brazil with an aggregate capacity of 51 MW, and two hydroelectric facilities in Pennsylvania with an aggregate generating capacity of 292 MW. Subsequent to year end, we acquired a controlling interest in 3,000 MW of hydroelectric facilities and 3,800 MW of development projects in Colombia for approximately $2.0 billion. We also acquired facilities in the northeastern U.S.

BREP has entered into long-term agreements that enable it to sell power at predetermined prices, including contracts with BEMI. These contracts have a weighted average term of 17 years and represent 83% of our long-term average generation over the next five years on a proportionate basis. The average price at which power is sold under these agreements is $71 per MWh in 2016, and averages $74 per MWh over the next five years.

BEMI is expected to purchase approximately 8,400 GWh of electricity from BREP during each of the next five years based on long-term average generation, at an average price of $66 per MWh, which increases annually based on a percentage of inflation. BEMI has entered into long-term contracts to sell approximately 3,200 GWh of expected annual purchases based on long-term average generation. These contracts have an average life of 11 years and an average price over the next five years of $69 per MWh. The remaining 5,200 GWh is expected to be sold on a short-term basis until such time as we can secure long-term contracts at prices that are consistent with our long-term expectation for power prices.

The majority of our portfolio consists of hydroelectric generating facilities, and as a result, our revenues are subject to hydrology levels. Over the long term we believe that generation at our existing facilities will approximate their long-term averages, however significant variances may occur in any given year. Our North American assets have the ability to store water in reservoirs approximating 29% of their annual generation which allow us to generate power during higher price periods to varying degrees.

In addition, our assets in Brazil benefit from a framework that exists in the country to levelize generation risk across hydroelectric producers. This ability to store water and levelize generation in Brazil provides partial protection against short-term changes in water supply.

## INFRASTRUCTURE

### Overview

Our infrastructure operations are held primarily through our 30% economic ownership interest in Brookfield Infrastructure Partners. BIP is listed on the New York and Toronto Stock Exchanges and had an equity capitalization of $8.7 billion at December 31, 2015, based on public pricing. BIP owns a number of these infrastructure businesses directly and invests through private funds that we manage. We also have direct investments in sustainable resources operations. The following table disaggregates segment FFO and segment equity into the amounts attributable to our economic ownership interest of BIP, our directly held sustainable resources operations and realized disposition gains to facilitate analysis:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations 2015 | Funds from Operations 2014 | Common Equity by Segment 2015 | Common Equity by Segment 2014 |
|---|---|---|---|---|
| Brookfield Infrastructure Partners[1] | **$ 217** | $ 194 | **$ 1,585** | $ 1,390 |
| Sustainable resources | **28** | 28 | **618** | 707 |
| Realized disposition gains | **7** | — | **—** | — |
| | **$ 252** | $ 222 | **$ 2,203** | $ 2,097 |

1. Brookfield's interest in BIP consists of 66.8 million redemption-exchange units and 1.1 million general partnership units together representing an economic interest of 30% of BIP

### Brookfield Infrastructure Partners

BIP's operations are principally organized as follows:

*Utilities operations:* consist of regulated distribution, regulated terminal and electricity transmission operations, located in Australasia, North and South America and Europe. These businesses typically earn a predetermined return based on their asset base, invested capital or capacity and the applicable regulatory frameworks and long-term contracts. Accordingly, the returns tend to be highly predictable and typically not impacted to any great degree by short-term volume or price fluctuations.

*Transport operations:* are comprised of open access systems that provide transportation for freight, bulk commodities and passengers, for which we are paid an access fee. Profitability is based on the volume and price achieved for the provision of these services. These operations are comprised of businesses with regulated tariff structures, such as our rail and toll road operations, as well as unregulated businesses, such as our ports. Approximately 80% of our transport operations are supported by long-term contracts or regulation.

*Energy operations:* consist of systems that provide energy transmission, distribution and storage services. Profitability is based on the volume and price achieved for the provision of these services. These operations are comprised of businesses that are subject to light regulation, such as our natural gas transmission business whose services are subject to price ceilings, and businesses that are essentially unregulated like our district energy business.

*Communications infrastructure:* consists of a communication tower infrastructure operation located in Europe that provides essential services and critical infrastructure to the media broadcasting and telecom sectors, for which we are paid a fee. This operation generates stable, inflation linked cash flows underpinned by long-term contracts.

The following table disaggregates BIP's FFO by business line to facilitate analysis:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Utilities | **$ 387** | $ 367 |
| Transport | **398** | 392 |
| Energy | **90** | 68 |
| Communications | **60** | — |
| Corporate and other | **(127)** | (103) |
| Attributable to unitholders | **808** | 724 |
| Non-controlling interests | **(591)** | (530) |
| Brookfield's interest | **$ 217** | $ 194 |

BIP's FFO increased 12% from the prior year as the contribution from new investments and internal growth initiatives more than offset the elimination of FFO from assets that were sold in prior periods as part of a capital recycling initiative, and the impact of foreign exchange.

FFO from utilities operations increased by $20 million compared to $367 million from the prior year, due to higher connections activity at our UK regulated distribution business, inflation indexation, and the commissioning of capital projects, partially offset by the impact of foreign exchange.

Transport FFO increased by $6 million, due to strong volumes at our Australian rail operation, inflationary tariff increases, container volume growth at our North American and UK port operations, and the contribution from investment in our Brazilian rail operation acquired in 2014. These increased results were partially offset by the impact of foreign exchange.

Energy FFO increased by $22 million. The increase is mainly attributable to organic growth initiatives and tuck-in acquisitions made over the last 12 months in our district energy business, and higher volumes and an increased ownership in our North American natural gas transmission business.

Communications FFO totalled $60 million, representing three quarters' contribution from this investment since its acquisition.

BIP's corporate operations FFO decreased by $24 million primarily due to higher base management fees paid on BIP's higher capitalization and increased interest expense from additional debt which funded investments in the year.

### Sustainable Resources

Sustainable resources FFO of $28 million was consistent with the prior year due to strong demand for hardwood pulp at our Eastern Canadian timber business and increased crop plantings, which offset lower demand in Brazil and the impact of foreign exchange. These investments include timberlands in the northeastern U.S. and Canada, and capital in a number of timber and agriculture private funds managed by us.

### Common Equity by Segment

Segment equity in our infrastructure operations was $2.2 billion at December 31, 2015 (December 31, 2014 – $2.1 billion). We acquired an additional 8.1 million limited partnership units in BIP for $350 million in April 2015, which was offset by foreign currency revaluation and $152 million of distributions paid to us.

Segment equity primarily represents our net investment in infrastructure property, plant and equipment, as well as certain concessions. We elect to fair value our infrastructure PP&E which represent the majority of assets in the segment, and revalue PP&E on an annual basis. Concessions are considered intangible assets under IFRS and are recorded at historical cost and amortized over the term of the concession. Accordingly a smaller portion of our equity is impacted by revaluation than in our property and renewable power segments, and revaluation items are typically only recorded at year end.

### Outlook and Growth Initiatives

In the utilities segment, we expect to earn a return on incremental investments which is consistent with our current return on rate base. Within our transport segment we are increasing our investments in transportation assets such as rail, ports and toll road assets, as we see attractive valuations. We also expect growth in the use of our systems by our customers to satisfy their growth requirements. In our energy segment, we expect to benefit from forecasted increases in demand for energy and satisfying our customers' growth requirements by increasing the utilization of our assets and expanding capacity in a capital efficient manner. Within our communications infrastructure segment our objective is to benefit from increased demand from mobile network operators and to acquire towers and other infrastructure that are non-core to such operators.

## PRIVATE EQUITY

Our private equity operations includes industrial businesses owned through a series of institutional private funds under the Brookfield Capital Partners brand which have total committed capital of $6.5 billion. These operations include 10 businesses in a diverse range of industries. Our average investment is $50 million, excluding our largest single investment which has an IFRS equity value of $268 million. We concentrate our investing activities on businesses with tangible assets and cash flow streams in order to better protect our capital.

We also own several businesses directly, including a 41% interest in Norbord Inc. ("Norbord"). Norbord is one of the world's largest producers of oriented strand board suitable for a wide range of products for residential, industrial and specialty applications. The market value of our investment at December 31, 2015 was approximately $680 million based on market prices, compared to our carrying value of $224 million. On March 31, 2015, we completed the merger of Norbord and Ainsworth Lumber Co. Ltd. ("Ainsworth"), resulting in an economic ownership of 41% in the combined company.

The following table disaggregates segment FFO and segment equity into the amounts attributable to the capital we have invested in industrial operations in our private funds that we manage, our investment in Norbord and other investments and realized disposition gains to facilitate analysis:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations | | Common Equity by Segment | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Industrial operations | **$ 91** | $ 60 | **$ 746** | $ 332 |
| Norbord[1] | **21** | 22 | **224** | 257 |
| Other investments | **23** | 17 | **228** | 439 |
| Western Forest Products and other investments | **—** | 31 | **—** | — |
| Realized disposition gains | **(10)** | 239 | **—** | — |
| | **$ 125** | $ 369 | **$ 1,198** | $ 1,028 |

1. 2014 includes ($8) million and $68 million of FFO and common equity by segment which was generated and invested in Ainsworth respectively, prior to the merger with Norbord.

Our industrial operations contributed $91 million of FFO, representing a $31 million increase from 2014 primarily due to the contribution from new acquisitions. In particular we invested $146 million in a Western Australia oil and gas investment in July 2015, which contributed $31 million of FFO since acquisition. FFO also benefitted from operational improvements in our other operations as well as increased production volumes in our energy business but these increases were partially offset by a decline in commodity sales prices and by the impact of foreign currency translation on FFO earned in non-U.S. operations.

Our share of Norbord's FFO decreased by $1 million. OSB prices averaged $209 per thousand square feet ("Msf") compared to $218 per Msf in 2014 and this decrease in pricing offset cost savings from the merger with Ainsworth Lumber completed in March 2015.

FFO in the prior year included $31 million of FFO from Western Forest Products Inc. ("Western Forest Products"), which was disposed of in the second half of 2014. We realized a disposition gain of $226 million on the sale of this investment.

### Common Equity by Segment

Segment equity increased by $170 million from 2014 to $1.2 billion, as we continue to invest capital in our most recent private fund. The increase in invested capital arising from recent acquisitions was partially offset by foreign currency revaluation. Most of the assets held in these operations are recorded at amortized cost, with depreciation recorded on a quarterly basis.

### Outlook and Growth Initiatives

We recently announced the formation and spin-off to shareholders of a portion of a listed issuer called Brookfield Business Partners ("BBP"). BBP will be the primary business group through which we will own and operate our industrial and services businesses. The businesses to be owned initially by BBP include the majority of those held in our private equity funds as well as our service activities operations. We plan to distribute a 30% interest in BBP as a special dividend to shareholders that will amount to approximately $500 million or $0.50 per common share.

Fundraising for our most recent private equity fund is now almost complete and we continue to focus on enhancing and realizing value within our existing investments. We will continue to focus on investing at attractive valuations in sectors where we can leverage our real asset and related operating business group expertise through our private equity funds or directly through BBP which will be the conduit for all of our opportunistic industrial and service business investments. With the current volatility in energy prices we are actively reviewing opportunities to invest in and around the oil sector.

## RESIDENTIAL DEVELOPMENT

Our residential development operations consist primarily of direct investments in two companies: Brookfield Residential Properties Inc. ("Brookfield Residential" or "BRP") and Brookfield Incorporações S.A. ("BISA"), as well as directly held operations in Australia.

On March 13, 2015 we completed the privatization of our North American residential development business and now own 100% of the company. BRP is active in 10 principal markets in Canada and the U.S., and controls over 103,000 lots in these markets. Our major focus is on entitling and developing land for building homes or for the sale of lots to other builders.

Our Brazilian operations include land acquisition and development, construction, and sales and marketing of a broad range of "for sale" residential and commercial office units, with a primary focus on middle income residential in Brazil's largest markets, including São Paulo and Rio de Janeiro. We completed the privatization of our Brazilian operations in the fourth quarter of 2014 and acquired all remaining shares by June 2015.

The following table disaggregates segment FFO and segment equity into the amounts attributable to our operations by region to facilitate analysis:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations 2015 | Funds from Operations 2014 | Common Equity by Segment 2015 | Common Equity by Segment 2014 |
|---|---|---|---|---|
| Residential | | | | |
| North America (BRP) | **$ 171** | $ 183 | **$ 1,318** | $ 1,135 |
| Brazil (BISA) and other | **(36)** | (19) | **903** | 945 |
| | **$ 135** | $ 164 | **$ 2,221** | $ 2,080 |

Funds from operations from BRP decreased by 7% to $171 million as the additional FFO contribution from our increased ownership of these operations was more than offset by decreased gross margins in our U.S. operations, due to changes in product mix, and the impact of foreign currency translation in our Canadian business. Overall gross margins for land and housing were 26% for the year. The average home selling price decreased 9% to $470,000, compared to $516,000 for the same period in 2014 reflecting the change in mix and the impact of the lower Canadian dollar on sales in our Canadian operations. Single family lot sales increased to 2,760 lots from 2,107 lots in 2014 and 28 more raw and partially finished acres were sold in 2015. We have 31 active land communities and 68 active housing communities, up from 29 and 61 in 2014, respectively.

We delivered 25 projects in our Brazilian operations during 2015, recognizing $591 million of revenue. We continue to experience a reduced level of launches and contracted sales in this business and we are focusing on operational efficiencies to increase margins. The FFO loss increased due to negative margin on certain projects delivered during 2015 due to increased costs, price reductions and sales cancellations.

### Common Equity by Segment

Segment equity in our residential development operations was $2.2 billion at December 31, 2015 and consists largely of residential development inventory. Our residential businesses are carried primarily at historical cost, or the lower of cost and market, notwithstanding the length of time that some of our assets have been held and the value created through the development process.

We invested $846 million of capital in connection with the privatization of BRP. As a result of us carrying our residential inventory at historical cost, we paid a premium to book value, resulting in a $382 million charge being recorded directly to equity. Subsequent to the privatization, we received a $176 million distribution from the business.

### Outlook and Growth Initiatives

We believe our North American activities will continue to benefit from the continuing recovery of the U.S. housing industry which should favourably impact our future prices and volumes. In Canada, the impact of low commodity prices on the housing market may have offsetting impacts. We believe depressed oil prices could continue to present challenges for the energy-driven Alberta market. Elsewhere however, we believe the overall impact of lower oil and gas prices could continue to prove to be positive for both the Canadian and U.S. consumer and therefore the homebuilding industry. Net new home orders increased 27% to 2,890 units in 2015 as a result of stable market performance in Canada and the recovery in the U.S., which increased the units and value of our backlog units by 38% and 19%, respectively, over the prior year, with much of the increase occurring within our U.S. operations. At the end of 2015, the North American backlog of homes sold but not delivered was 1,340, with a sales value of $573 million, compared to 989 homes with a value of $490 million at the same time last year.

Brazil is currently experiencing lower growth, which is having a negative impact on current returns. We are continuing to restructure the company's operations and refocus the company on higher margin projects in select key markets.

## SERVICE ACTIVITIES

The following table disaggregates segment FFO and segment equity into the amounts attributable to our construction services and property services businesses to facilitate analysis:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations 2015 | Funds from Operations 2014 | Common Equity by Segment 2015 | Common Equity by Segment 2014 |
|---|---|---|---|---|
| Service activities | | | | |
| Construction | **$ 124** | $ 108 | **$ 753** | $ 914 |
| Property services | **27** | 44 | **227** | 328 |
| Realized disposition gains | **35** | — | **—** | — |
| | **$ 186** | $ 152 | **$ 980** | $ 1,242 |

We recognized $124 million of construction FFO during 2015, representing an increase of $16 million from the prior year. Revenues and direct costs increased by $776 million and $766 million to $3,449 million and $3,330 million, respectively as a number of new large projects commenced during the year. This was partially offset by declines in foreign currency translation. Operating margins decreased to 6.0% from 7.1% in 2014 due to a shift in project characteristics. Work in hand continued to grow during the year, particularly in the fourth quarter, increasing to $7.3 billion at the end of December 31, 2015 from $6.4 billion at December 31, 2014. Our work book consists of 96 projects with an average project life of 3 years, of which 1.4 years are remaining.

Property services include facilities management, relocation services, residential brokerage and a range of other real estate services. FFO from these businesses decreased by $17 million resulting from reduced volumes in our residential real estate business and foreign currency variation. This was partially offset by additional FFO earned from the acquisition of an integrated facilities management business where we won a significant contract with the Government of Canada.

FFO includes $35 million of realized disposition gains related to the partial sell down of the integrated facilities management business acquired in the first quarter of 2015.

### Outlook and Growth Initiatives

As discussed above, we have announced the formation of Brookfield Business Partners, and the businesses currently owned directly in our service activities segment will be owned through this listed partnership in the future. BBP will continue to focus on investing in the services sector at attractive valuations, including through private funds managed by Brookfield.

## CORPORATE ACTIVITIES

Our corporate operations include allocating capital to our operating business groups, principally through our listed partnerships (BPY, BREP and BIP) and through directly held investments and interests in our private equity funds, as well as funding this capital through corporate borrowings and preferred shares. We also invest capital in portfolios of financial assets and enter into financial contracts to manage our foreign currency and interest rate risks.

The following table disaggregates segment FFO and segment equity into the principal assets and liabilities within our corporate operations and associated FFO to facilitate analysis:

| AS AT AND FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Funds from Operations | | Common Equity by Segment | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Cash and financial assets, net | **$ 30** | $ 40 | **$ 1,018** | $ 897 |
| Corporate and subsidiary borrowings | **(224)** | (230) | **(3,936)** | (4,075) |
| Capital securities and preferred equity[1] | **—** | (2) | **(3,739)** | (3,549) |
| Corporate costs and taxes/net working capital | **(116)** | (133) | **606** | 351 |
| Realized disposition gains | **—** | (6) | **—** | — |
| | **$ (310)** | $ (331) | **$ (6,051)** | $ (6,376) |

1. FFO excludes preferred share distributions of $134 million (2014 – $154 million)

We invest capital within our corporate operations into a variety of financial assets and enter into financial contracts to manage our foreign currency and interest rate risks. Our financial assets consist of $1,298 million of cash and financial assets, which are partially offset by $280 million (2014 – $300 million) of deposits and other liabilities.

FFO from these activities includes dividends and interests from our financial assets, mark-to-market gains or losses and realized disposition gains or losses. FFO from our cash and financial assets portfolio decreased by $10 million to $30 million as a result of mark-to-market losses. We describe cash and financial assets, corporate borrowings and preferred shares in more detail within Part 4 – Capitalization and Liquidity.

Net working capital includes corporate accounts receivable, accounts payable, other assets and liabilities and our corporate net deferred income tax asset of $729 million (2014 – $567 million). Net working capital also includes a $632 million loan receivable from BPY.

# PART 4 – CAPITALIZATION AND LIQUIDITY

## FINANCING STRATEGY

The following are key elements of our capital strategy:

- Match our long-life assets with long-duration financings with a diversified maturity schedule;
- Provide recourse only to the specific assets being financed, with limited cross collateralization or parental guarantees;
- Limit borrowings to investment-grade levels based on anticipated performance throughout a business cycle; and
- Structure our affairs to facilitate access to a broad range of capital and liquidity at multiple levels of the organization.

Most of our borrowings are in the form of long-term, property-specific financings such as mortgages or project financings secured only by the specific assets. We attempt to diversify our maturity schedule so that financing requirements in any given year are manageable. Limiting recourse to specific assets one or business group is intended to limit the impact of weak performance by one asset or business group on our ability to finance the balance of our operations.

Most of our financings have investment-grade characteristics which is intended to ensure that debt levels on any particular asset or business can typically be maintained throughout a business cycle, and to enable us to limit covenants and other performance requirements, thereby reducing the risk of early payment requirements or restrictions on the distribution of cash from the assets being financed. Furthermore, our ability to finance at the corporate, operating unit and asset level on a private or public basis is intended to lessen our dependence on any particular segment of the capital markets or the performance of any particular unit.

We maintain sufficient liquidity at the corporate level and within our key operating business groups to enable us to react to attractive investment opportunities and deal with contingencies when they arise. Our primary sources of liquidity, which we refer to as "core liquidity", consist of our cash and financial assets, net of deposits and other associated liabilities, and undrawn committed credit facilities.

We historically generate substantial liquidity within our operations on an ongoing basis through our operating cash flow, as well as from the turnover of assets with shorter investment horizons and periodic monetization of our longer dated assets through dispositions and refinancings. Accordingly, we believe we have the necessary liquidity to manage our financial commitments and to capitalize on attractive investment opportunities.

## CAPITALIZATION

### Overview

We review key components of our capitalization in the following sections. In several instances we have disaggregated the balances into the amounts attributable to our operating segments in order to facilitate discussion and analysis.

The following table presents our capitalization on a corporate (i.e. deconsolidated), proportionally consolidated and consolidated basis:

| | Consolidated[1] | | Corporate | | Proportionate[1] | |
|---|---|---|---|---|---|---|
| AS AT DECEMBER 31 (MILLIONS) | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Corporate borrowings | **$ 3,936** | $ 4,075 | **$ 3,936** | $ 4,075 | **$ 3,936** | $ 4,075 |
| Non-recourse borrowings | | | | | | |
| Property-specific mortgages | **46,474** | 41,674 | **—** | — | **26,730** | 23,555 |
| Subsidiary borrowings | **8,303** | 8,329 | **—** | — | **5,303** | 5,174 |
| | **58,713** | 54,078 | **3,936** | 4,075 | **35,969** | 32,804 |
| Accounts payable and other | **11,433** | 10,474 | **1,726** | 1,158 | **7,537** | 6,945 |
| Deferred tax liabilities | **8,810** | 8,140 | **155** | 50 | **4,904** | 4,781 |
| Subsidiary equity obligations | **3,331** | 3,541 | **—** | — | **1,895** | 2,149 |
| Equity | | | | | | |
| Non-controlling interests | **31,920** | 29,545 | **—** | — | **—** | — |
| Preferred equity | **3,739** | 3,549 | **3,739** | 3,549 | **3,739** | 3,549 |
| Common equity | **21,568** | 20,153 | **21,568** | 20,153 | **21,568** | 20,153 |
| | **57,277** | 53,247 | **25,307** | 23,702 | **25,307** | 23,702 |
| Total capitalization | **$ 139,514** | $ 129,480 | **$ 31,124** | $ 28,985 | **$ 75,612** | $ 70,381 |

1. Reflects liabilities associated with assets held for sale on a consolidated basis and proportionate basis according to the nature of the balance

*Consolidated Capitalization*

Consolidated capitalization reflects the full consolidation of wholly owned and partially owned entities.

We note that in many cases our consolidated capitalization includes 100% of the debt of the consolidated entities, even though in most cases we only own a portion of the entity and therefore our pro rata exposure to this debt is much lower. In other cases, this basis of presentation excludes some or all of the debt of partially owned entities that are equity accounted, such as our investment in General Growth Properties, Canary Wharf Group and several of our infrastructure businesses.

The increase in consolidated borrowings reflects additional non-recourse asset-specific and subsidiary borrowings relating to newly acquired or consolidated assets and businesses.

*Corporate Capitalization*

Our corporate (deconsolidated) capitalization shows the amount of debt that has recourse to the Corporation. We issued medium-term notes with face values of $500 million and C$350 million during the year. This increase in borrowings was partially offset by a reduction in the value of our Canadian dollar term debt due to a lower Canadian dollar relative to the U.S. dollar. We also issued C$250 million of rate-reset preferred shares during the year.

Common and preferred equity totals $25.3 billion (2014 – $23.7 billion) and represents approximately 81% of our corporate capitalization. The $1.6 billion increase in 2015 was mainly due to the issuance of 32.9 million Class A Shares for $1.2 billion and C$250 million of preferred shares during the year.

Corporate borrowings are further described on page 55.

*Proportionate Capitalization*

Proportionate capitalization, which reflects our proportionate interest in the underlying entities, depicts the extent to which our underlying assets are leveraged, which we believe is an important component of enhancing shareholder returns. We believe that the levels of debt relative to total capitalization are appropriate given the high quality of the assets, the stability of the associated cash flows and the level of financings that assets of this nature typically support, as well as our liquidity profile.

## Cash and Financial Assets

The following table presents our cash and financial assets on a consolidated and corporate (i.e. deconsolidated) basis:

| | Consolidated | | Corporate | |
|---|---|---|---|---|
| AS AT DECEMBER 31<br>(MILLIONS) | **2015** | 2014 | **2015** | 2014 |
| Financial assets | | | | |
| Government bonds | **$ 122** | $ 97 | **$ 101** | $ 61 |
| Corporate bonds and other | **1,648** | 1,170 | **210** | 186 |
| Preferred shares | **22** | 626 | **14** | 17 |
| Common equity | **2,985** | 3,465 | **286** | 344 |
| Loans receivable/deposits | **1,379** | 927 | **150** | 47 |
| Total financial assets | **6,156** | 6,285 | **761** | 655 |
| Cash and cash equivalents | **2,774** | 3,160 | **537** | 542 |
| | **$ 8,930** | $ 9,445 | **$ 1,298** | $ 1,197 |

*Consolidated Cash and Financial Assets*

Consolidated cash and financial assets includes financial assets which are held by wholly owned and partially owned entities throughout our operations and include both publicly traded investments as well as investments in private entities. Our consolidated cash and financial assets include investments that are held within certain of our business operating segments as well as securities held within public market funds that are managed by us.

Total financial assets of $6.2 billion remained relatively consistent in 2015, as the impact of the reclassification of our $1.3 billion interest in Canary Wharf common shares and $600 million of preferred shares in a Shanghai China retail business to equity accounted investments was offset by the acquisition of additional financial assets.

*Corporate Cash and Financial Assets*

We maintain a corporate portfolio of financial assets with the objective of generating favourable investment returns and providing additional liquidity.

The Corporation has a $632 million receivable from BPY, which was issued pursuant to a $1.0 billion credit facility. This balance is included in accounts receivable and therefore excluded from corporate cash and financial assets.

In addition to the carrying values of financial assets, we hold credit default swaps under which we have purchased protection against increases in credit spreads on debt securities with a notional value of $800 million (2014 – $800 million) and sold protection for $70 million (2014 – $48 million). The carrying value of these derivative instruments reflected in our financial statements at December 31, 2015 was an asset of $3 million (2014 – liability of $9 million).

## Corporate Borrowings

Corporate borrowings at December 31, 2015 included term debt of $3.8 billion (December 31, 2014 – $3.5 billion) and $156 million (December 31, 2014 – $574 million) of commercial paper and bank borrowings pursuant to, or backed by, $1.9 billion of committed revolving term credit facilities of which $1.6 billion have a five-year term and the remaining $300 million have a three-year term. As at December 31, 2015, approximately $101 million (December 31, 2014 – $137 million) of the facilities were utilized for letters of credit.

Term debt consists of public bonds, all of which are fixed rate and have maturities ranging from 2016 until 2035. These financings provide an important source of long-term capital and an appropriate match to our long-term asset profile.

Our corporate term debt has an average term of eight years (December 31, 2014 – nine years). The average interest rate on our corporate term debt was 5.0% at December 31, 2015 (December 31, 2014 – 5.1%).

## Property-Specific Borrowings

As part of our financing strategy, the majority of our debt capital is in the form of property-specific mortgages and project financings, denominated in local currencies that have recourse only to the assets being financed and have no recourse to the Corporation.

| AS AT DECEMBER 31<br>($ MILLIONS) | Average Term | | Consolidated | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Property | **4** | 5 | **$ 31,191** | $ 25,543 |
| Renewable power | **9** | 10 | **5,602** | 5,991 |
| Infrastructure | **9** | 10 | **6,325** | 6,520 |
| Residential development | **2** | 1 | **626** | 1,531 |
| Private equity and other | **3** | 3 | **2,300** | 779 |
| Total | **5** | 6 | **$ 46,044** | $ 40,364 |

The increase in property-specific borrowings of $5.7 billion during 2015 is due primarily to $5.0 billion of borrowings incurred or assumed on acquisitions across our portfolio. Property specific borrowings also include $3.1 billion of draws on facilities backed by fund commitments which will be repaid in 2016 by calling client capital. Borrowings are generally denominated in the same currencies as the assets they finance and therefore the overall increase in the value of the U.S. dollar during the period resulted in our non-U.S. dollar denominated borrowings decreasing in value.

## Subsidiary Borrowings

We endeavour to capitalize our principal subsidiary entities to enable continuous access to the debt capital markets, usually on an investment-grade basis, thereby reducing the demand for capital from the Corporation and sharing the cost of financing proportionately among other equity holders in partially owned subsidiaries.

| AS AT DECEMBER 31<br>($ MILLIONS) | Average Term | | Consolidated | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Property | **1** | 2 | **$ 2,864** | $ 4,025 |
| Renewable power | **6** | 6 | **1,736** | 1,687 |
| Infrastructure | **4** | 4 | **1,491** | 719 |
| Residential development | **7** | 7 | **1,589** | 1,076 |
| Private equity and other | **3** | 2 | **623** | 822 |
| Total | **4** | 4 | **$ 8,303** | $ 8,329 |

Subsidiary borrowings generally have no recourse to the company. Property borrowings decreased due to the repayment in full of the $1.5 billion acquisition facility used to partially finance the privatization of our office subsidiary in 2014. Renewable power and infrastructure borrowings increased due to issuance of medium-term notes to fund acquisitions and development activity.

Additionally, our residential development operations issued medium-term notes in the second quarter of 2015 with face values of $350 million and C$250 million.

### Subsidiary Equity Obligations

Subsidiary equity obligations consist of limited life funds and redeemable fund units, capital securities and preferred equity units.

| AS AT DECEMBER 31<br>(MILLIONS) | | **2015** | | 2014 |
|---|---|---|---|---|
| Subsidiary preferred equity units | **$** | **1,554** | $ | 1,535 |
| Limited life funds and redeemable fund units | | **1,274** | | 1,423 |
| Subsidiary preferred shares | | **503** | | 583 |
| Total | **$** | **3,331** | $ | 3,541 |

BPY issued $1,800 million of exchangeable preferred equity units in 2014 in three $600 million tranches redeemable in 2021, 2024 and 2026, respectively. The preferred equity units are exchangeable into equity units of BPY at $25.70 per unit, at the option of the holder, at any time up to and including the maturity date. BPY may redeem the preferred equity units after specified periods if the BPY equity unit price exceeds predetermined amounts. At maturity, the preferred equity units will be converted into BPY equity units at the lower of $25.70 or the then market price of a BPY equity unit. The preferred equity units represent compound financial instruments and the carrying value of the liability and equity conversion option was $1,554 million (December 31, 2014 – $1,535 million) and $246 million (December 31, 2014 – $265 million), respectively. The Corporation is required under certain circumstances to purchase the preferred equity units at their redemption value in equal amounts in 2021 and 2024 and may be required to purchase the 2026 tranche.

Subsidiary preferred shares are mostly denominated in Canadian dollars and are classified as liabilities because the holders of the preferred shares have the right, after a fixed date, to convert the shares into common equity of the issuer based on the market price of the issuer common equity at that time unless they are previously redeemed by the issuer. The dividends paid on these securities are recorded in interest expense.

### Preferred Equity

Preferred equity is comprised of perpetual preferred shares and rate-reset preferred shares and represents permanent non-participating equity that provides leverage to our common equity. The shares are categorized by their principal characteristics in the following table:

| | Average Rate | | | | | |
|---|---|---|---|---|---|---|
| AS AT DECEMBER 31<br>(MILLIONS) | **2015** | 2014 | | **2015** | | 2014 |
| Fixed rate-reset | **4.63%** | 4.59% | **$** | **2,506** | $ | 2,316 |
| Fixed rate | **4.82%** | 4.82% | | **753** | | 753 |
| Floating rate | **1.92%** | 2.11% | | **480** | | 480 |
| | **4.32%** | 4.31% | **$** | **3,739** | $ | 3,549 |

Fixed rate-reset preferred shares are issued with an initial fixed rate coupon that is reset after an initial period, typically between five and seven years, at a predetermined spread over the Canadian five-year government bond yield. The average reset spread as at December 31, 2015 was 247 basis points (2014 – 255 basis points).

On October 2, 2015, the company issued 10.0 million – Series 44 fixed rate-reset preferred shares, with an initial dividend rate of 5.0% for gross proceeds of C$250 million.

## Non-controlling Interests

Non-controlling interests in our consolidated results primarily consist of co-investors' interests in Brookfield Property Partners, Brookfield Renewable Energy Partners and Brookfield Infrastructure Partners, and their consolidated entities as well as other participating interests in our consolidated listed and unlisted investments as follows:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Brookfield Property Partners | **$ 16,045** | $ 14,618 |
| Brookfield Renewable Energy Partners | **5,358** | 5,075 |
| Brookfield Infrastructure Partners | **5,591** | 4,932 |
| Other interests | | |
| Private equity operations | **1,579** | 1,359 |
| Residential development operations | **56** | 602 |
| Other | **3,291** | 2,959 |
| | **$ 31,920** | $ 29,545 |

Non-controlling interests at Brookfield Property Partners increased due to fund capital issued in connection with the acquisition of a UK resort operator and a portfolio of U.S. multifamily units, as well as the portion of comprehensive income attributable to non-controlling interests. Non-controlling interests at our residential development operations decreased following the privatization of our North American land development company in the first quarter of 2015.

## Class A Shares

### *Issued and Outstanding*

Changes in the number of issued and outstanding Class A Shares during the periods are as follows:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Outstanding at beginning of year | **928.2** | 923.2 |
| Issued (repurchased) | | |
| Issuances | **32.9** | — |
| Repurchases | **(11.5)** | (2.2) |
| Long-term share ownership plans[1] | **11.4** | 6.9 |
| Dividend reinvestment plan | **0.3** | 0.3 |
| Outstanding at end of year | **961.3** | 928.2 |
| Unexercised options[2] | **42.0** | 55.0 |
| Total diluted shares at end of year | **1,003.3** | 983.2 |

1. Includes management share option plan and restricted stock plan
2. Includes management share option plan and escrowed stock plan

In April 2015, the Corporation issued 32.9 million Class A Shares for $1.2 billion. In May 2015, the Corporation completed a three-for-two split of the company's Class A Shares.

We purchased 11.5 million Class A Shares during 2015 for $395 million of which 10.3 million shares ($358 million) were purchased in respect of long-term share employee ownership programs.

The company holds 26.3 million Class A Shares (December 31, 2014 – 16.2 million) purchased and held by consolidated entities in respect of long-term share ownership programs which have been deducted from the total amount of shares outstanding. Included in diluted shares outstanding are 3.7 million (December 31, 2014 – 4.3 million) shares issuable in respect of these plans based on the market value of the Class A Shares at December 31, 2015 and December 31, 2014, resulting in a net reduction of 22.6 million (December 31, 2014 – 11.9 million) diluted shares outstanding.

During the fourth quarter of 2015, 10.1 million options were exercised on a net settled basis, resulting in the issuance of 4.6 million Class A Shares and the cancellation of 5.5 million vested options.

The cash value of unexercised options is $828 million (2014 – $906 million) based on the proceeds that would be received on exercise of the options.

As of March 29, 2016, the Corporation had outstanding 958,699,846 Class A Shares and 85,120 Class B Shares.

*Basic and Diluted Earnings Per Share*

The components of basic and diluted earnings per share are summarized in the following table:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | Net Income 2015 | Net Income 2014 |
|---|---|---|
| Net income | **$ 2,341** | $ 3,110 |
| Preferred share dividends | **(134)** | (154) |
| | **2,207** | 2,956 |
| Capital securities dividends[1] | **—** | 2 |
| Net income available for shareholders | **$ 2,207** | $ 2,958 |
| | | |
| Weighted average shares | **949.7** | 924.9 |
| Dilutive effect of the conversion of options using treasury stock method[2] | **26.0** | 23.6 |
| Dilutive effect of the conversion of capital securities[1,3] | **—** | 1.9 |
| Shares and share equivalents | **975.7** | 950.4 |

1. Subject to the approval of the Toronto Stock Exchange, the Series 12 shares, unless redeemed by the company for cash, are convertible into Class A Shares at a price equal to the greater of 95% at the market price at the time of conversion and C$2.00, at the option of either the company or the holder. The Series 12 shares were redeemed on April 6, 2014
2. Includes Management Share Option Plan and Escrowed Stock Plan
3. The number of shares is based on 95% of the quoted market price at period end

## INTEREST RATE PROFILE

As at December 31, 2015, our net floating rate liability position on a proportionate basis was $5.2 billion (December 31, 2014 – $5.4 billion). As a result, a 50 basis point increase in interest rates would decrease funds from operations by $26 million (December 31, 2014 – $27 million). Notwithstanding our practice of matching funding of long-term assets with long-term debt, we believe that the values and cash flows of certain assets are more appropriately matched with floating rate liabilities. We utilize interest rate contracts to manage our overall interest rate profile so as to achieve an appropriate floating rate exposure while preserving a long-term maturity profile.

The impact of a 50 basis-point increase in long-term interest rates on the carrying value of financial instruments recorded at market value is estimated to increase net income by $16 million on an annualized basis before tax, based on our positions at December 31, 2015 (December 31, 2014 – $10 million).

We have been active in taking advantage of low long-term rates to fix the coupons on floating rate debt and near term maturities. This has resulted in an increase in our current borrowing expense but we believe this will result in lower costs in the long term. We completed approximately $16 billion of debt and preferred share financings during the year throughout our portfolio. These refinancing activities have enabled us to extend or maintain our average maturity term at favourable rates. Approximately $7 billion of the asset-specific financings and the $1 billion of preferred shares issued have fixed rate coupons.

As at December 31, 2015, we held a $3.2 billion notional amount (2014 – $2.9 billion) of interest rate contracts, $2.0 billion net to the Corporation (2014 – $1.9 billion), to lock in the risk-free component of interest rates for projected debt refinancings over the next three years at an average risk-free rate of 1.8% (2014 – 2.7%). The effective rate will be approximately 4.1% (2014 – 3.9%) at the time of issuance which reflects the premium relating to the steepness of the yield curve during this period. This represents approximately 38% of expected issuance into the North American and UK markets (2014 – 30%) at our share in the next 3 years. The value of these contracts is correlated with changes in the reference interest rate, typically the U.S. 10-year government bond, such that a 50 basis-point increase in the interest rate would result in a $137 million positive mark to market (2014 – $123 million), of which $95 million net to Brookfield (2014 – $82 million) would be recorded in other comprehensive income.

# LIQUIDITY

## Overview

As an asset manager, most of our capital transactions and liquidity activities occur within our private funds and listed partnerships. We structure these entities so that they are self-funding, preferably on an investment grade basis, and in almost all circumstances do not rely on financial support from the company other than predetermined equity commitments such as our share of capital commitments to private funds.

Our principal sources of short-term liquidity are corporate cash and financial assets together with undrawn committed credit facilities, which we refer to collectively as core liquidity. As at December 31, 2015, core liquidity at the corporate level was $2.7 billion, consisting of $1.0 billion in net cash and financial assets and $1.7 billion in undrawn credit facilities. Aggregate core liquidity includes the core liquidity of our principal subsidiaries, which consist of BPY, BREP and BIP, and was $5.7 billion at the end of the year, approximately $1.2 billion lower than at the end of 2014. The majority of the underlying assets and businesses in these asset classes are funded by these entities, and they will continue to fund our ongoing investments in these areas and, accordingly, we include the resources of these entities in assessing our liquidity. We continue to maintain elevated liquidity levels because we continue to pursue a number of attractive investment opportunities. Client commitments in our private funds totalled $9.3 billion at December 31, 2015.

The following table presents core liquidity and undrawn capital commitments on a corporate and consolidated basis:

| AS AT DECEMBER 31<br>(MILLIONS) | Corporate | | Principal Subsidiaries | | Total | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 | **2015** | 2014 |
| Cash and financial assets, net | **$ 1,018** | $ 897 | **$ 428** | $ 2,340 | **$ 1,446** | $ 3,237 |
| Undrawn committed credit facilities | **1,673** | 1,254 | **2,533** | 2,425 | **4,206** | 3,679 |
| | **$ 2,691** | $ 2,151 | **$ 2,961** | $ 4,765 | **$ 5,652** | $ 6,916 |

On a consolidated basis, our two largest normal course capital requirements are the funding of debt maturities and acquisitions. As a result of our financing strategy, the quality of our assets and emphasis on investment-grade borrowings and diversification of capital sources, we have consistently refinanced maturities in the normal course, even in difficult capital market environments, and frequently do so in advance of the scheduled maturity to lessen exposure to capital market disruptions. Most of our acquisitions are completed by private funds or listed partnerships that we manage. In the case of private funds, the necessary equity capital is obtained by calling on commitments made by the limited partners in each fund, which include commitments made by us or managed entities such as our listed partnerships. In the case of listed partnerships, capital requirements are funded through their own resources and access to capital markets, which may be supported by us from time to time through participation in equity offerings or bridge financings.

We and our listed subsidiaries enter into commitments to provide capital to the private funds that we manage, similar to the commitments that our clients make. In the case of our property and infrastructure funds, these commitments are expected to be funded by our listed partnerships, specifically BPY, BREP and BIP, although in certain circumstances the agreements provide that the Corporation will fund any commitments that our listed entities fail to fund. As at December 31, 2015 the company had commitments of $9.1 billion to funds, of which $7.2 billion is expected to be funded by managed entities and the balance of $1.9 million by the Corporation. In addition, we had $9.3 billion of commitments from third-party clients to fund qualifying transactions. Investments and capital expansion projects are discretionary and require approval under our investment policies including, where appropriate, our Board of Directors. The approval of these activities takes into consideration the availability of capital to fund them.

We schedule ongoing capital expenditure programs to maintain the operating capacity of our assets at existing levels, which we refer to as sustaining capital expenditures, and which are typically funded by, and represent a relatively small proportion of, the operating cash flows within each business. The timing of these expenditures is discretionary, however we believe it is important to maintain the productivity of our assets in order to optimize cash flows and value accretion and fund these expenditures with operating cash flow.

As discussed further on page 67, we enter into financial instruments such as interest rate, foreign currency and power price contracts that require us to make or receive payments based on changes in value of the contracts, either to settle the contract or as collateral. We carefully monitor potential liquidity requirements to ensure that they remain within a reasonable amount and can easily be funded with core liquidity.

On a deconsolidated basis, our primary sources of recurring cash flows are asset management revenues, other than carried interests, and distributions from our listed partnerships. During 2015 we earned $943 million of asset management revenues which contributed $519 million of fee related earnings after direct costs. We received $1,082 million in distributions from our listed securities during 2015 and have the ability to distribute surplus cash flow of controlled, privately held, investments.

Our principal liquidity needs at the corporate level include: debt service and principal repayment obligations; capital calls from funds to which we have committed capital, which typically is at our discretion as we manage the funds; discretionary investments to fund acquisitions and capital expansion projects, including participation in equity issues by our principal investee companies; payments related to financial instruments such as interest rate and foreign currency contracts; payments related to our energy marketing initiatives, when realized prices on power sales are less than the contracted price paid to BREP; ongoing corporate operating costs; and dividend payments declared by our Board of Directors. Interest expense and preferred share distributions totalled $224 million and $134 million, respectively, during 2015. Corporate operating expenses and cash taxes totalled $116 million. We describe our contractual obligations on page 62.

We maintain cash and financial assets, as well as undrawn credit facilities, to fund capital transactions. We typically refinance debt in advance of maturity. Most of our capital at the corporate level is invested in publicly listed securities, in particular our listed partnerships and we have the ability to sell a portion of our interests in the listed partnerships to generate additional liquidity. Our economic ownership interests in BREP and BPY, at 63%, and 62%, respectively, are both well in excess of what we expect our longer term ownership positions to be. We paid $450 million in dividends on our common equity in 2015. We also receive capital distributions from time to time from asset sales by private funds that we hold direct interests in, such as our private equity funds, and from the sale of directly held assets.

We hold much of the capital invested by the Corporation in the form of listed equity securities which, as noted above, provide us with an important source of liquidity and ongoing cash distributions. The following table shows the quoted market value of the company's listed securities and annualized cash distributions, excluding our cash and financial asset portfolio:

| AS AT DECEMBER 31, 2015 (MILLIONS) | Units | Distributions Per Unit[1] | Quoted Value[2] | Distributions (Annualized) |
|---|---|---|---|---|
| Brookfield Property Partners | 482.8 | $ 1.12 | $ 12,495[3] | $ 617[3] |
| Brookfield Renewable Energy Partners | 172.3 | 1.78 | 4,512 | 307 |
| Brookfield Infrastructure Partners | 68.1 | 2.28 | 2,581 | 155 |
| Norbord | 34.9 | 0.78 | 680 | 11 |
| Acadian Timber Corp. | 7.5 | 0.31 | 109 | 6 |
| | | | $ 20,377 | $ 1,096 |

1. Based on current distribution policies
2. Quoted value using December 31, 2015 public pricing
3. Quoted value includes $1,275 million of preferred shares and distributions includes $76 million of preferred distributions

The formation and spin-off of BBP will result in us providing a $500 million acquisition and liquidity facility to BBP to assist in BBP's liquidity requirements in the short term. BBP will fund the commitments to our private equity, private funds going forward, which will decrease the liquidity requirements on the Corporation over time, as BBP becomes self-financing.

Over the medium to longer term, we believe that our strategy of holding most of the capital we invest in our property, renewable power and infrastructure businesses through listed entities will significantly increase our capital resources and liquidity and reduce our capital requirements with respect to future investing activities. Our strategy calls for most of the capital invested in assets within these sectors, either directly or through commitments to private funds, to be funded by the listed entities with their own capital resources. This may involve the issuance of equity by these entities from time to time, and we may participate in such equity issues, however, the extent of our participation is at our discretion. Furthermore, we may have the opportunity, but not the obligation, to provide other forms of financing to these entities if we believe it is appropriate. We may from time to time enter into commitments to provide financing to listed entities such as an equity subscription facility or loan facility. We may also underwrite the syndication of co-investments and joint venture investment transactions by our listed issuers and private funds.

## REVIEW OF CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table summarizes the consolidated statement of cash flows within our consolidated financial statements:

| FOR THE YEARS ENDED DECEMBER 31 (MILLIONS) | 2015 | 2014 |
|---|---|---|
| Operating activities | $ 2,788 | $ 2,574 |
| Financing activities | 8,222 | 6,633 |
| Investing activities | (11,064) | (9,596) |
| Change in cash and cash equivalents | $ (54) | $ (389) |

This statement reflects activities within our consolidated operations and therefore excludes activities within non-consolidated entities such as our equity accounted investment in GGP.

### Operating Activities

Cash flow from operating activities totalled $2.8 billion in 2015, $214 million higher than in 2014. These cash flows consist of net income, including the amount attributable to co-investors, less non-cash items such as undistributed equity accounted income, fair value changes, depreciation and deferred income taxes, and is adjusted for changes in non-cash working capital. We also deduct "other income and gains" from net income, as the proceeds of these items are included within financing or investing activities. Cash flow from operating activities includes the net amount invested or recovered through the ongoing investment in, and subsequent sale of, residential land, houses and condominiums, which represented an outlay of $128 million for 2015 (2014 – generated $57 million). Cash flow prior to non-cash working capital and residential inventory was $2.9 billion during 2015 which was lower than 2014 by $202 million due primarily to a higher level of cash distributions from equity accounted investments in the prior year, which included a $252 million special distribution of the proceeds of a financing from a property joint venture.

### Financing Activities

Our subsidiaries issued $18.9 billion (2014 – $16.4 billion) of property-specific and subsidiary borrowings and repaid $12.4 billion (2014 – $11.8 billion) for a net issuance of $6.5 billion (2014 – $4.6 billion) in the year. The net increase in subsidiary borrowing levels reflect financings to partially fund acquisitions, the largest of which occurred within our property operations where we raised $4.5 billion of debt to fund our purchase of a large UK resort operator and a portfolio of multifamily properties in the U.S. Approximately $2.0 billion of these borrowings related to short-term financings which will be repaid in full on calling equity capital from our institutional partners in early 2016. We also repaid in full the $1.5 billion facility used to partially finance the privatization of our office property portfolio through proceeds on the sale of investment properties.

We raised $5.0 billion of capital from our institutional private fund partners and other investors to fund their portion of acquisitions and completed the issuance of $1.2 billion Class A Shares by the Corporation and $770 million of third-party capital raised on a unit issuance by Brookfield Infrastructure Partners. Financings in the prior year included $1.8 billion raised through the issuance of exchangeable preferred equity units issued by BPY, the proceeds of which were held on deposit to fund the acquisition of our additional interest in Canary Wharf in 2015.

### Investing Activities

We acquired $20.6 billion of investments in 2015 (2014 – $14.6 billion), including $7.8 billion of consolidated subsidiaries, such as our $2.6 billion U.S. multifamily portfolio, $1.9 billion UK resort property operator and $0.8 billion U.S. industrial manufacturing operation. Acquisitions also included a $1.6 billion increase in our investment in Canary Wharf which was funded through the use of cash on deposit, a $1.1 billion investment in a communications tower operator in France and a $1.2 billion toehold investment in a rail and port infrastructure business.

We disposed of $7.8 billion of assets, $1.0 billion higher than the level of realizations in the prior year, as we continued to sell core assets at attractive valuations. Dispositions included $2.6 billion of core office and retail properties, the proceeds of which were used to repay borrowings and fund investments with higher growth potential.

## CONTRACTUAL OBLIGATIONS

The following table presents the contractual obligations of the company by payment periods:

| AS AT DECEMBER 31, 2015 (MILLIONS) | Payments Due By Period Less than 1 Year | 1 – 3 Years | 4 – 5 Years | After 5 Years | Total |
|---|---|---|---|---|---|
| Corporate borrowings | $ 217 | $ 419 | $ 591 | $ 2,709 | **$ 3,936** |
| Principal repayments | | | | | |
| Non-recourse borrowings | | | | | |
| Property-specific mortgages | 9,426 | 11,991 | 8,622 | 16,005 | **46,044** |
| Other debt of subsidiaries | 1,839 | 2,010 | 2,253 | 2,201 | **8,303** |
| Subsidiary equity obligations | 501 | — | — | 2,830 | **3,331** |
| Accounts payable and other | | | | | |
| Capital lease obligations | 2 | 7 | 8 | 73 | **90** |
| Other | 7,558 | 3,562 | 41 | 115 | **11,276** |
| Commitments | 471 | 260 | 139 | 36 | **906** |
| Operating leases | 86 | 154 | 146 | 2,965 | **3,351** |
| Interest expense[1] | | | | | |
| Corporate borrowings | 188 | 322 | 284 | 826 | **1,620** |
| Non-recourse borrowings | 2,128 | 3,426 | 2,438 | 3,684 | **11,676** |
| Subsidiary equity obligations | 123 | 234 | 234 | 437 | **1,028** |

1. Represents the aggregate interest expense expected to be paid over the term of the obligations. Variable interest rate payments have been calculated based on current rates

Commitments of $0.9 billion (2014 – $1.1 billion) represent various contractual obligations of the company and its subsidiaries assumed in the normal course of business. These included commitments to provide bridge financing, and letters of credit and guarantees provided in respect of power sales contracts and reinsurance obligations. The company is required under certain circumstances to purchase BPY's preferred equity units at redemption, as described on page 56, accordingly, commitments in 2015 include $246 million, which represents the carrying value of the exchange option at the time of issuance in respect of BPY's subsidiary preferred units, and the remaining $1,554 million was recorded within subsidiary equity obligations. All other balances, with the exception of interest expense incurred in future periods, are included in our consolidated balance sheet.

The company and its consolidated subsidiaries execute agreements that provide for indemnifications and guarantees to third parties in transactions or dealings such as business dispositions, business acquisitions, sales of assets, provision of services, securitization agreements, and underwriting and agency agreements. The company has also agreed to indemnify its directors and certain of its officers and employees. The nature of substantially all of the indemnification undertakings prevents the company from making a reasonable estimate of the maximum potential amount the company could be required to pay third parties, as in most cases the agreements do not specify a maximum amount, and the amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Neither the company nor its consolidated subsidiaries have made significant payments in the past, nor do they expect at this time to make any significant payments under such indemnification agreements in the future.

The company periodically enters into joint venture, consortium or other arrangements that have contingent liquidity rights in favour of the company or its counterparties. These include buy sell arrangements, registration rights and other customary arrangements. These agreements generally have embedded protective terms that mitigate the risk to us. The amount, timing and likelihood of any payments by the company under these arrangements is, in most cases, dependent on either future contingent events or circumstances applicable to the counterparty and therefore cannot be determined at this time.

Our wholly owned energy marketing group has committed to purchase power and other wind generation produced by 63% owned BREP as previously described on page 47.

The Corporation entered into arrangements in 2014 with respect to $1.8 billion of exchangeable preferred equity units issued by BPY, which are redeemable in equal tranches of $600 million in 2021, 2024 and 2026, respectively. The preferred equity units are exchangeable into equity units of BPY at $25.70 per unit, at the option of the holder, at any time up to and including the maturity date. BPY may redeem the preferred equity units after specified periods if the BPY equity unit price exceeds predetermined amounts. At maturity, the preferred equity units will be converted into BPY equity units at the lower of $25.70 or the then market price of a BPY equity unit. In order to provide the purchaser with enhanced liquidity, the Corporation has agreed to purchase the preferred equity units for cash at the option of the holder, for the initial purchase price plus accrued and unpaid dividends. In order to decrease dilution risk to BPY, the Corporation has agreed with the holder and BPY that if the price of a BPY equity unit is less than 80% of the exchange price of $25.70 at the redemption date of the 2021 and 2024 tranches, the Corporation will acquire the preferred equity units subject to redemption, at the redemption price, and to exchange these preferred equity units for preferred equity units with similar terms and conditions, including redemption date, as the 2026 tranche.

## EXPOSURES TO SELECTED FINANCIAL INSTRUMENTS

As discussed elsewhere in this MD&A we utilize various financial instruments in our business to manage risk and make better use of our capital. The fair values of these instruments that are reflected on our balance sheets are disclosed in Note 6 to our consolidated financial statements.

# PART 5 – OPERATING CAPABILITIES, ENVIRONMENT AND RISKS

In this section we discuss elements of our operating strategies as they relate to the execution of our business strategy, as well as performance measurements. This section also contains a review of certain aspects of the business environment and risks that could affect our performance.

## OPERATING CAPABILITIES

We believe that we have the necessary capabilities to execute our business strategy and achieve our performance targets. To this end, we strive for excellence and quality in each of our core operating business groups in the belief that this approach will produce strong returns over the long term.

We endeavour to operate as a value investor and follow a disciplined investment approach. Our management team has considerable capabilities in investment analysis, mergers and acquisitions, divestitures and corporate finance that enable us to acquire assets for value, finance them effectively, and to realize the value created during our ownership.

Our operating business groups and depth of experience in managing these assets differentiate us from those competitors that have shorter investment horizons and more of a speculative focus. These operating business groups have been established over the course of many years and are fully integrated into our organization. This has required considerable investment in building the management teams and the necessary resources; however, we believe these business groups enable us to optimize the cash returns and values of the assets that we manage.

We have established strong relationships with a number of leading institutional investors and believe we are well positioned to continue increasing the amount of capital managed for others on a fee bearing basis. We continue to invest our distribution capabilities to encourage existing and potential clients to commit capital to our investment strategies. To achieve this, we are continually expanding the breadth of resources we devote to these activities, and our efforts continue to be assisted by favourable investment performance.

The diversification within our operations in terms of both asset classes and regions allows us to offer a broad range of products and investment strategies to our clients, enabling us to pursue a wide range of investment opportunities while focusing on assets and regions that offer the best value. We believe this is of considerable value to investors with large amounts of capital to deploy. In addition, our commitment to transparency and ethical business conduct, as well as our position in the market as a well-capitalized public company listed on major North American and European stock exchanges, positions us as a desirable long-term partner for our clients. We also manage several flagship specialty issuers publicly listed on major North American stock exchanges and with majority independent boards of directors, which further enhances the development of our business partnerships.

Finally, our commitment to invest a meaningful amount of capital alongside our investors creates a strong alignment of interest between us and our investment partners and also differentiates us from many of our competitors. Accordingly, our strategy includes maintaining considerable surplus financial resources. This capital also supports our ability to commit to investment opportunities on our own account when appropriate or in anticipation of future syndications.

## RISK MANAGEMENT

Managing risk is an integral part of Brookfield's business and we have a disciplined and focused approach to risk management, which includes a risk management framework for managing risks across the organization.

The assessment and management of risk is the responsibility of the company's management. Given the diversified and decentralized nature of our operations, we seek to ensure that risk is managed as close to its source as possible, and by the management teams that have the most knowledge and expertise in the business or risk area.

As such, business specific risks are generally managed at the operating business group level, as the risks vary based on the characteristics of each business. The specific manner and methodologies by which risks are addressed and mitigated vary based upon, among other things, the nature of the risks and of the assets and operations to which they apply, the geographic location of the assets, the economic, political and regulatory environment, and Brookfield's assessment of the benefits to be derived from such mitigation strategies.

At the same time, we utilize a co-ordinated approach among our corporate group and our operating business groups to risks that can be more pervasive and correlated in their impact across the organization, such as liquidity, foreign exchange and interest rate risks, and where we can bring together specialized knowledge to manage these risks. Management of strategic, reputational and regulatory compliance risks are similarly co-ordinated to ensure consistent focus and implementation across the organization.

The company's Chief Financial Officer has ultimate responsibility for the risk management function and discharges the responsibility with the assistance of the Risk Management Group, which works with various operational and functional groups within Brookfield to co-ordinate the risk management program and to develop and implement risk mitigation strategies that are appropriate for the company.

These efforts leverage the work conducted by management committees that have been formed to bring together required expertise to manage and oversee key risk areas, and include:

- Risk Management Steering Committee to support the overall corporate risk management program, and co-ordinate risk assessment and mitigation on an enterprise-wide basis;
- Investment Committees to oversee the investment process as well as monitor the ongoing performance of investments;
- Conflicts Committee to resolve potential conflict situations in the investment process and other corporate transactions;
- Financial Risk Oversight Committee to review and monitor financial exposures;
- Safety Steering Committee to focus on health, safety and environmental matters; and
- Disclosure Committee to oversee the public disclosure of material information.

The Corporation's Board of Directors has governance oversight for risk management with a focus on the more significant risks we face, and builds upon management's risk assessment and oversight processes. The Board of Directors has delegated responsibility for the oversight of specific risks to board committees as follows:

- Risk Management Committee: Oversees the management of Brookfield's significant financial and non-financial risk exposures, including market, credit, operational, reputational, strategic, regulatory and business risks. These responsibilities include reviewing risk assessment and risk management practices with management to ensure ongoing, effective mitigation of key organizational risks, as well as confirming that the company has an appropriate risk taking philosophy and suitable risk capacity.
- Audit Committee: Oversees the management of risks related to Brookfield's systems and procedures for financial reporting as well as for associated audit processes (internal and external). Part of the Audit Committee's responsibilities is the review and approval of the risk-based internal audit plan, which ensures alignment with risk management activities and organizational priorities.
- Management Resources and Compensation Committee: Oversees the risks related to Brookfield's management resource planning, including succession planning, proposed senior management appointments, executive compensation, and the job descriptions and annual objectives of senior executives, as well as performance against those objectives.
- Governance and Nominating Committee: Oversees the risks related to Brookfield's governance structure, including the effectiveness of board and committee activities and potential conflicts of interest, as well as with respect to related party transactions.

## BUSINESS ENVIRONMENT AND RISKS

The following is a review of certain risks that could adversely impact our financial condition, results of operations and the value of our equity. Additional risks and uncertainties not previously known to the company, or that the company currently deems immaterial, may also impact our operations and financial results.

**a) Ownership of Class A Shares**

*The trading price of our Class A Shares is subject to market volatility and cannot be predicted.*

Our shareholders may not be able to sell their Class A Shares at or above the price at which they purchased such shares due to trading price fluctuations in the capital markets. The trading price could fluctuate significantly in response to factors both related and unrelated to our operating performance and/or future prospects, including, but not limited to: (i) variations in our operating results and financial condition; (ii) changes in government laws, rules or regulations affecting our businesses; (iii) material announcements by our competitors; (iv) market conditions and events specific to the industries in which we operate; (v) changes in general economic conditions; (vi) changes in the values of our investments or changes in the amount of distributions, dividends or interest paid in respect of investments; (vii) differences between our actual financial and operating results and those expected by investors and analysts; (viii) changes in analysts' recommendations or earnings projections; (ix) changes in the extent of analysts' interest in covering the Corporation and its publicly traded affiliates; (x) the depth and liquidity of the market for our Class A Shares; (xi) dilution from the issuance of additional equity; (xii) investor perception of our businesses and the industries in which we operate; (xiii) investment restrictions; (xiv) our dividend policy; (xv) the departure of key executives; (xvi) sales of Class A Shares by senior management or significant shareholders; and (xvii) the materialization of other risks described in this section.

**b) Reputation**

*Certain actions or conduct could have a negative impact on stakeholders' perception of us and may adversely impact our financial performance and ability to attract and retain capital.*

The growth of our asset management business relies on continuous fundraising for various investment products. We depend on our business relationships and our reputation for integrity and high-calibre asset management services to attract and retain investors and advisory clients, and to pursue investment opportunities for us and the public and private partnerships we manage.

If we are unable to continue to raise capital from third-party investors, this could materially reduce our revenue and cash flow and adversely affect our financial condition.

Poor performance of any kind could damage our reputation with current and potential investors in our managed vehicles, making it more difficult for us to raise new capital. Investors may decline to invest in current and future partnerships and may withdraw their investments from our partnerships as a result of poor performance in the partnerships in which they are invested, and investors in our private partnerships may demand lower fees for new or existing funds, all of which would decrease our revenue.

The governing agreements of our private partnerships provide that, subject to certain conditions, third-party investors in these partnerships will have the right to remove us as general partner or to accelerate the liquidation date of the partnership for convenience. Any negative impact to our reputation would be expected to increase the likelihood that a private partnership could be terminated by investors for convenience. Such an event, were it to occur, would result in a reduction in the fees we would earn from such partnership, particularly if we are unable to maximize the value of the partnership's investments during the liquidation process or in the event of the triggering of a "clawback" for fees already paid out to us as general partner.

We could be negatively impacted if there is misconduct or alleged misconduct by our personnel or those of our portfolio companies in which we and our partnerships invest. We may face increased risk of misconduct to the extent our capital allocated to emerging markets increases. If we face allegations of improper conduct by private litigants or regulators, whether the allegations are valid or invalid or whether the ultimate outcome is favourable or unfavourable to us, such allegations may result in negative publicity and press speculation about us, our investment activities or the asset management industry in general, which could harm our reputation and may be more damaging to our business than to other types of businesses.

We are subject to a number of obligations and standards arising from our asset management business and our authority over the assets we manage. The violation of these obligations and standards by any of our employees may adversely affect our partners and our business and reputation. Our business often requires that we deal with confidential matters of great significance to the companies in which we may invest and to other third parties. If our employees were to improperly use or disclose confidential information, we could suffer serious harm to our reputation, financial position and current and future business relationships. It is not always possible to detect or deter employee misconduct, and the precautions we take in this regard may not be effective.

Because of our various lines of businesses and investment products, we may be subject to a number of actual, potential or perceived conflicts of interest than that to which we would otherwise be subject if we had just one line of business or investment product. In addressing these conflicts, we have implemented certain policies and procedures that may be ineffective at mitigating actual, potential or perceived conflicts of interest, or reduce the positive synergies that we cultivate across our businesses. It is also possible that actual, potential or perceived conflicts could give rise to investor dissatisfaction, litigation, regulatory enforcement actions or other detrimental outcomes. Appropriately dealing with conflicts of interest is complex and difficult and our reputation could be damaged if we fail, or appear to fail, to deal appropriately with actual, potential or perceived conflicts of interest. Regulatory scrutiny of, or litigation in connection with, conflicts of interest could have a material adverse effect on our reputation, business, financial condition or results of operations in a number of ways, including an inability to raise new partnerships and a reluctance of counterparties to do business with us.

Implementation of new investment and growth strategies involves a number of risks that could result in losses and harm our professional reputation, including the risk that the expected results are not achieved, that new strategies are not appropriately planned for or integrated, that new strategies may conflict, detract from or compete against our existing businesses, and that the investment process, controls and procedures that we have developed will prove insufficient or inadequate. Furthermore, our strategic initiatives may include joint ventures, in which case we will be subject to additional risks and uncertainties in that we may be dependent upon and subject to liability, losses or reputational damage relating to systems, controls and personnel that are not under our complete control or under the control of another.

### c) Investment/Capital Allocation

*Our investment returns or those of our managed limited partnerships could be lower than expected.*

The successful execution of our value investing strategy is uncertain as it requires suitable opportunities, careful timing and business judgment, as well as the resources to complete asset purchases and restructure them, if required, notwithstanding difficulties experienced in a particular industry.

Our approach to investing entails adding assets to our existing businesses when the competition for assets is weakest; typically, when depressed economic conditions exist in the market relating to a particular entity or industry. However, there is no certainty that we will be able to identify suitable or sufficient opportunities that meet our investment criteria and be able to acquire additional high quality assets at attractive prices to supplement our growth in a timely manner, or at all. We may fail to value opportunities accurately or to consider all relevant factors that may be necessary or helpful in evaluating an opportunity; or we may underestimate the costs necessary to bring an acquisition up to standards established for its intended market position or be unable to quickly and effectively integrate new acquisitions into our existing operations.

In addition, liabilities may exist that we or our partnerships do not discover in due diligence prior to the consummation of an acquisition, or circumstances may exist with respect to the entities or assets acquired that could lead to future liabilities and, in each case, we or our partnerships may not be entitled to sufficient, or any, recourse against the contractual counterparties to an acquisition. The failure of a newly acquired business to perform according to expectations could have a material adverse effect on our assets, liabilities, business, financial condition, results of operations and cash flow. Alternatively, we may be required to sell a business before it has realized our expected level of returns for such business.

We pursue investment opportunities that involve business, regulatory, legal and other complexities. Our tolerance for complexity presents risks, as such transactions can be more difficult, expensive and time consuming to finance and execute, and have a higher risk of execution failure. It can also be more difficult to manage or realize value from the assets acquired in such transactions and such transactions sometimes entail a higher level of regulatory scrutiny or a greater risk of contingent liabilities.

If any of our partnerships perform poorly, our fee-based revenue and cash flow would decline. Moreover, we could experience losses on our own capital invested in our partnerships. Certain of our investments may be concentrated in particular asset types or geographic regions, which could exacerbate any negative performance of one or more of our partnerships to the extent those concentrated investments are in assets or regions that experience a market dislocation.

Competition from other asset managers for public and private capital is intense and poor investment performance could hamper our ability to compete for these sources of capital or force us to reduce our management fees. If poor investment returns prevent us from raising further capital from our existing partners, we may need to identify and attract new investors in order to maintain or increase the size of our partnerships, and there are no assurances that we can find new investors. If we cannot raise capital from third-party investors, we may be unable to deploy capital into investments and collect management fees, and potentially collect transaction fees or carried interest, which would materially reduce our revenue and cash flow and adversely affect our financial condition.

In pursuing investment returns, we and our partnerships face competition from other investors. Each of our businesses is subject to competition in varying degrees and our competitors may have certain competitive advantages over us. Some of our competitors may have higher risk tolerances, different risk assessments, lower return thresholds or a lower cost of capital, which could allow them to consider a wider variety of investments and to bid more aggressively than us for investments. We may lose investment opportunities in the future if we do not match investment prices, structures and terms offered by our competitors. Moreover, if we are forced to compete with other investment firms on the basis of price, we may not be able to maintain our current asset management fee structures, including with respect to base management fees, carried interest or other terms. These pressures could reduce investment returns and negatively affect our overall revenues, operating cash flows and financial condition.

**d) Currency Risk and other Financial Exposures**

*Foreign exchange rate fluctuations and the use of or failure to use derivatives to hedge certain financial positions could adversely impact our financial performance.*

We have pursued and intend to continue to pursue growth opportunities in international markets, and often invest in countries where the U.S. dollar is not the local currency. As a result, we are subject to foreign currency risk due to potential fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant depreciation in the value of the currency utilized in one or more countries where we have a significant presence may have a material adverse effect on our results of operations and financial position. We are active in certain markets whose economic growth is dependent on the price of commodities and the currencies in these markets are volatile.

Our businesses are impacted by changes in currency rates, interest rates, commodity prices and other financial exposures. We selectively utilize financial instruments to manage these exposures, including credit default swaps and other derivatives to hedge certain of our financial positions. However, a significant portion of these risks may remain unhedged. We may also choose to establish unhedged positions in the ordinary course of business.

There is no assurance that hedging strategies, to the extent they are used, will fully mitigate the risks they are intended to offset, and derivatives are also subject to their own unique set of risks, including counterparty risk with respect to the financial well-being of the party on the other side of these transactions and a potential requirement to fund mark-to-market adjustments. Our financial risk management policies may not ultimately be effective at managing these risks.

The Dodd-Frank Act and similar laws in other jurisdictions impose rules and regulations governing oversight of the over-the-counter derivatives market and its participants. These regulations may impose additional costs and regulatory scrutiny on us. If our derivative transactions are required to be executed through exchanges or regulated facilities we will face incremental collateral requirements in the form of initial margin, and require variation margin to be cash settled on a daily basis. Such an increase in margin requirements (relative to bilateral agreements), were it to occur, perhaps combined with a more restricted list of securities that qualify as eligible collateral, would require us to hold larger positions in cash and treasuries, which could reduce income.

We cannot predict the effect of changing derivatives legislation on our hedging costs, our hedging strategy or its implementation, or the risks that we hedge. Regulation of derivatives may increase the cost of derivative contracts, reduce the availability of derivatives to protect against operational risk and reduce the liquidity of the derivatives market, all of which may reduce our use of derivatives and result in the increased volatility and decreased predictability of our cash flows.

### e) Laws, Rules and Regulations

*Failure to comply with laws, regulatory requirements and listing exchange requirements could damage our reputation.*

There are many laws, governmental rules and regulations and listing exchange rules that apply to us, our affiliates, our assets and our businesses. Changes in these laws, rules and regulations, or their interpretation by governmental agencies or the courts, could adversely affect our business, assets or prospects, or those of our affiliates, customers, clients or partners. The failure of us or our publicly listed affiliates to comply with the rules and registration requirements of the respective stock exchanges on which we and they are listed could adversely affect our reputation and financial condition.

Our asset management business, including our investment advisory and broker-dealer business, is subject to substantial and increasing regulatory compliance and oversight, and this higher level of scrutiny may lead to more regulatory enforcement actions. There continues to be uncertainty regarding the appropriate level of regulation and oversight of asset management businesses in a number of jurisdictions in which we operate. The introduction of new legislation and increased regulation may result in increased compliance costs and could materially affect the manner in which we conduct our business and adversely affect our profitability.

Our asset management business is not only regulated in the United States, but also in other jurisdictions where we conduct operations including the EU, the UK, Canada, Brazil and Australia. Similar to the environment in the U.S, the current environment in jurisdictions outside the U.S. in which we operate has become subject to further regulation. Governmental agencies around the world have proposed or implemented a number of initiatives and additional rules and regulations that could adversely affect our asset management business, and governmental agencies may propose or implement further regulations in the future. These regulations may impact how we market our partnerships in these jurisdictions, and introduce compliance obligations with respect to disclosure and transparency, as well as restrictions on investor distributions. Such regulations may also prescribe certain capital requirements on our partnerships, and conditions on the leverage our partnerships may employ and the liquidity these partnerships must have. Compliance with additional regulatory requirements will impose additional compliance burdens and expense for us and could reduce our operating flexibility and fundraising opportunities.

We acquire and develop primarily property, renewable power, infrastructure, business services and industrial assets. In doing so, we must comply with extensive and complex municipal, state or provincial, national and international regulations. These regulations can result in uncertainty and delays, and impose on us additional costs, which may adversely affect our results of operations. Changes in these laws may negatively impact us and our businesses or may benefit our competitors or their businesses.

Additionally, liability under such laws, rules and regulations may occur without our fault. In certain cases, parties can pursue legal actions against us to enforce compliance as well as seek damages for non-compliance or for personal injury or property damage. Our insurance may not provide sufficient coverage in the event that a successful claim is made against us.

Our broker-dealer business is regulated by the SEC, the Canadian provincial securities commissions, as well as self-regulatory organizations. These regulatory bodies may conduct administrative or enforcement proceedings that can result in censure, fine, suspension or expulsion of a broker-dealer, its directors, officers or employees. Such proceedings, whether or not resulting in adverse findings, can require substantial expenditures and can have an adverse impact on the reputation of a broker-dealer.

The advisors of certain of our partnerships are registered as investment advisors with the SEC. Registered investment advisors are subject to the requirements and regulations of the Investment Advisors Act of 1940, which grants U.S. supervisory agencies broad administrative powers, including the power to limit or restrict the carrying on of business for failure to comply with laws or regulations. If such powers are exercised, the possible sanctions that may be imposed include the suspension of individual employees, limitations on the activities in which the investment advisor may engage, suspension or revocation of the investment advisor's registration, censure and fines. Compliance with these requirements and regulations results in the expenditure of resources, and a failure to comply could result in investigations, financial or other sanctions, and reputational damage.

The Investment Company Act of 1940 (the "40 Act") and the rules promulgated thereunder provide certain protections to investors and impose certain restrictions on entities that are deemed "investment companies" under the 40 Act. We are not currently nor do we intend to become registered as an investment company under the 40 Act. To ensure that we are not deemed to be an investment company, we may be required to materially restrict or limit the scope of our operations or plans and the types of acquisitions that we may make; and we may need to modify our organizational structure or dispose of assets that we would not otherwise dispose of. If we were required to register as an investment company, we would, among other things, be restricted from engaging in certain business activities (or have conditions placed on our business activities) and issuing certain securities, be required to limit the amount of investments that we make as principal, and face other limitations on our activities.

### f) Governmental Investigations and Anti-Bribery and Corruption

*Our policies and procedures designed to ensure compliance with applicable laws, including anti-bribery and corruption laws, may not be effective in all instances to prevent violations and as a result we may be subject to related governmental investigations.*

We are from time to time subject to various governmental investigations, audits and inquiries, both formal and informal ("investigations"). These investigations, regardless of their outcome, can be costly, divert management attention, and damage our reputation. The unfavourable resolution of such investigations could result in criminal liability, fines, penalties or other monetary or non-monetary sanctions and could materially affect our business or results of operations.

There is an increasing global focus on the implementation and enforcement of anti-bribery and corruption legislation, and this focus has heightened the risks that we face in this area, particularly as we expand our operations globally. We are subject to a number of laws and regulations governing payments and contributions to public officials or other third parties, including restrictions imposed by the U.S. Foreign Corrupt Practices Act and similar laws in non-U.S. jurisdictions, such as the UK Bribery Act and the Canadian Corruption of Foreign Public Officials Act. This increased global focus on anti-bribery and corruption enforcement may also lead to more investigations, both formal and informal in this area, the results of which cannot be predicted.

Different laws and regulations that are applicable to us may contain conflicting provisions, making our compliance more difficult. If we fail to comply with such laws and regulations, we could be exposed to claims for damages, financial penalties, reputational harm, incarceration of our employees, restrictions on our operations and other liabilities, which could negatively affect our operating results and financial condition. In addition, we may be subject to successor liability for violations under these laws and regulations or other acts of bribery committed by entities in which we or our partnerships invest.

Instances of bribery, fraud, accounting irregularities and other improper, illegal or corrupt practices can be difficult to detect, and fraud and other deceptive practices can be widespread in certain jurisdictions. We invest in emerging market countries that may not have established stringent anti-bribery and corruption laws and regulations, where existing laws and regulations may not be consistently enforced, or that are perceived to have materially higher levels of corruption according to international rating standards. Due diligence on investment opportunities in these jurisdictions is frequently more challenging because consistent and uniform commercial practices in such locations may not have developed or do not meet international standards. Bribery, fraud, accounting irregularities and corrupt practices can be especially difficult to detect in such locations.

### g) Financial Reporting and Disclosures

*Deficiencies in financial reporting and disclosures could adversely impact our reputation.*

As we expand the size and scope of our business, there is a greater susceptibility that our financial reporting and other public disclosure documents may contain material misstatements and that the controls we maintain to attempt to ensure the complete accuracy of our public disclosures may fail to operate as intended. The occurrence of such events could adversely impact our reputation and financial condition.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to give our stakeholders assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with international financial reporting standards. However, the process for establishing and maintaining adequate internal controls over financial reporting has inherent limitations, including the possibility of human error. Our internal controls over financial reporting may not prevent or detect misstatements in our financial disclosures on a timely basis, or at all. Some of these processes may be new for certain subsidiaries in our structure and may take time to be fully ingrained.

Our disclosure controls and procedures are designed to provide assurance that information required to be disclosed by us in reports filed or submitted under Canadian, U.S. and Dutch securities laws is recorded, processed, summarized and reported within the time periods specified. Our policies and procedures governing disclosures may not ensure that all material information regarding us is disclosed in a proper and timely fashion, or that we will be successful in preventing the disclosure of material information to a single person or a limited group of people before such information is generally disseminated.

### h) Economic Conditions

*Unfavourable economic conditions or changes in the industries in which we operate could adversely impact our financial performance.*

We are exposed to local, regional, national and international economic conditions and other events and occurrences beyond our control, including, but not limited to the following: credit and capital market volatility, business investment levels, government spending levels, consumer spending levels, changes in laws, rules or regulations, trade barriers, commodity prices, currency exchange rates and controls, national and international political circumstances (including wars, terrorist acts or security operations), changes in interest rates, inflation rates, the rate and direction of economic growth, and general economic uncertainty. On a global basis, certain industries and sectors have created capacity that anticipated higher growth, which has caused depressed commodity prices and volatility across all markets, which may have a negative impact on our financial performance.

Unfavourable economic conditions could affect the jurisdictions in which our entities are formed and where we own assets and operate businesses, and may cause a reduction in: (i) securities prices, (ii) the liquidity of investments made by us and our partnerships, (iii) the value or performance of the investments made by us and our partnerships, and (iv) the ability of us and our partnerships to raise or deploy capital, each of which could adversely impact our financial condition.

In general, a decline in economic conditions, either in the markets or industries in which we participate, or both, will result in downward pressure on our operating margins and asset values as a result of lower demand and increased price competition for the services and products that we provide. In particular, given the importance of the U.S. to our operations, an economic downturn in this market could have a significant adverse effect on our operating margins and asset values.

Our private partnerships have a finite life that may require us to exit an investment made in a partnership at an inopportune time. Volatility in the exit markets for these investments, increasing levels of capital required to finance companies to exit, and rising enterprise value thresholds to go public or complete a strategic sale can all contribute to the risk that we will not be able to exit a private partnership investment successfully. We cannot always control the timing of our private partnership investment exits or our realizations upon exit.

If global economic conditions deteriorate, our investment performance could suffer, resulting in, for example, the payment of less or no carried interest to us. The payment of less or no carried interest to us could cause our cash flow from operations to decrease, which could materially adversely affect our liquidity position and the amount of cash we have on hand to conduct our operations. A reduction in our cash flow from operations could, in turn, require us to rely on other sources of cash (such as the capital markets which may not be available to us on acceptable terms, or debt and other forms of leverage).

**i) Geopolitical**

*Political instability, changes in government policy, or unfamiliar cultural factors could adversely impact the value of our investments.*

We make investments in businesses that are based outside of North America and we may pursue investments in unfamiliar markets, which may expose us to additional risks not typically associated with investing in North America. We may not properly adjust to the local culture and business practices in such markets, and there is the prospect that we may hire personnel or partner with local persons who might not comply with our culture and ethical business practices; either scenario could result in the failure of our initiatives in new markets and lead to financial losses for us and our partnerships. There are risks of political instability in several of our major markets from factors such as political conflict, income inequality, refugee migration, terrorism, the potential break-up of political-economic unions (or the departure of a union member) and political corruption, and the materialization of one or more of these risks could negatively affect our financial performance.

Any existing or new operations may be subject to significant political, economic and financial risks, which vary by country, and may include: (i) changes in government policies or personnel; (ii) changes in general economic conditions; (iii) restrictions on currency transfer or convertibility; (iv) changes in labour relations; (v) political instability and civil unrest; (vi) less developed or efficient financial markets than in North America; (vii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements; (viii) less government supervision and regulation; (ix) a less developed legal or regulatory environment; (x) heightened exposure to corruption risk; (xi) political hostility to investments by foreign investors; (xii) less publicly available information in respect of companies in non-North American markets; (xiii) adversely higher or lower rates of inflation; (xiv) higher transaction costs; (xv) difficulty in enforcing contractual obligations and expropriation or confiscation of assets; and (xvi) fewer investor protections.

**j) Interest Rates**

*Rising interest rates could adversely impact our financial performance.*

A number of our long-life assets are interest rate sensitive. Increases in interest rates will, absent all else, decrease the value of an asset by reducing the present value of the cash flows expected to be produced by such asset. Additionally, any of our debt or preferred shares that are subject to variable interest rates, either as an obligation with a variable interest rate or as an obligation with a fixed interest rate that resets into a variable interest rate in the future, are subject to interest rate risk.

Further, the value of any debt or preferred share that is subject to a fixed interest rate will be determined based on the prevailing interest rates and, accordingly, this type of debt or preferred share is also subject to interest rate risk. In addition, interest rates are at historically low levels in many jurisdictions. These rates may remain relatively low, but they may rise significantly at some point in the future, either gradually or abruptly. A sudden or unexpected increase in interest rates may cause certain market dislocations that could negatively impact our financial performance. Interest rate increases would also increase the amount of cash required to service our obligations and our earnings could be adversely impacted.

**k) Human Capital**

*Ineffective maintenance of our culture or ineffective management of human capital could adversely impact our financial performance.*

In all of our markets, we face competition in connection with the attraction and retention of qualified employees. Our ability to compete effectively in our businesses will depend upon our ability to attract new employees and retain and motivate our existing employees. If we are unable to attract and retain qualified employees this could limit our ability to compete successfully and achieve our business objectives, which could negatively impact our business, financial condition and results of operations.

Our senior management team has a significant role in our success and oversees the execution of our value investing strategy. Our ability to retain and motivate our management team or attract suitable replacements should any members of our management team leave is dependent on, among other things, the competitive nature of the employment market and the career opportunities and compensation that we can offer.

We may experience departures of key professionals in the future. We cannot predict the impact that any such departures will have on our ability to achieve our objectives, and such departures could adversely impact our financial condition and cash flow. Competition for the best human capital is intense and the loss of services from key members of the management team or a limitation in their availability could adversely impact our financial condition and cash flow. Furthermore, such a loss could be negatively perceived in the capital markets. Our human capital risks may be exacerbated by the fact that we do not maintain any key person insurance.

Our senior management team possesses substantial experience and expertise and has strong business relationships with investors in our partnerships and other members of the business communities and industries in which we operate. As a result, the loss of these personnel could jeopardize our relationships with investors in our partnerships and other members of the business communities and industries in which we operate and result in the reduction of our assets under management or fewer investment opportunities. The conduct of our businesses and the execution of our strategy rely heavily on teamwork. Our continued ability to respond promptly to opportunities and challenges as they arise depends on co-operation and co-ordination across our organization and our team-oriented management structure, which may not materialize in the way we expect.

A portion of the workforce in some of our businesses is unionized. If we are unable to negotiate acceptable collective bargaining agreements with any of our unions, as existing agreements expire we could experience a work stoppage, which could result in a significant disruption to the affected operations, higher ongoing labour costs and restrictions on our ability to maximize the efficiency of our operations, all of which could have an adverse effect on our financial results.

### l) Financial and Liquidity

*We may not have cash available to meet our financial obligations when due.*

We employ debt and other forms of leverage in the ordinary course of business to enhance returns to our investors and finance our operations. We attempt to match the profile of any leverage to the associated assets. We are therefore subject to the risks associated with debt financing and refinancing, including but not limited to the following: (i) our cash flow may be insufficient to meet required payments of principal and interest; (ii) payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses and dividends; (iii) if we are unable to obtain committed debt financing for potential acquisitions or can only obtain debt at an increased interest rate or on unfavourable terms, we may have difficulty completing acquisitions or may generate profits that are lower than would otherwise be the case; (iv) we may not be able to refinance indebtedness on our assets at maturity due to company and market factors such as the estimated cash flow produced by our assets, the value of our assets, liquidity in the debt markets, and/or financial, competitive, business and other factors; and (v) if we are able to refinance our assets, the terms of a refinancing may not be as favourable as the original terms of the related indebtedness. If we are unable to refinance our indebtedness on acceptable terms, or at all, we may need to utilize available liquidity, which would reduce our ability to pursue new investment opportunities, or we may need to dispose of one or more of our assets on disadvantageous terms, or raise equity causing dilution to existing shareholders. Regulatory changes, including, for example, standards for banks under Basel, may also result in higher borrowing costs and reduced access to credit.

The terms of our various credit agreements and other financing documents require us to comply with a number of customary financial and other covenants, such as maintaining debt service coverage and leverage ratios, adequate insurance coverage and certain credit ratings. These covenants may limit our flexibility in conducting our operations and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness, even if we have satisfied and continue to satisfy our payment obligations.

A large proportion of our capital is invested in physical assets and securities that can be hard to sell, especially if market conditions are poor. A lack of liquidity could limit our ability to vary our portfolio or assets promptly in response to changing economic or investment conditions. Additionally, if financial or operating difficulties of other owners result in distress sales, such sales could depress asset values in the markets in which we operate. The restrictions inherent in owning physical assets could reduce our ability to respond to changes in market conditions and could adversely affect the performance of our investments, our financial condition and results of operations.

Because there is significant uncertainty in the valuation of, or in the stability of the value of illiquid or non-public investments, the fair values of such investments do not necessarily reflect the prices that would actually be obtained when such investments are realized. Realizations at values significantly lower than the values at which investments have been recorded would result in losses, a decline in asset management fees and the potential loss of carried interest and incentive fees.

We periodically enter into agreements that commit us to acquire assets or securities. In some cases, we may enter into such agreements with the expectation that we will syndicate or assign all or a portion of our commitment to other investors prior to, at the same time as, or subsequent to, the anticipated closing of the transaction. We may be unable to complete such syndications or assignments, which may increase the amount of capital that we are required to invest. Such an outcome can have an adverse impact on our liquidity, which may reduce our ability to pursue further acquisitions or meet other financial commitments.

We enter into financing commitments in the normal course of business, which we may be required to fund. Additionally, in the ordinary course of business we guarantee the obligations of other entities that we manage and/or invest in. If we are required to fund these commitments and are unable to do so, this could result in damages being pursued against us or a loss of opportunity through default under contracts that are otherwise to our benefit.

**m) Tax**

*Reassessments by tax authorities or changes in tax laws could create additional tax costs for us.*

Our structure is based on prevailing taxation law and practice in the local jurisdictions in which we operate. Any change in tax policy, tax legislation (including in relation to taxation rates), the interpretation of tax policy or legislation or practice in these jurisdictions could adversely affect the return we earn on our investments, the level of capital available to be invested by us or our partnerships, and the willingness of investors to invest in our partnerships. This risk would include any reassessments by tax authorities on our tax returns if we were to incorrectly interpret or apply any tax policy, legislation or practice.

Taxes and other constraints that would apply to our operating entities in such jurisdictions may not apply to local institutions or other parties such as state-owned enterprises, and such parties may therefore have a significantly lower effective cost of capital and a corresponding competitive advantage in pursuing acquisitions. There are a number of factors that could increase our effective tax rates, which would have a negative impact on our net income, including, but not limited to, changes in the valuation of our deferred tax assets and liabilities, and any reassessment of taxes by a taxation authority.

Governments around the world are increasingly seeking to regulate multinational companies and their use of differential tax rates between jurisdictions. This effort includes a greater emphasis by various nations to co-ordinate and share information regarding companies and the taxes they pay. Governmental taxation policies and practices could adversely affect us and, depending on the nature of such policies and practices, could have a greater impact on us than on other companies. As a result of this increased focus on the use of tax planning by multinational companies, we could also face reputational risk as a result of negative media coverage of our tax planning or otherwise.

**n) Health, Safety and the Environment**

*Inadequate or ineffective health and safety programs could result in injuries to employees or the public and, as with ineffective management of environmental and sustainability issues, could damage our reputation, adversely impact our financial performance and may lead to regulatory action.*

The ownership and operation of our assets carry varying degrees of inherent risk or liability related to worker health and safety and the environment, including the risk of government imposed orders to remedy unsafe conditions and contaminated lands, and potential civil liability. Compliance with health, safety and environmental standards and the requirements set out in our licenses, permits and other approvals are material to our businesses.

We have incurred and will continue to incur significant capital and operating expenditures to comply with health, safety and environmental standards, to obtain and comply with licenses, permits and other approvals, and to assess and manage potential liability exposure. Nevertheless, we may be unsuccessful in obtaining or maintaining an important license, permit or other approval or become subject to government orders, investigations, inquiries or other proceedings (including civil claims) relating to health, safety and environmental matters, any of which could have a material adverse effect on us.

Health, safety and environmental laws and regulations can change rapidly and significantly and we may become subject to more stringent laws and regulations in the future. The occurrence of any adverse health and safety or environmental event, or any changes, additions to, or more rigorous enforcement of, health, safety and environmental standards, licenses, permits or other approvals could have a significant impact on our operations and/or result in material expenditures.

As an owner and operator of real assets, we may become liable for the costs of removal and remediation of certain hazardous substances released or deposited on or in our properties, or at other locations regardless of whether or not we were responsible for the release or deposit of such hazardous materials. These costs could be significant and could reduce cash available for our businesses. The failure to remove or remediate such substances, if any, could adversely affect our ability to sell our assets or to borrow using these assets as collateral, and could potentially result in claims or other proceedings against us.

Certain of our businesses are involved in using, handling or transporting substances that are toxic, combustible or otherwise hazardous to the environment and may be in close proximity to environmentally sensitive areas or densely populated communities. If a leak, spill or other environmental incident occurred, it could result in substantial fines or penalties being imposed by regulatory authorities, revocation of licenses or permits required to operate the business or the imposition of more stringent conditions in those licenses or permits, or legal claims for compensation (including punitive damages) by affected stakeholders.

There is increasing stakeholder interest in environmental sustainability issues, including among the investors and potential investors in our partnerships. If we are unable to successfully manage our environmental sustainability compliance, this could have a negative impact on our ability to raise future public and private capital and could be detrimental to our economic value and the value of the partnerships we manage.

### o) Catastrophic Event/Loss and Cyber Terrorism

*Catastrophic events (or combination of events), such as earthquakes, tornadoes, floods, terrorism/sabotage, or fire, as well as deliberate cyber terrorism, could adversely impact our financial performance.*

Our assets under management could be exposed to effects of catastrophic events, such as severe weather conditions, natural disasters, major accidents, acts of malicious destruction, sabotage or terrorism, which could adversely impact our operations.

Ongoing changes to the physical climate in which we operate may have an impact on our businesses. Changes in weather patterns or extreme weather (such as floods, hurricanes and other storms) may impact hydrology and/or wind levels, thereby influencing power generation levels, affect other of our businesses or damage our assets. Further, rising sea levels could, in the future, affect the value of any low-lying coastal real assets that we may own or develop, result in the imposition of new property taxes, or increase property insurance rates. Climate change may also give rise to changes in regulations and consumer sentiment that could impact other areas of our operations. Climate change regulation at provincial or state, federal and international levels could have an adverse effect on our business, financial position, results of operations or cash flows.

Our commercial office portfolio is concentrated in large metropolitan areas, some of which have been or may be perceived to be threatened by terrorist attacks. Furthermore, many of our properties consist of high-rise buildings, which may also be subject to this actual or perceived threat. The perceived threat of a terrorist attack could negatively impact our ability to lease office space in our real estate portfolio. Renewable power and infrastructure assets, such as roads, railways, power generation facilities and ports, may also be targeted by terrorist organizations. Any damage or business interruption costs as a result of uninsured or underinsured acts of terrorism could result in a material cost to us and could adversely affect our business, financial condition or results of operation. Adequate terrorism insurance may not be available at rates we believe are reasonable in the future. All of the risks indicated in this paragraph could be heightened by foreign policy decisions of the U.S. (where we have significant operations) and other influential countries or general geopolitical conditions.

We rely on certain information technology systems which may be subject to cyber terrorism intended to obtain unauthorized access to our proprietary information, destroy data or disable, degrade or sabotage our systems, through the introduction of computer viruses, cyber attacks and other means, and could originate from a variety of sources including our own employees or unknown third parties. There can be no assurance that measures implemented to protect the integrity of our systems will provide adequate protection. If our information systems are compromised, we could suffer a disruption in one or more of our businesses. This could have a negative impact on our operating results and cash flows, or result in reputational damage.

### p) Dependence on Information Technology Systems

*The failure of our information technology systems could adversely impact our reputation and financial performance.*

We operate in businesses that are dependent on information systems and technology. Our information systems and technology may not continue to be able to accommodate our growth, and the cost of maintaining such systems may increase from its current level, either of which could have a material adverse effect on us.

We rely on third-party service providers to manage certain aspects of our business, including for certain information systems and technology, data processing systems, and the secure processing, storage and transmission of information. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of our operations and could adversely affect our business and reputation.

### q) Litigation

*We and our affiliates may become involved in legal disputes in Canada, the U.S. and internationally that could adversely impact our financial performance and reputation.*

In the normal course of our operations, we become involved in various legal actions, including claims relating to personal injury, property damage, property taxes, land rights and contract and other commercial disputes. The investment decisions we make in our asset management business and the activities of our investment professionals on behalf of the portfolio companies of our partnerships may subject us, our partnerships and our portfolio companies to the risk of third-party litigation. Further, we have significant operations in the U.S. which may, as a result of the prevalence of litigation in the U.S., be more susceptible to legal action than certain of our other operations.

Management of our litigation matters is generally handled by legal counsel in the business unit most directly impacted by the litigation, and not by a centralized legal department. As a result, the management of litigation that we face may not always be appropriate or effective.

The final outcome with respect to outstanding, pending or future litigation cannot be predicted with certainty, and the resolution of such actions may have an adverse effect on our financial position or results of our operations in a particular quarter or fiscal year. Any litigation may consume substantial amounts of our management's time and attention, and that time and the devotion of these resources to litigation may, at times, be disproportionate to the amounts at stake in the litigation. Even if ultimately unsuccessful against us, any litigation has the potential to adversely affect our business, including by damaging our reputation.

### r) Insurance

*Losses not covered by insurance may be large, which could adversely impact our financial performance.*

We carry various insurance policies on our assets. These policies contain policy specifications, limits and deductibles that may mean that such policies do not provide coverage or sufficient coverage against all potential material losses. We may also self-insure a portion of certain of these risks, and therefore the company may not be able to recover from a third-party insurer in the event that the company, if it had asset insurance coverage from a third-party, could make a claim for recovery. There are certain types of risk (generally of a catastrophic nature such as war or environmental contamination) which are either uninsurable or not economically insurable. Further, there are certain types of risk for which insurance coverage is not equal to the full replacement cost of the insured assets. Should any uninsured or underinsured loss occur, we could lose our investment in, and anticipated profits and cash flows from, one or more of our assets or operations.

We also carry directors and officers liability insurance, or D&O insurance, for losses or advancement of defense costs in the event a legal action is brought against the company's directors, officers or employees for alleged wrongful acts in their capacity as directors, officers or employees. Our D&O insurance contains certain customary exclusions that may make it unavailable for the company in the event it is needed; and in any case our D&O insurance may not be adequate to fully protect the company against liability for the conduct of its directors, officers or employees. We may also self-insure a portion of our D&O insurance, and therefore the company may not be able to recover from a third-party insurer in the event that the company, if it had D&O insurance from a third-party insurer, could make a claim for recovery.

### s) Credit

*Inability to collect amounts owing to us could adversely impact financial performance.*

Third parties may not fulfill their payment obligations to us, which could include money, securities or other assets, thereby impacting our operations and financial results. These parties include deal and trading counterparties, governmental agencies, portfolio company customers and financial intermediaries. Third parties may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons.

We have business lines whose model is to earn investment returns by loaning money to distressed companies, either privately or via an investment in publicly traded debt securities. As a result, we actively take heightened credit risk in other entities from time to time and whether we realize satisfactory investment returns on these loans is uncertain and may be beyond our control. If some of these debt investments fail, our financial performance could be negatively impacted.

Investors in our private partnerships make capital commitments to these vehicles through the execution of subscription agreements. When a private partnership makes an investment, these capital commitments are then satisfied by our investors via capital contributions. Investors in our private partnerships may default on their capital commitment obligations, which could have an adverse impact on our earnings or result in other negative implications to our businesses such as the requirement to redeploy our own capital to cover such obligations.

### t) Property

*We face risks specific to our property activities.*

We invest in commercial properties and are therefore exposed to certain risks inherent in the commercial property business. Commercial property investments are subject to varying degrees of risk depending on the nature of the property. These risks include changes in general economic conditions (such as the availability and cost of mortgage capital), local conditions (such as an oversupply of space or a reduction in demand for real estate in the markets in which we operate), the attractiveness of the properties to tenants, competition from other landlords and our ability to provide adequate maintenance at an economical cost.

Certain expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges, must be made whether or not a property is producing sufficient income to service these expenses. Our commercial properties are typically subject to mortgages which require debt service payments. If we become unable or unwilling to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or of sale.

Continuation of rental income is dependent on favourable leasing markets to ensure expiring leases are renewed and new tenants are found promptly to fill vacancies. It is possible that we may face a disproportionate amount of space expiring in any one year. Additionally, rental rates could decline, tenant bankruptcies could increase and tenant renewals may not be achieved, particularly in the event of an economic slowdown.

Our retail property operations are susceptible to any economic factors that have a negative impact on consumer spending. Lower consumer spending would have an unfavourable effect on the sales of our retail tenants, which could result in their inability or unwillingness to make all payments owing to us, and on our ability to keep existing tenants and attract new tenants. Significant expenditures associated with each equity investment in real estate assets, such as mortgage payments, property taxes and maintenance costs, are generally not reduced when there is a reduction in income from the investment, so our income and cash flow would be adversely affected by a decline in income from our retail properties. In addition, low occupancy or sales at our retail properties, as a result of competition or otherwise, could result in termination of or reduced rent payable under certain of our retail leases, which could adversely affect our retail property revenues.

Our hospitality and multifamily business are subject to a range of operating risks common to these industries. The profitability of our investments in these industries may be adversely affected by a number of factors, many of which are outside our control. Such factors could limit or reduce the demand for or the prices our hospitality properties are able to obtain for their accommodations, or could increase our costs and therefore reduce the profitability of our hospitality businesses. There are numerous housing alternatives which compete with our multifamily properties, including other multifamily properties as well as condominiums and single family homes. This competitive environment could have a material adverse effect on our ability to lease apartment homes at our present properties or any newly developed or acquired property, as well as on the rents realized.

**u) Renewable power**

*We face risks specific to our renewable power activities.*

Our renewable power operations are subject to changes in the weather, hydrology and price, but also include risks related to equipment or dam failure, counterparty performance, water rental costs, land rental costs, changes in regulatory requirements and other material disruptions.

The revenues generated by our power facilities are correlated to the amount of electricity generated, which in turn is dependent upon available water flows, wind and other elements beyond our control. Hydrology and wind levels vary naturally from year to year and may also change permanently because of climate change or other factors. It is therefore possible that low water and wind levels at certain of our power generating operations could occur at any time and potentially continue for indefinite periods.

A significant portion of our renewable power revenues are tied, either directly or indirectly, to the wholesale market price for electricity in the markets in which we operate, which are impacted by a number of external factors beyond our control. Additionally, a significant portion of the power we generate is sold under long-term power purchase agreements, shorter-term financial instruments and physical electricity and natural gas contracts, some or all of which may be above market. These contracts are intended to mitigate the impact of fluctuations in wholesale electricity prices; however, they may not be effective in achieving this outcome.

In our renewable power operations there is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things. The occurrence of such failures could result in a loss of generating capacity and repairing such failures could require the expenditure of significant capital and other resources. Failures could also result in exposure to significant liability for damages due to harm to the environment, to the public generally or to specific third parties.

In certain cases, some catastrophic events may not excuse us from performing our obligations pursuant to agreements with third parties and we may be liable for damages or suffer further losses as a result. In addition, many of our power generation assets are located in remote areas which make access for repair of damage difficult.

**v) Infrastructure**

*We face risks specific to our infrastructure activities.*

Our infrastructure operations include utilities, transport, energy, communications, timberlands and agrilands operations. Our infrastructure assets include toll roads, electricity transmission systems, coal terminal operations, electricity and gas distribution companies, rail networks and ports. The principal risks facing the regulated and unregulated businesses comprising our infrastructure operations relate to government regulation, general economic conditions and other material disruptions, counterparty performance, capital expenditure requirements and land use.

Many of our infrastructure operations are subject to forms of economic regulation, including with respect to revenues. If any of the respective regulators in the jurisdictions in which we operate decide to change the tolls or rates we are allowed to charge, or the amounts of the provisions we are allowed to collect, we may not be able to earn the rate of return on our investments that we had planned or we may not be able to recover our initial cost.

General economic conditions affect international demand for the commodities handled by our infrastructure operations and the goods produced and sold by our timberlands and agrilands businesses. A downturn in the economy generally, or specific to any of our infrastructure businesses, may lead to bankruptcies or liquidations of one or more large customers, which could reduce our revenues, increase our bad debt expense, reduce our ability to make capital expenditures or have other adverse effects on us.

Some of our infrastructure operations have customer contracts as well as concession agreements in place with public and private sector clients. Our operations with customer contracts could be adversely affected by any material change in the assets, financial condition or results of operations of such customers. Protecting the quality of our revenue streams through the inclusion of take-or-pay or guaranteed minimum volume provisions into our contracts, is not always possible or fully effective.

Our infrastructure operations may require substantial capital expenditures to maintain our asset base. Any failure to make necessary expenditures to maintain our operations could impair our ability to serve existing customers or accommodate increased volumes. In addition, we may not be able to recover investments in capital expenditures based upon the rates our operations are able to charge.

### w) Private Equity

*We face risks specific to our private equity activities.*

The principal risks for the private equity business are potential loss of invested capital as well as insufficient investment or fee income to cover operating expenses and cost of capital. In addition, these investments are typically illiquid and may be difficult to monetize, limiting our flexibility to react to changing economic or investment conditions.

Unfavourable economic conditions could have a significant adverse impact on the ability of investee companies to repay debt and on the value of our equity investments and the level of income that they generate. Even with our support, adverse economic or business conditions facing our investee companies may adversely impact the value of our investments or deplete our financial or management resources. These investments are also subject to the risks inherent in the underlying businesses, some of which are facing difficult business conditions and may continue to do so for the foreseeable future.

Our private equity funds may invest in companies that are experiencing significant financial or business difficulties, including companies involved in work-outs, liquidations, spin-offs, reorganizations, bankruptcies and similar transactions. Such an investment entails the risk that the transaction in which the business is involved will be unsuccessful, will take considerable time or will result in a distribution of cash or new securities the value of which may be less than the purchase price of the securities or other financial instruments in respect of which such distribution is received. In addition, if an anticipated transaction does not occur, the private equity fund may be required to sell its investment at a loss. Investments in troubled companies often become subject to legal proceedings and therefore our investment may be adversely affected by legal developments beyond our control.

Our private equity businesses include industrial operations that are substantially dependent upon the prices we receive for the resources we produce. Those prices depend on factors beyond our control. Recently, commodity prices have declined significantly. Sustained depressed levels or future declines of the price of resources such as oil, gas, limestone and palladium and other metals may adversely affect our operating results and cash flows.

### x) Residential Development

*We face risks specific to our residential development activities.*

Our residential homebuilding and land development operations are cyclical and significantly affected by changes in general and local economic and industry conditions, such as consumer confidence, employment levels, availability of financing for homebuyers, household debt, levels of new and existing homes for sale, demographic trends and housing demand. Competition from rental properties and resale homes, including homes held for sale by investors and foreclosed homes, may reduce our ability to sell new homes, depress prices and reduce margins for the sale of new homes.

Virtually all of our homebuilding customers finance their home acquisitions through mortgages. Even if potential customers do not need financing, changes in interest rates or the unavailability of mortgage capital could make it harder for them to sell their homes to potential buyers who need financing, resulting in a reduced demand for new homes. Rising mortgage rates or reduced mortgage availability could adversely affect our ability to sell new homes and the prices at which we can sell them.

We hold land for future development and may in the future acquire additional land holdings. The risks inherent in purchasing, owning and developing land increase as the demand for new homes decreases. Real estate markets are highly uncertain and the value of undeveloped land has fluctuated significantly and may continue to fluctuate. In addition, land carrying costs can be significant and can result in losses or reduced profitability. As a result, we hold certain land, and may acquire additional land, in our development pipeline at a cost we may not be able to fully recover or at a cost which precludes profitable development.

### y) Service Activities

*We face risks specific to our service activities.*

We have several companies that operate in the highly competitive service industry. The revenues and profitability of these companies are largely dependent on the awarding of new contracts, which may not materialize, and they face uncertainty related to contract award timing. A wide variety of micro and macroeconomic factors affecting our clients and over which we have no control can impact whether and when these companies receive new contracts.

Fluctuating demand cycles are common in the service industry. These fluctuations can have a significant impact on the degree of competition for available projects and the awarding of new contracts, and as a result there may, from time to time, be significant and unpredictable variations in the financial results of these businesses. In our construction business, the ability of the private or public sector to fund projects could adversely affect the awarding or timing of new contracts and margins. If an expected contract award is delayed or not received, or if an ongoing contract is cancelled, our construction business could incur significant costs.

Certain of our service businesses derive a significant portion of their revenues from government contracts and are therefore dependent on government spending levels. Current government contracts with certain of our service businesses may not be renewed and new government contracts may not be made available due to government spending constraints or other reasons, any of which could have a material adverse effect on such businesses.

# PART 6 – ADDITIONAL INFORMATION

## ACCOUNTING POLICIES AND INTERNAL CONTROLS

### Accounting Policies and Critical Judgments and Estimates

The preparation of financial statements requires management to select appropriate accounting policies and to make judgments and estimates that affect the carried amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

In making critical judgments and estimates, management relies on external information and observable conditions, where possible, supplemented by internal analysis as required. These estimates have been applied in a manner consistent with that in the prior year and there are no known trends, commitments, events or uncertainties that we believe will materially affect the methodology or assumptions utilized in this report. The estimates are impacted by, among other things, movements in interest rates and other factors, some of which are highly uncertain.

For further reference on accounting policies and critical judgments and estimates, see our significant accounting policies contained in Note 2 to the December 31, 2015 consolidated financial statements.

*i. Critical Estimates*

The significant estimates used in determining the recorded amount for assets and liabilities in the consolidated financial statements include the following:

a. Investment Properties

The critical assumptions and estimates used when determining the fair value of commercial properties are: the timing of rental income from future leases reflecting current market conditions, less assumptions of future cash costs in respect of current and future leases; maintenance and other capital expenditures; discount rates; terminal capitalization rates; and terminal valuation dates. Properties under development are recorded at fair value using a discounted cash flow model which includes estimates in respect of the timing and cost to complete the development.

b. Revaluation Method for Property, Plant and Equipment

When determining the carrying value of property, plant and equipment using the revaluation method, the company uses the following critical assumptions and estimates: the timing of forecasted revenues; future sales prices and associated expenses; future sales volumes; future regulatory rates; maintenance and other capital expenditures; discount rates; terminal capitalization rates; terminal valuation dates; useful lives; and residual values. Determination of the fair value of property, plant and equipment under development includes estimates in respect of the timing and cost to complete the development.

c. Sustainable Resources

The fair value of standing timber and agricultural assets is based on the following critical estimates and assumptions: the timing of forecasted revenues and prices; estimated selling costs; sustainable felling plans; growth assumptions; silviculture costs; discount rates; terminal capitalization rates; and terminal valuation dates.

d. Financial Instruments

Estimates and assumptions used in determining the fair value of financial instruments are: equity and commodity prices; future interest rates; the credit worthiness of the company relative to its counterparties; the credit risk of the company's counterparties; estimated future cash flows; the amount of the liability and equity components of compound financial instruments; discount rates and volatility utilized in option valuations.

e. Inventory

The company estimates the net realizable value of its inventory using estimates and assumptions about future selling prices and future development costs.

f. Inventory and other

Other estimates and assumptions utilized in the preparation of the company's consolidated financial statements are: the assessment or determination of net recoverable amount; including oil and gas reserves; depreciation and amortization rates and useful lives; estimation of recoverable amounts of cash-generating units for impairment assessments of goodwill and intangible assets; ability to utilize tax losses and other tax measurements; fair value of assets held as collateral and the percentage of completion for construction contracts.

*ii. Critical Judgments*

Management is required to make critical judgments when applying its accounting policies. The following judgments have the most significant effect on the consolidated financial statements:

a. Control or Level of Influence

When determining the appropriate basis of accounting for the company's investees, the company makes judgments about the degree of influence that the company exerts directly or through an arrangement over the investees' relevant activities. This may include the ability to elect investee directors or appoint management. Control is obtained when the company has the power to direct the relevant investing, financing and operating decisions of an entity and does so in its capacity as principal of the operations, rather than as an agent for other investors. Operating as a principal includes having sufficient capital at risk in any investee and exposure to the variability of the returns generated by the decisions of the company as principal. Judgment is used in determining the sufficiency of the capital at risk or variability of returns. In making these judgments, the company considers the ability of other investors to remove the company as a manager or general partner in a controlled partnership.

b. Investment Properties

When applying the company's accounting policy for investment properties, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property.

c. Property, Plant and Equipment

The company's accounting policy for its property, plant and equipment requires critical judgments over the assessment of its carrying value, whether certain costs are additions to the carrying amount of the property, plant and equipment as opposed to repairs and maintenance, and for assets under development the identification of when the asset is capable of being used as intended and identifying the directly attributable borrowing costs to be included in the asset's carrying value.

For assets that are measured using the revaluation method, judgment is required when estimating future prices, volumes and discount and capitalization rates. Judgment is applied when determining future electricity prices considering market data for years that a liquid market is available and estimates of electricity prices from renewable sources that would allow new entrants into the market in subsequent years.

d. Common Control Transactions

The purchase and sale of businesses or subsidiaries between entities under common control are not specifically addressed in the IFRS and accordingly, management uses judgment when determining a policy to account for such transactions taking into consideration other guidance in the IFRS framework and pronouncements of other standard-setting bodies. The company's policy is to record assets and liabilities recognized as a result of transfers of businesses or subsidiaries between entities under common control at carrying value. Differences between the carrying amount of the consideration given or received and the carrying amount of the assets and liabilities transferred are recorded directly in equity.

e. Indicators of Impairment

Judgment is applied when determining whether indicators of impairment exist when assessing the carrying values of the company's assets, including: the determination of the company's ability to hold financial assets; the estimation of a cash-generating unit's future revenues and direct costs; and the determination of discount and capitalization rates, and when an asset's carrying value is above the value derived using publicly traded prices which are quoted in a liquid market.

f. Income Taxes

The company makes judgments when determining the future tax rates applicable to subsidiaries and identifying the temporary difference that relate to each subsidiary. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply during the period when the assets are realized or the liabilities settled, using the tax rates and laws enacted or substantively enacted at the consolidated balance sheet dates. The company measures deferred income taxes associated with its investment properties based on its specific intention with respect to each asset at the end of the reporting period. Where the company has a specific intention to sell a property in the foreseeable future, deferred taxes on the building portion of an investment property are measured based on the tax consequences following from the disposition of the property. Otherwise, deferred taxes are measured on the basis the carrying value of the investment property will be recovered substantially through use.

g. Classification of Non-controlling Interests in Limited-Life Funds

Non-controlling interests in limited-life funds are classified as liabilities (interests of others in consolidated funds) or equity (non-controlling interests) depending on whether an obligation exists to distribute residual net assets to non-controlling interests on liquidation in the form of cash or other financial assets or assets delivered in kind. Judgment is required to determine what the governing documents of each entity require or permit in this regard.

h. Other

Other critical judgments include the determination of effectiveness of financial hedges for accounting purposes; the likelihood and timing of anticipated transactions for hedge accounting and the determination of functional currency.

## Future Changes in Accounting Standards

### *Property, Plant, and Equipment and Intangible Assets*

IAS 16 *Property, Plant, and Equipment* ("IAS 16") and IAS 38 *Intangible Assets* ("IAS 38") were both amended by the International Accounting Standards Board ("IASB") as a result of clarifying the appropriate amortization method for intangible assets of service concession arrangements under IFRIC 12 *Service Concession Arrangements* ("SCAs"). The IASB determined that the issue does not only relate to SCAs but all tangible and intangible assets that have finite useful lives. Amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant, and equipment. Similarly, the amendment to IAS 38 introduces a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset, with only limited circumstances where the presumption can be rebutted. Guidance is also introduced to explain that expected future reductions in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. The amendments apply prospectively and are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The company does not expect the impact of the amendments to IAS 16 or IAS 38 on its consolidated financial statements to be significant.

### *Investments in Associates and Joint Ventures*

The amendments to IFRS 10 *Consolidated Financial Statements* ("IFRS 10"), and IAS 28 *Investments in Associates and Joint Ventures (2011)* ("IAS 28") address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments are effective for transactions occurring in annual periods beginning on or after 1 January 2016 with earlier application permitted.

### *Revenue from Contracts with Customers*

IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15") specifies how and when revenue should be recognized as well as requiring more informative and relevant disclosures. This standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and a number of revenue-related interpretations. Application of the Standard is mandatory and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied for periods beginning on or after January 1, 2017 with early application permitted. The company has not yet determined the impact of IFRS 15 on its consolidated financial statements.

### *Financial Instruments*

In July 2014, the IASB issued the final publication of IFRS 9 *Financial Instruments* ("IFRS 9"), superseding IAS 39 *Financial Instruments*. IFRS 9 establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fully change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The standard has a mandatorily effective date for annual periods beginning on or after January 1, 2018 with early adoption permitted. The company has not yet determined the impact of IFRS 9 on its consolidated financial statements.

#### *Leases*

In January 2016, the IASB published a new standard – IFRS 16 *Leases* ("IFRS 16"). The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. The company has not yet determined the impact of IFRS 16 on its consolidated financial statements.

## Assessment and Changes in Internal Control Over Financial Reporting

Management has evaluated the effectiveness of the company's internal control over financial reporting as of December 31, 2015 and based on that assessment concluded that, as of December 31, 2015, our internal control over financial reporting was effective. Refer to Management's Report on Internal Control Over Financial Reporting. There have been no changes in our internal control over financial reporting during the year ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### Disclosure Controls and Procedures

Management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in the applicable U.S. and Canadian securities laws) as of December 31, 2015. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that such disclosure controls and procedures were effective as of December 31, 2015 in providing reasonable assurance that material information relating to the company and our consolidated subsidiaries would be made known to them by others within those entities.

### Declarations Under the Dutch Act of Financial Supervision

The members of the Corporation's Corporate Executive Board, as such term is defined in the Dutch Act of Financial Supervision (the "Dutch Act"), as required by section 5:25c, paragraph 2, under c of the Dutch Act, confirm that to the best of their knowledge:

- The 2015 Consolidated Financial Statements accompanied by this MD&A give a true and fair view of the assets, liabilities, financial position, and profit or loss of the company and the undertakings included in the Consolidated Financial Statements taken as whole; and
- The management report included in this MD&A gives a true and fair review of the information required under the Dutch Act regarding the company and the undertakings included in the Consolidated Financial Statements taken as a whole as of December 31, 2015, and of the development and performance of the business for the financial year then ended.

## RELATED PARTY TRANSACTIONS

In the normal course of operations, we enter into transactions on market terms with related parties, including consolidated and equity accounted entities, which have been measured at exchange value and are recognized in the consolidated financial statements, including, but not limited to: manager or partnership agreements; base management fees, performance fees and incentive distributions; loans, interest and non-interest bearing deposits; power purchase and sale agreements; capital commitments to private funds; the acquisition and disposition of assets and businesses; derivative contracts; and the construction and development of assets.

The following is a list of significant related party transactions of the Corporation during the years ended December 31, 2015 and December 31, 2014:

In April 2015, the Corporation issued 32.9 million Class A Shares. Current officers, directors and shareholders of Brookfield, and entities controlled by them, purchased an aggregate of 2.1 million Class A Shares as part of this issuance. The aggregate gross proceeds of the issuance was $1.2 billion.

In 2014, the Corporation entered into arrangements with respect to $1.2 billion of the $1.8 billion of exchangeable preferred equity units issued by BPY, which are redeemable in equal tranches of $600 million in 2021 and 2024. The Corporation agreed with the holder and BPY that if the price of a BPY equity unit is less than 80% of the exchange price of $25.70 per unit at the redemption date of the 2021 and 2024 tranches, the Corporation will acquire the preferred equity units subject to redemption, at the redemption price, and to exchange these preferred equity units for preferred equity units with similar terms and conditions, including redemption date, as the 2026 tranche.